Introduction: What is the Reserve Study and its Funding Plan?

The Leisure Village Condominium Association Inc. Reserve Policy (effective: May 15, 2014) provides the essential requirements and descriptions of this Reserve Study and its Funding Plan. Actual reserve study and funding plan examples successfully implemented at other common interest property ownership associations have also been used.

The Reserve Study is a published physical analysis of the common interest property at the Association that is used as a tool to properly manage the financial demands of that property. The physical analysis includes the following:

- Component Inventory (identify components of the community that the Association is responsible to maintain, repair, and replace)
- Condition Assessment (determine or estimate the useful life of those components)
- Life and Valuation Estimates (establish a maintenance, repair, and replacement schedule for those components)

The Reserve Funding Plan is a published financial analysis of exactly how any work recommended by the Reserve Study to maintain the common interest property at the Association will be funded. The financial analysis includes the following:

- Fund Status (identify the finances currently available to the Association that are specifically reserved for the work of maintaining, repairing, and replacing common interest property)
- Funding Plan (establish a plan for long-term ongoing funding of such maintenance, repair, and replacement while considering the impact of inflation, projected assessment collections, and any reserve fund investment revenue)

This document, prepared by James T. Cook, the acting HOA President who has over 20 years of engineering consulting experience, is the first formal Reserve Study and Funding Plan *report* published by the Leisure Village Condominium Association. However, the first *spreadsheet* study was compiled in April, 2014 and revised each year thereafter. Data from the most current spreadsheet has been used for this report.

The Reserve Study and Funding Plan should be periodically updated at least once every three to five year period.

Physical Analysis of Leisure Village: Property Description

The Leisure Village Condominium Association consists of 13 condominium units distributed in three separate buildings constructed circa 1994. Building address 2801 Leisure Drive has five units and sits on the west side of the parking lot. Building address 2803 Leisure Drive has four units and sits on the south side. Building 2805 Leisure Drive has four units and sits on the east side. The buildings are 2-stories above ground with basements. They were constructed in 1994. There are no garages. The private parking lot has 30 parking spaces. Each condo unit has two assigned and labeled parking spaces, which leaves four unassigned spaces for visitors. About 1 acre of common interest “green space” area surrounds the three buildings. Leisure Drive, a municipal street which lies to the north of Leisure Village, ends in a cul-de-sac which leads to the Leisure Village private driveway entrance. Leisure Park, a municipal public recreational space forms the eastern border. Private detached homes along Del Clair Road and Tulane Drive back up to Leisure Village and form the southern and western borders. Some older condos with a Leisure Drive entrance lie to the north of the property. All adjacent properties

currently share a fence line with Leisure Village. Please see the aerial photos in the appendix for more details.

The entrance driveway is uncurbed with asphalt pavement and a concrete drain pan running along its center. The parking lot has concrete curbs along its perimeter with asphalt pavement. There is a concrete pad area for the common garbage dumpster and receptacles with an adjacent parking space. Concrete sidewalks run along the perimeter of the parking lot and up to each condo unit entrance.

Building 2805 Leisure Drive has small wooden decks at the condo rear entrances. HOA board of director precedent has determined that these are a limited common element: they are the responsibility of the homeowner, but they must obtain written approval from the Association prior to commencing an alteration or improvement to them.

The common green space areas contain irrigated vegetation (grass, shrubs, and trees), but currently do not contain any structural apparatus (play equipment, benches, etc.) of any kind.

Leisure Village Aerial Image (from south looking north)

Physical Analysis of Leisure Village: Component Inventory

The following **common** interest property components that must be maintained, repaired, and replaced by the Association have been identified.

1. Building structures
    a. Roofing, asphalt shingles (3 buildings)
    b. Siding and trim, including flue vent chimney risers (quantity=10)
    c. Gutters and downspouts
    d. Enclosed infrastructure (walls, plumbing, electrical, etc.)
2. Asphalt paved parking lot and driveway entrance (13,500 square feet)
3. Concrete driveway entrance drain pan (~400 square feet)
4. Concrete parking lot curbs (~350 linear feet)
5. Concrete garbage dumpster pad and adjacent parking spaces (~300 square feet)
6. Concrete sidewalks and steps (~1900 square feet)

7. Sprinkler irrigation system
    a. One(1) water tap valve (2775 Leisure Drive) and backflow preventer
    b. One(1) controller clock (with 13 valves/zones)
    c. Sprinkler valves (quantity = 13)
    d. Piping (~1500 linear feet)
    e. Sprinkler rotor heads/drip heads (~40)
8. Vegetation
    a. Deciduous trees (quantity=10)
        - Ash = 3
        - Crabapple / Plum = 4
        - Cottonwood = 1
        - Locust = 2
    b. Evergreen trees (quantity=7)
        - Austrian Pine = 2
        - Blue Spruce = 1
        - Scotch Pine = 2
        - Spruce = 2
    c. Shrubs (approximately 50)
    d. Grass (approximately 1 acre)

The following **shared** interest property components that must be maintained, repaired, and replaced by the Association have been identified.

