

RESERVE STUDY REPORT

Parkside Place HOA

August 2015

prepared by Treasurer, Mike Drushal

On June 1, 2015 we received the report from *Association Reserves*, a firm that specializes in the preparation of reserves issues for HOAs, Condos, etc. This company had been chosen by the board to examine the status of Parkside Place HOA reserves and to recommend necessary updates to the reserves for our association.

When I first read the report I was impressed with their methodology, their software, and their overall thoroughness. It appeared that we had chosen the right firm. Nothing has happened since to change this view. I have assumed here that those who prepared this report know more than I do about the calculation of the dollar amounts for each reserve line item, and their experience also resulted in the suggestions for the line items. I have made no attempt to second guess either of these areas.

I am attempting in this document to trace the steps of my review which resulted in the recommendation I will make. There are five (5) attachments to this report:

- 1 "3-Minute Executive Summary" dated 5/31/2015
- 2 Table 1. Executive Summary dated 5/31/2015
- 3 "3-Minute Executive Summary" dated 8/24/2015
- 4 Table 1. Executive Summary dated 8/24/2015
- 5 Complete "Revised" report dated 8/24/2015

The attachments dated 5/31/2015 are from the original report. The attachments dated 8/24/2015 are from the "Revised" report which is the result of my review and basis of my recommendation.

After my first reading of the report I was struck by the significant increase in the monthly "Full Funding" amount required. We currently fund our reserves for \$3121 per month and this report recommended that be raised to \$8530, roughly a \$41 per month increase per unit! I realized that this would be quite a shock for our association and definitely a "hard sell." I immediately set about re-reading the report for some clues to this large increase.

My first attempt was to identify items that could be removed from the report that would not materially affect the operation of the association. I did this by looking for lines that were not for large amounts. Since the law recommends that any item over \$10,000 be included in our reserves, I looked for items less than that to see how removing them from the report would affect the monthly requirements. In this first revision I asked the firm to remove the following lines: 2543, 2599, 2729, 2775, 2782, and 2787. My logic for choosing these six lines was that these amounts were small enough that when necessary we could probably fund them from operating funds (thus making the reserves 'neater'). In addition, I identified two questionable lines that I asked to them to remove (2166 and 2185). 2166 because I assumed that if the port office wanted new boxes they could put them in themselves and 2185 because I thought that what we do on a weekly basis from operating funds covered 'landscaping'.

When I received this first revision I was dismayed when it resulted in a suggested in a \$37 increase per

unit in the monthly requirement (only a \$4 reduction). I shared my thinking with board members and continued to increase my understanding of what was going on.

A second revision was prepared when I asked them to remove lines 2341 and 2343. My logic for removing these lines is that 2341 is for things that are an owner responsibility 2343 is for the painting buildings that we have been funding from operating funds. This version showed a recommended monthly per unit requirement that is \$1 less than our current budget. As you can imagine, I was delighted by this prospect!

At the same time I was hearing from board members that had questions about what I was doing, and they were making helpful suggestions about how to proceed. In addition, their input increased my understanding of how we operate and what affect that has on these reserves. My final attempt is based upon this increased understanding and my basic trust in the firm we hired for this process.

The recommended plan is based upon the original (5/31) report with only lines 2341 and 2343 removed. I am reluctant to remove other lines since they are based upon the experience of the authors. The six small lines I originally removed are so small that including them has an insignificant impact on the final monthly funding and , as I said before are based upon the experience of the firm we hired for this task. I also left 2166 and 2185 in the recommendation since I discovered that the odds of having USPS replace our mailboxes is 'slim to none' given their funding and the 'landscaping' category was actually for maintenance of our retention ponds and drainage system (which we do not do out of operating funds).

The attachments dated 8/24 show a recommended “Full Funding” amount of \$3450 per month or an increase of \$2 per unit. This is where my thinking has taken us. Please review this as much as you can.

