

Funding Reserve Analysis
for
Kihei Commercial Plaza Bldgs 3 and 4
Elevators 2010

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HAWAII INSPECTION GROUP

P.O. Box 60, Kihei, Hawaii 96753
Voice: (808) 879-6000 Fax: (808) 879-9006
Bud@HawaiiInspectionGroup.com
www.HawaiiInspectionGroup.com

May 26, 2009

Ms. Jane Kramer
Commercial Properties of Maui
1962B Wells Street,
Wailuku, Hawaii 96793

Ms.. Kramer,

Hawaii Inspection Group, Inc. is pleased to present to Ms. Jane Kramer the requested Reserve Funding study. We believe that you will find the attached study to be thorough and complete. After you have had an opportunity to review the report you may have questions. Please do not hesitate to write or call - we would be pleased to answer any questions you may have.

Project Description

2 hydraulic elevators built in 2007, servicing Buildings 3 and 4 at Kihei Commercial Plaza.

Depth of Study

Full Service Reserve Study with Field Inspection A field inspection was made to verify the existing condition of the various reserve study components, their physical condition, and to verify component quantities. In place testing, laboratory testing, and non-destructive testing of the reserve study components were not performed. Field measurements of component quantities were made to either verify improvement plan take offs or determine directly the quantities of various components. Photographs were not taken of the site improvements.

Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Funding Study Summary - Continued

Summary of Financial Assumptions

The below table contains a partial summary of information provided by Ms. Jane Kramer for the Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 funding study.

<i>Reserve Study by Calendar Year Starting</i>	<i>January 1, 2010</i>
<i>Funding Study Length</i>	<i>30 Years</i>
<i>Number of Dues Paying Members</i>	<i>40</i>
<i>Reserve Balance as of January 1, 2010¹</i>	<i>\$10,140</i>
<i>Annual Inflation Rate</i>	<i>2.90%</i>
<i>Tax Rate on Retained Earnings</i>	<i>0.00%</i>
<i>Minimum Reserve Account Balance</i>	<i>\$0</i>
<i>Dues Change Period</i>	<i>1 Year</i>
<i>Annual Operating Budget</i>	<i>\$0</i>

¹ See "Financial Condition of Association" in this report.

Reserve Study Assumptions

- Cost estimates and financial information are accurate and current.
- No unforeseen circumstances will cause a significant reduction of reserves.
- Sufficient comprehensive property insurance exists to protect from insurable risks.
- The association plans to continue to maintain the existing common areas and amenities.
- Reserve payments occur at the end of every calendar month.
- Expenses occur at the end of the expense year.

Impact of Component Life

The projected life expectancy of the major components and the reserve funding needs of the association are closely tied. Performing the appropriate routine maintenance for each major component generally increases the component's useful life, effectively moving the component's expense into the future which reduces the reserve funding payments of the association. Failure to perform such maintenance can shorten the remaining useful life of the major components, bringing the replacement expense closer to the present which increases the reserve funding payments of the association.

Inflation Estimate

Inflation for the last year has been reviewed and a best estimate of the expected inflation for 2010 has been used to inflate future Expenses. Further adjustments to this rate should be reviewed and made at time of updates if necessary, to keep funding as accurate as possible.

Initial Reserves

Initial reserves for this Reserve Study were known to be \$10,140 on January 1, 2010. Based upon a study start date of January 1, 2010 a total of 0 days of accrued interest at 0.0 percent per annum were compounded to yield an initial reserve balance of \$10,140.

The implicit assumption has been made that the reserve accounts were not drawn down between the date of the known reserve balance and the study start date.

Financial Condition of Association

Reserve account figure was taken from the Kihei Commercial Plaza 2009 Budget Sheet, and projected to the end of the year. The amount entered is the proposed starting figure for January 1, 2010. It is assumed that the reserve funds will not be drawn upon prior to the study start.

Reserve Funding Goal

The reserve fund goal is a minimum account balance consistent with the cash demands of maintenance and replacement of reserve items. (Baseline Funding)

Study Method

Funding studies may be done in several ways, but we believe that the value of a funding study lies in the details. "Bulk" studies are quick, usually inexpensive, and almost always border on worthless. We believe that meaningful answers to funding studies lie in the details. In this study, we have used the "Component" method because it is the only method which allows scrutiny of the funding details. The method is pragmatic, and allows human judgement and experience to enter into the equation.