1. Vegetation beds between condo unit entrances (quantity=7)
   HOA board of director precedent has determined that these areas must be maintained by the homeowner. The Association will reimburse the homeowner for any approved improvement material costs, but the labor must be provided by the homeowner. Therefore, this expense is normally included in the operating budget, not the reserve funds.
2. Common property line fencing
   HOA board of director precedent has determined that maintenance or replacement of these fences must be negotiated with adjacent property owners on an as-needed basis. Therefore, this expense is normally included in the operating budget, not the reserve funds.
3. Exterior security light fixtures (quantity=3)
   HOA board of director precedent has determined that maintenance or replacement of these light fixtures must is relatively small expense. Therefore, this expense is included in the operating budget, not the reserve funds.

The following **limited common** interest property components that are <u>not</u> maintained, repaired, and replaced by the Association have been identified and are, therefore, <u>not</u> included in the reserve study.

1. Windows and doors
2. Rear entrance decks
3. Exterior front and rear door light fixtures
4. All interior improvements

Physical Analysis of Leisure Village: Component Assessment and Projected Expenditures

The following estimates will be assumed for the common interest property components that have been identified:

1. Building structures
    a. Roofing, asphalt shingles (3 buildings)

        Cost of new roof on 3 buildings: $**32,110** (2015 actual replacement cost)
        Expected roof useful life: 25 years
        Roof (replaced in 2015) remaining life: 22 years

    b. Siding and trim, including flue vent chimney risers (quantity=10)

        Cost of *repairing/replacing* siding and trim including flue vent chimney risers on 3 buildings: $**19,045** (2015 actual cost)
        Expected siding and trim, chimney risers useful life: 20 years
        Siding and trim, chimney risers (replaced in 2015) remaining life: 17 years

        Cost of *painting* siding and trim including flue vent chimney risers on 3 buildings: $**12,225** (2016 actual cost)
        Expected siding and trim, chimney risers *paint* useful life: 7 years
        Siding and trim, chimney risers *paint* (repainted in 2016) remaining life: 5 years

    c. Gutters and downspouts

        Cost of gutters and downspouts on 3 buildings: $**3,000**
        Expected gutters and downspouts useful life: 30 years
        Gutters and downspouts remaining life: 6 years

    d. Enclosed infrastructure (walls, plumbing, electrical, etc.)

        It is anticipated that the enclosed infrastructure will only need to be repaired or replaced due to fire, severe wind damage, or other insurable event. Therefore, the Association will continue to maintain an adequate insurance policy for such damages. In 2018-19, such insurance policy cost $7,712; however, it is always included in the Association operating budget and will <u>not</u> be included in the reserve study.

2. Asphalt paved parking lot and driveway entrance (13,500 square feet)

        Cost of asphalt parking lot and driveway entrance:
            Option 1—2 inch overlay: $**27,000** (2018 quote)
            Option 2—remove and replace: $**60,000**
        Expected overlay (option 1) asphalt pavement useful life: 10 years
        Expected new (option 2) asphalt pavement useful life: 25 years
        Asphalt pavement remaining life: 1 year

3. Concrete driveway entrance drain pan (~400 square feet)
   Please note: the existing drain pan was installed circa 2008, not in 1994 when condos were new
   Cost of concrete driveway drain pan: $**4,000**
   Expected concrete driveway drain pan useful life: 40 years
   Concrete driveway drain pan remaining life: 30 years

4. Concrete parking lot curbs (~350 linear feet)

   Cost of concrete parking lot curbs: $**2,100**
   Expected concrete parking lot curbs useful life: 25 years
   Concrete parking lot curbs remaining life: 1 year

5. Concrete garbage dumpster pad and adjacent parking spaces (~300 square feet)

   Cost of concrete garbage dumpster pad and adjacent parking spaces: $**3,000**
   Expected concrete sidewalks and steps useful life: 40 years
   Concrete sidewalks and steps remaining life: 16 years

6. Concrete sidewalks and steps (~1900 square feet)

   Cost of concrete sidewalks and steps: $**19,000**
   Expected concrete sidewalks and steps useful life: 40 years
   Concrete sidewalks and steps remaining life: 16 years

7. Sprinkler irrigation system

   a. One(1) water tap valve (2775 Leisure Drive) and backflow preventer

      Cost of new water tap PVB (pressure vacuum breaker) backflow prevention valve: $**580**
      Expected water tap PVB backflow prevention valve useful life: 30 years
      Water tap PVB backflow prevention valve remaining life: 6 years

   b. One(1) controller clock (with 13 valves/zones capability)