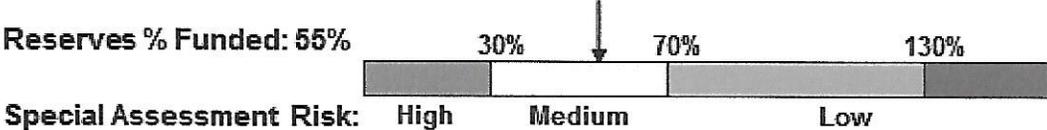
3- Minute Executive Summary

Association: Parkside Place #: 27974-0
 Location: Indian Harbour Beach, FL # of Units: 128
 Report Period: January 1, 2016 through December 31, 2016

Findings/Recommendations as-of 1/1/2016:

Projected Starting Reserve Balance:	\$183,973
Current Fully Funded Reserve Balance:	\$337,469
Average Reserve Deficit (Surplus) Per Unit:	\$1,199
Recommended 2016 Monthly "Full Funding" Contributions:.....	\$3,450
Alternate minimum contribs* to keep Reserves above \$0:.....	\$2,820
Recommended 2016 Special Assessment for Reserves:.....	\$0

Most Recent Budgeted Reserve Contribution Rate:.....\$3,121



Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves..... 1.00%
 Annual Inflation Rate 3.00%

- This is a "Full" Reserve Study (original, created "from scratch"), and is based on our site inspection on March 3, 2015. It was prepared by a credentialed Reserve Specialist (RS).
- Because your Reserve Fund is between 30% and 70% at 55% Funded, this means the association's special assessment & deferred maintenance risk is currently "medium." The objective of your multi-year Funding Plan is to Fully Fund your Reserves, where associations enjoy a low risk of such Reserve cash flow problems.
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase your Reserve contributions to \$3,450/month in 2016. Beginning in 2017, this amount should be increased by 3% annually.
- No assets appropriate for Reserve designation were excluded.

*officially called "Baseline Funding"

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#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Cost Estimate
Site and Grounds				
2125	Concrete Roads - Repair/Replace	10	0	\$125,000
2139	Site Fencing: Wood - Replace	20	5	\$30,100
2166	Mailboxes - Replace	20	2	\$9,200
2169	Sign/Monuments - Refurbish/Replace	20	5	\$8,000
2175	Site Pole Lights - Replace	20	5	\$65,250
2185	Landscaping - Refurbish	10	2	\$30,000
Building Exteriors				
2367	Common Windows & Doors - Replace	40	10	\$23,900
2377	Clubhouse Roof (Flat) - Replace	20	19	\$7,863
2383	Clubhouse Roof (Tile) - Replace	30	29	\$26,800
M.E.P.				
2524	HVAC (Clubhouse) - Replace	15	0	\$4,500
2543	Security Cameras - Upgrade/Replace	10	6	\$3,250
2599	Golf Cart - Replace	10	5	\$4,250
Interiors and Amenities				
2729	Sauna/Steam Room - Refurbish	20	0	\$3,750
2741	Clubhouse - Partial Remodel	15	5	\$12,500
2750	Bathrooms - Remodel	20	5	\$8,000
2763	Pool Deck Furniture - Replace	8	4	\$7,250
2769	Pool Deck - Resurface	30	26	\$25,550
2771	Pool Fence - Replace	30	10	\$6,300
2773	Pool - Resurface	12	6	\$12,500
2775	Spa - Resurface	12	6	\$2,000
2782	Spa Heater - Replace	8	4	\$2,750
2787	Pool Equipment - Maintain/Replace	5	2	\$1,750
2809	Tennis/Sport Courts - Re-coat	5	5	\$8,750
2811	Tennis/Sport Courts - Resurface	25	0	\$26,000
2813	Tennis Court Fencing - Replace	25	0	\$10,550
25	Total Funded Components			

Note 1: a Useful Life of "N/A" means a one-time expense, not expected to repeat.

Note 2: Yellow highlighted line items are expected to require attention in the initial year, green highlighted items are expected to occur within the first five years.