Unless noted otherwise, the present cost of every reserve item in this report has been estimated using the "National Construction Estimator", a nationally recognized standard, and modified by an area cost adjustment factor. Where possible, known costs have been used. In addition, every reserve item has been given an estimated remaining useful life, an estimated useful life when new, and has been cast into the future to determine the inflated cost.

Equal annual payments are calculated for each reserve item based upon a payment starting year and a payment ending year using the end of period payment method. Interest earned on accumulated reserve funds and taxes on the reserve interest are also calculated. Initial reserve funds are consumed as expenses occur until fully depleted, reducing annual reserve payments to a minimum. As you review this report, we are certain that you will appreciate the level of detail provided, allowing you to review each reserve item in detail.

Summary of Findings

Hawaii Inspection Group, Inc. has estimated future projected expenses for Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 based upon preservation of existing improvements.

The attached funding study is limited in scope to those expense items listed in the attached "Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Reserve Study Expense Items". Expense items which have an expected life of more than 30 Years are not included in this reserve study unless payment for these long lived items overlaps the 30 Years reserve study envelope.

Of primary concern is the preservation of a positive funding balance with funds sufficient to meet projected expenses throughout the study life. Based upon the attached funding study, it is our professional opinion that member monthly fees as shown in the attached "Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Dues Summary" will realize this goal. Some reserve items in the "Revenue Summary Table" may not contain payments. In this analysis the initial reserves were used to make annual payments for expense items in their order of occurrence until the initial reserve was consumed. As a result reserve items without payments may be expected, particularly in the first few years of the funding study. Ms. Jane Kramer represents and warrants that the information provided to Hawaii Inspection Group, Inc., including but not limited to that information contained in the attached Reserve Study Information Summary, that the maintenance records are complete and accurate, and that Hawaii Inspection Group, Inc. may rely upon such information and documents without further verification or corroboration. Where the age of a particular Reserve Item (as listed in the Reserve Study) is unknown, Ms. Jane Kramer shall provide to Hawaii Inspection Group, Inc. Ms. Jane Kramer's best-estimated age of that item. If Ms. Jane Kramer is unable to provide and estimate of a Reserve Item's age, Hawaii Inspection Group, Inc. shall make its own estimate of age of the Reserve Item. The Reserve Study is created for the association's use, and is a reflection of information provided to Hawaii Inspection Group, Inc.. This

information is not for the purpose of performing an audit, historical records, quality or forensic analyses. Any on site inspection is not considered to be a project audit or quality inspection.

Percent Funded

Many reserve studies use the concept of "Percent Funded" to measure the reserve account balance against a theoretically perfect value. Percent Funded is often used as a measure of the "Financial Health" of an association. The assumption is, the higher the percentage, the greater the "Financial Health". The question of substance is simply: How much is enough? To answer the question, some understanding of Percent Funded is required. Percent Funded is the ratio of current cash reserves divided by the Fully Funded value at any instant in time. Fully Funded is defined as the present value of the sum of all reserve items divided by the expected life of each item. In essence, Fully Funded is simply the total of the average net present value of the association improvements. Reserve items with a remaining life greater than the study life are not included in the calculation. For example; building framing, foundations, water lines, and other long-lived items that fall outside the envelope of the reserve study are excluded from the calculation. Percent Funded is then, the current reserve balance divided by the Fully Funded value multiplied by 100 (to give a percentage). The concept of percent funded is useful when the reserve study is comprehensive, but misleading when the reserve study is superficial or constrained. As a result, we recommend that the statement "Percent Funded" be used with caution.

Keeping Your Reserve Study Current

Hawaii Inspection Group, Inc. believes that funding studies are an essential part of property management. People and property are constantly changing and evolving. As a result, the useful life of a funding study is at best a few years, and certainly not more than five years.

This reserve study should be updated:

- At least once a year
- At changes in interest rates
- At changes in inflation rates
- At changes in the number of dues paying members
- Before starting new improvements
- Before making changes to the property
- After a flood or fire
- After the change of ownership or management
- After Annexation or Incorporation

Items Beyond the Scope of this Report

- Building or land appraisals for any purpose.
- State or local zoning ordinance violations.
- Building code violations.
- Soils conditions, soils contamination or geological stability of site.

Engineering analysis or structural stability of site. Air quality, asbestos, electromagnetic radiation, formaldehyde, lead, mercury, radon, water quality or other environmental hazards.

Invasions by pests, termites and any or all other destroying organisms, insects, birds, bats or animals to buildings or site. This study is not a pest inspection.

Adequacy or efficiency of any system or component on site.