      Cost of new sprinkler controller: $**500**
      Expected sprinkler controller useful life: 30 years
      Sprinkler controller remaining life: 6 years

   c. Sprinkler valves (quantity = 13)

      Cost of new sprinkler valves: $**520** ($40 each)
      Expected sprinkler valves useful life: 30 years
      Sprinkler valves remaining life: 6 years
      Please note: sprinkler valves are normally replaced by the landscape contractor on an as-needed basis and their age is not tracked. This expense is normally included in the operating budget, not the reserve funds.

d. Piping (approximately 1500 linear feet)

Cost of new sprinkler piping: $**1,125** ($0.75 linear foot)
Expected sprinkler piping useful life: 40 years
Sprinkler controller remaining life: 16 years

e. Sprinkler rotor heads/drip heads (approximately 40)

Cost of new sprinkler rotor heads/drip heads: $**800** ($20 each)
Expected sprinkler rotor heads/drip heads useful life: 20 years
Please note: sprinkler rotor heads and drip heads are normally replaced by the landscape contractor on an as-needed basis and their age is not tracked. This expense is normally included in the operating budget, not the reserve funds.

8. Vegetation
Please note: damaged or deteriorated vegetation (like broken tree limbs) is normally removed and replaced on an as-needed basis and its age is not tracked. This expense is normally included in the operating budget, not the reserve funds.

a. Deciduous trees (quantity =10)

Cost of new deciduous trees: $**1,500** ($150 each)
Expected deciduous tree useful life: 60 years
Estimated remaining deciduous tree useful life: 36 years

b. Evergreen trees (quantity =7)

Cost of new evergreen trees: $**700** ($100 each)
Expected evergreen tree useful life: 50 years
Estimated remaining evergreen tree useful life: 26 years

c. Shrubs (approximately 50)

Cost of new shrubs: $**1,250** ($25 each)
Expected shrub useful life: 40 years
Estimated remaining shrub useful life: 16 years

d. Grass

Cost of new grass: $**5,000**
Expected grass useful life: 100 years
Estimated remaining grass useful life: 76 years

Financial Analysis of Leisure Village: Assumptions/Considerations

The assumed annual inflation rate is **2.5%** (based on historical averages of 1.74% last 10 years, 2.61% last 30 years, and 3.22% last 100 years).

The assumed reserve fund investment revenue rate ("savings" account interest rate) is **1.5%** (based on historical 6-month CD average rates of 1.00% last 10 years and 3.56% last 30 years). There are currently no plans by the HOA to invest the reserve funds outside of the bank savings account.

The Leisure Village Condominium Association operating funds ("checking") account balance was $3686.10 and the reserve funds ("savings") account balance was $**11,442.89** at the end of calendar/fiscal year 2017.

Historical records indicate that the reserve balance was around $4500 five years ago in 2013. During the past five years, reserve contributions have averaged just under $5000 per year. However, significant reserve withdrawals were also made in 2015 and 2016 (almost $16,000 total) to help pay for considerable capital expenditures: roof replacement in 2015; siding and trim repair, and painting in 2016. Additional reserve funding came from an insurance claim for the hail roof damage ($39,631.28) and a special assessment ($700 per unit--$9100 total) collected from the Association homeowners.

The budget for calendar/fiscal year 2018 estimates $34,320 in total revenue and $28,458 in total expenses, so that an additional $5862 will be added to the reserve savings account.

The homeowner assessment revenue is assumed to increase about **5%** annually (based on the increases during the past 6-year period where dues were $175, $175, $195, $195, $220, and $220 for years 2013 to 2018 respectively).

Other revenue sources (transfer fees due to sale of condo units, late fees, etc.) can sometimes be present, but are highly variable, so they have been disregarded in this reserve study and funding plan.

Financial Analysis of Leisure Village: Cash Flow Projections

Please see the attached financial spreadsheet for projected cash flows for the next 50 years.

Financial Analysis of Leisure Village: Conclusions

With about a 5% annual increase in HOA dues, reserve funds should be sufficient to meet all future obligations. Once the asphalt parking lot pavement is replaced, which is the largest pending reserve savings financial obligation, the HOA due assessments could begin to simply increase at a rate that matches annual inflation rates or even lower.

