

1. Reserves are for components and repairs, not replacement of the structure

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Reserves are only calculated for the replacement of short-lived building or site components. This includes components that require replacement prior to the overall estimated end life of the buildings or structures. This report is designed to provide reasonable, appropriate budgetary cost and useful life data based on market standards for the subject's property type and in compliance with Florida statutes. Florida Statutes require consideration for roofs, exterior paint and/or waterproofing, pavement and all items that have an estimated repair or replacement cost above \$10,000. We are unaware of any private reserve requirements.

2. Two Alternative Methods of Computing Reserve Requirements

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There are two generally accepted means of estimating reserves; the Cash Flow Analysis and the Component Funding Analysis methodologies.

3. Cash Flow Analysis (or Pooling Method)

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The Cash Flow Analysis (or Pooling Method) is a method of calculating reserve contributions where contributions to the reserve funds are designed to offset the variable annual expenditures from the reserve fund. This analysis recognizes interest income attributable to reserve accounts over the period of the analysis. Funds from the beginning balances are pooled together and a yearly contribution rate is calculated to arrive at a positive cash flow and reserve account balance to adequately fund the future projected expenditures throughout the period of the analysis.

In our Cash Flow Analysis calculations, we do not include percentage increases in construction costs/inflation. While future costs are expected to be higher than today's costs, which is supported by our analysis of past indexes/trends, increases in costs should be recognized as the association estimates current repair/replacement costs during their annual calculations of full reserve funding. A current cost estimate during the current fiscal year would theoretically be lower than a current cost for future fiscal years. That way the estimates of current cost moving forward will eventually represent current costs as of the date of forecast expenditure. Funding the reserves annually on that basis should ensure that adequate monies are available as of the date of expense, assuming that the current cost estimate is appropriate and that the reserve was fully funded since its last repair/replacement project was completed.

4. Component Funding Analysis (or Straight Line Method)

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The Component Funding Analysis (or Straight Line Method) calculates the annual contribution amount for each individual line item component by dividing the component's unfunded balance by its remaining useful life. A component's unfunded balance is its replacement cost less the reserve balance in the

component at the beginning of the analysis period. The annual contribution rate for each individual line item component is then summed to calculate the total annual contribution rate for this analysis.

Popular method.

5. Legal Requirements

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As of July 1, 2007, homeowner's associations are mandated by Florida Statute 720 to include a disclaimer in their annual budgets if reserves are excluded from the budget. If homeowner's associations have previously funded reserves, they must include full funding reserve estimates under similar criteria as condominium associations in the state of Florida. A copy of these requirements is included in the addendum to this report.

6. EXECUTIVE SUMMARY

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ANALYSIS RESULTS –CASH FLOW ANALYSIS

Current annual reserve funding contribution amount (2018 Budget):	\$	5,000
Our recommended annual reserve funding contribution amount:	\$	38,400
Increase (decrease) between current and recommended annual contribution amounts:	\$	33,400

ANALYSIS RESULTS – COMPONENT FUNDING ANALYSIS Current annual reserve funding contribution amount (2018 Budget):	\$	5,000
Our recommended annual reserve funding contribution amount:	\$	55,271
Increase (decrease) between current and recommended annual contribution amounts:	\$	50,271

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Based on the Cash Flow Analysis methodology, the association can fully fund the reserves as analyzed in this report at \$38,400 in fiscal years 2019-2026. **In 2027 the association can lower their annual contribution to \$18,000.** This level of annual funding could remain stable over the remainder of the study period, provide adequate funds to offset planned reserve expenditures, and maintain a positive reserve fund balance over the entirety of the study period.

7. Items Funded

See Page 12 – Total Cost of \$270,000

Reserve Study Cost Allowances

Line No.	Asset	Cost Allowance	Life Cycle		Remaining Life	
			Years	Avg. per Year	Years	Avg. per Year
1	Entry Monument Lighting	\$ 32,000	14	\$ 2,286	7	\$ 4,571
2	Irrigation	\$ 38,000	10	\$ 3,800	3	\$ 12,667
3	Landscaping	\$ 35,000	5	\$ 7,000	2	\$ 17,500
4	Perimeter Wall Repairs	\$ 29,000	10	\$ 2,900	9	\$ 3,222
5	Signage on Entry Monuments	\$ 136,000	25	\$ 5,440	7	\$ 19,429
6	Total Current Costs	\$ 270,000		\$ 21,426		\$ 57,389

Note: Years are rounded above giving rise to minor differences in amounts per year relative to the Report.

8. Detail regarding funding for each item

See Pages 13-17

9. Budget Implications

Potential Reserve Account Funding Options:

1. If we rely on the Cash Flow Analysis
 - a. \$ 38,400 per year beginning 2019 thru 2026 and then \$18,000 per year
 - b. \$160,000 from Op Fund and then approx. \$18,000 per year beginning 2019
 - c. Other?
2. If we rely on the Component Funding Analysis
 - a. \$ 55,271 per year
 - b. Other?

(Annually or periodically adjust all amounts for cost increases.)

Adjust budget to pay appropriate costs from the Reserve Account instead of the Operating Budget

1. Landscaping replacement
2. Repairs to walls, monuments, lighting/electrical, and irrigation
3. Replacement of monument signs
4. Improvements to any of the above systems and facilities

10. Questions and Discussion Topics:

1. Status of Twin Rivers HOA
 - a. Have we funded reserves previously? (I think -Yes, but need to verify)
 - b. If so, we now must unless we have Member approval not to?
 - c. If not, do we need Member approval to begin to fund reserves?
 - d. If we do not, a note that indicates reserves are not being funded needs to be added to the operating budget
2. Pros and Cons of relying on the two alternative methods
 - a. If you use the Component Funding Method, is the HOA required to segregate the Reserve Accounts according to component?
 - b. Component Method may be more understandable and conservative? But, may be more complex to manage and have a greater near term budget impact
3. Process for factoring in future increases in costs
4. Process and issues associated with moving funds from the Operating Acct to the Reserve Acct
5. Questions about the specific estimates for each item