Specifically excluded reserve items. Septic systems and septic tanks. Buried or concealed portions of swing pools, pool liners, Jacuzzis and spas or similar items. Items concealed by signs, carpets or other things are also excluded from this study.

Missing or omitted information supplied by the Commercial Properties of Maui for the purposes of reserve study preparation.

Hidden improvements such as sewer lines, water lines, irrigation lines or other buried or concealed items.

Statement of Qualifications

Hawaii Inspection Group, Inc. is a professional in the business of preparing reserve studies for community associations. I have inspected the association improvements, and have made a complete review of all components required to complete a reserve study. I have completed a physical inspection of the components listed in this reserve study. My inspection included a review of current condition, economic life, remaining useful life, and replacement cost of all components included in this reserve study. No destructive testing was done. This was done by field measurements and/or drawing take-offs with field verification.

Conflict of Interest

As the preparer of this reserve study, Hawaii Inspection Group, Inc. certifies that we do not have any vested interests, financial interests, or other interests that would cause a conflict of interest in the preparation of this reserve study.

Hawaii Inspection Group, Inc. would like to thank Commercial Properties of Maui for the opportunity to be of service in the preparation of the attached Funding Study.

Again, please feel free to write or call at our letterhead address if you have any questions.

Prepared by:

Bud Stanton for
Hawaii Inspection Group, Inc.

Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Reserve Study Expense Item Summary

Reserve Items	Current Cost When New	Estimated Remaining Life	Expected Life When New	First Replacement Cost	Raw Annual Payment	Repeating Item?
Elevators						
Elevator Modernization Hydraulic Bldgs 3 and 4	\$110,000	21 Years	25 Years	\$208,036	\$9,456	Yes
Elevator Cab Refurbishment Bldgs 3 and 4	\$10,000	11 Years	15 Years	\$14,156	\$1,180	Yes

Missing table information is identical to the first printed information above.

Raw Annual Payments do not include earned interest, tax adjustments or salvage.

Months Remaining in Calendar Year 2010: 12

Expected annual inflation: 2.90%

Interest earned on reserve funds: 0.00%

Initial Reserve: \$10,140

Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Funding Study Modified Cash Flow Analysis

Calendar Year	Annual Payment	Annual Interest	Salvage	Annual Expenses	Annual Income Tax	Net Reserve Funds
2010	\$9,190					\$19,330
2011	\$9,282					\$28,612
2012	\$9,375					\$37,987
2013	\$9,468					\$47,455
2014	\$9,563					\$57,018
2015	\$9,659					\$66,677
2016	\$9,755					\$76,432
2017	\$9,853					\$86,285
2018	\$9,951					\$96,237
2019	\$10,051					\$106,288
2020	\$10,151					\$116,439
2021	\$10,253			\$14,156		\$112,536
2022	\$10,356					\$122,891
2023	\$10,459					\$133,350
2024	\$10,564					\$143,914
2025	\$10,669					\$154,583
2026	\$10,776					\$165,359
2027	\$10,884					\$176,243
2028	\$10,993					\$187,236
2029	\$11,103					\$198,338
2030	\$11,214					\$209,552
2031	\$11,326			\$208,036		\$12,842
2032	\$11,439					\$24,281
2033	\$11,553					\$35,834
2034	\$11,669					\$47,503
2035	\$11,786					\$59,288
2036	\$11,903			\$21,860		\$49,332
2037	\$12,022					\$61,355
2038	\$12,143					\$73,497
2039	\$12,264					\$85,761
2040	\$12,387					\$98,148
Totals :	\$332,060	\$0	\$0	\$244,052	\$0	

The cash distribution shown in this table applies to repair and replacement cash reserves only.

Basis of Funding Study - Modified Cash Flow

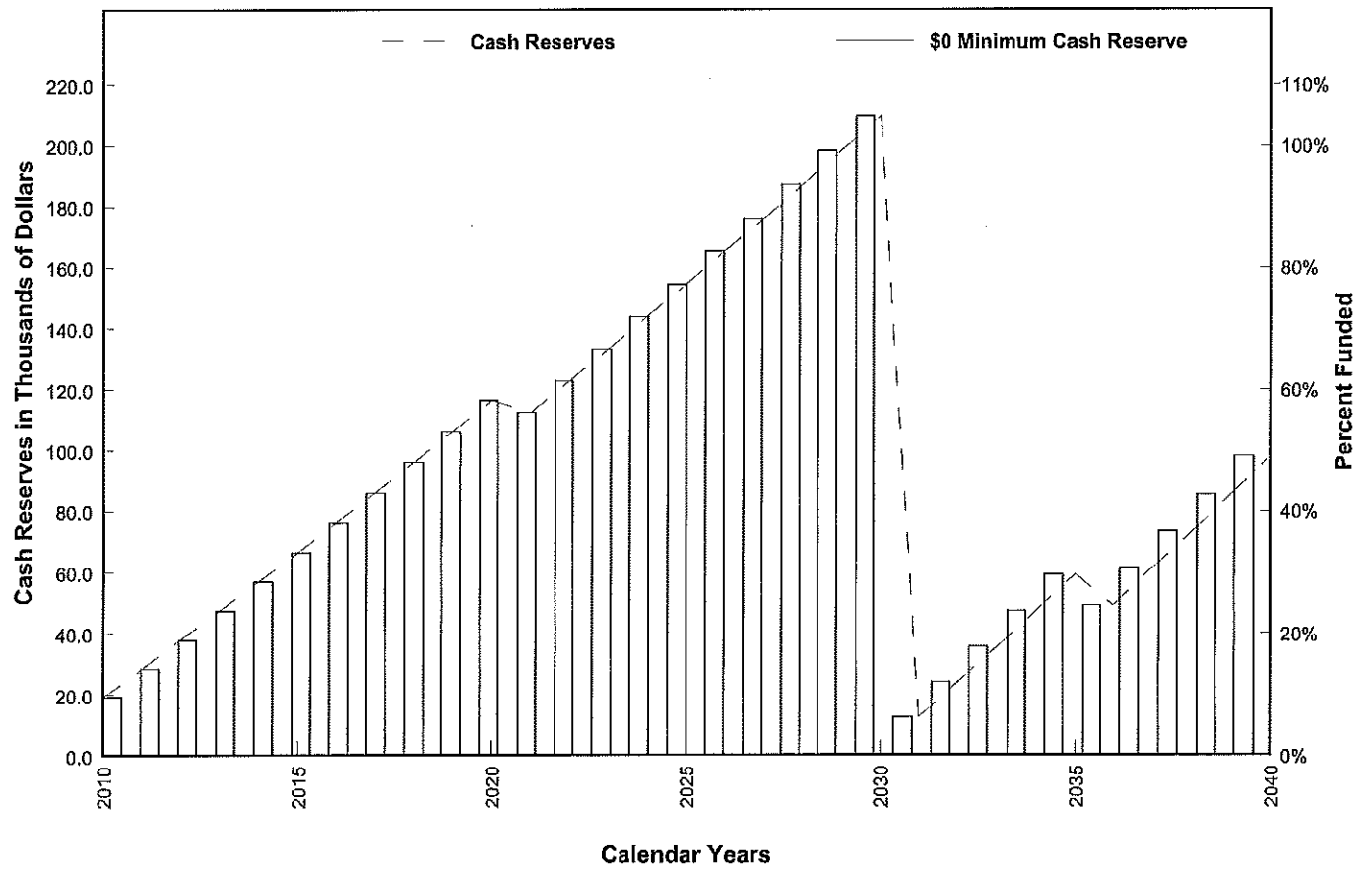
Cash reserves have been set to a minimum of \$0

Cash Flow has been modified with the forced Fixed Payments.

Months Remaining in Calendar Year 2010: 12 Inflation = 2.90 % Interest = 0.00 %
 Study Life = 30 years Initial Reserve Funds = \$10,140.00 Final Reserve Value = \$98,148.00

Prepared by Hawaii Inspection Group, Inc.

Kihel Commercial Plaza Bldgs 3 and 4 Elevators 2010 Funding Study Cash Flow by Calendar Year - Continued



Prepared by Hawaii Inspection Group, Inc.

**Kihel Commercial Plaza Bldgs 3 and 4 Elevators 2010 Funding Study - Expenses by Item and by
Calendar Year**

Item Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Reserve Category : Elevators																					
Elevator Modernization Hydraulic Bldgs 3 and 4																					
Elevator Cab Refurbishment Bldgs 3 and 4												\$14,156									
Expense Totals :												\$14,156									

Prepared by Hawaii Inspection Group, Inc.

Kihei Commercial Plaza Bldgs 3 and 4 Elevators 2010 Funding Study Expenses by Calendar Year - Continued

Item Description	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Reserve Category : Elevators										
Elevator Modernization Hydraulic Bldgs 3 and 4	\$208,036									
Elevator Cab Refurbishment Bldgs 3 and 4						\$21,860				
Expense Totals :	\$208,036					\$21,860				