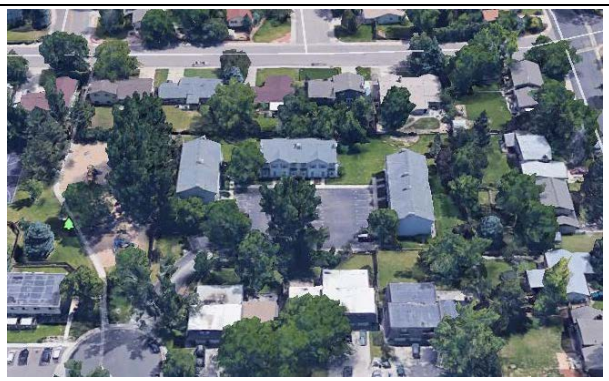
Financial Analysis of Leisure Village: Recommendations

1. Strongly consider raising HOA annual dues by at least 5% per year for the next 7 years or so, at least until the asphalt parking lot pavement is replaced.
2. Update/revise this report sometime in the next 3-5 years.
3. Delay any parking lot pavement replacement for about 5 years, or until an update to this report is published and the reserve savings balance is adequate. Replace parking lot concrete curbs at same time asphalt is replaced.
4. Consider investing a portion of the reserve funds in fixed income assets (e.g. bonds) with an annual return equal or greater than the rate of inflation.

Cash Flow Projection Spreadsheet

Year	Monthly HOA dues	Total Revenue	Total Operating Expenses	Reserve Deposit	Estimated Reserve Expense (adjusted from 2018 for inflation)	Reserve (Savings) Balance	Scheduled Reserve Item Description
2013	$175		*$27,152*				
2014	$175		*$27,226*				
2015	$195		*$26,685*				
2016	$195		*$26,942*	$0	$0	$4,270	
2017	$220		*$26,798*	$7,170		$11,440	
2018	$220	$34,320	$28,458	$5,862		$17,474	
2019	$230	$35,880	$29,169	$6,711		$24,446	
2020	$240	$37,440	$29,899	$7,541		$32,354	
2021	$250	$39,000	$30,646	$8,354		$41,194	
2022	$265	$41,340	$31,412	$9,928		$51,739	
2023	$280	$43,680	$32,198	$11,482	$13,860	$50,138	Paint siding and trim
2024	$295	$46,020	$33,003	$13,017	$3,479	$60,428	Replace gutters and downspouts
2025	$310	$48,360	$33,828	$14,532	$1,284	$74,583	Replace irrigation system PVB and clock
2026	$310	$48,360	$34,673	$13,687	$2,559	$86,829	Replace concrete curbs
2027	$318	$49,569	$35,540	$14,029	$74,932	$27,229	Replace asphalt pavement
2028	$326	$50,808	$36,429	$14,380	$2,688	$39,329	
2029	$334	$52,078	$37,339	$14,739		$54,658	
2030	$342	$53,380	$38,273	$15,108	$16,441	$54,144	Paint siding and trim
2031	$351	$54,715	$39,230	$15,485	$4,136	$66,306	Replace concrete dumpster pad and parking
2032	$360	$56,083	$40,210	$15,872	$26,847	$56,326	Replace concrete sidewalks and steps
2033	$368	$57,485	$41,216	$16,269	$1,856	$71,584	Replace shrubs
2034	$378	$58,922	$42,246	$16,676	$1,670	$87,663	Replace irrigation pipe
2035	$387	$60,395	$43,302	$17,093	$28,979	$77,092	Repair siding and trim
2036	$397	$61,905	$44,385	$17,520		$95,768	
2037	$407	$63,453	$45,494	$17,958	$19,543	$95,620	Paint siding and trim
2038	$417	$65,039	$46,632	$18,407		$115,462	
2039	$427	$66,665	$47,798	$18,867		$136,061	
2040	$438	$68,331	$48,992	$19,339	$59,530	$97,911	Replace roof
2041	$449	$70,040	$50,217	$19,822		$119,202	
2042	$460	$71,791	$51,473	$20,318		$141,308	
2043	$472	$73,585	$52,760	$20,826		$164,253	
2044	$483	$75,425	$54,079	$21,347	$23,231	$164,833	Paint siding and trim
2045	$496	$77,311	$55,430	$21,880	$1,363	$187,822	Replace evergreen trees
2046	$508	$79,243	$56,816	$22,427		$213,067	
2047	$521	$81,225	$58,237	$22,988		$239,251	
2048	$534	$83,255	$59,693	$23,563	$8,390	$258,012	Replace concrete driveway drain pan
2049	$547	$85,337	$61,185	$24,152	$4,515	$281,519	Replace concrete curbs
2050	$561	$87,470	$62,715	$24,755		$310,497	
2051	$575	$89,657	$64,282	$25,374	$27,614	$312,915	Paint siding and trim
2052	$589	$91,898	$65,889	$26,009	$135,531	$208,086	Replace asphalt pavement
2053	$604	$94,196	$67,537	$26,659	$3,560	$234,307	Replace deciduous trees
2054	$619	$96,550	$69,225	$27,325	$7,298	$257,849	Replace gutters and downspouts
2055	$634	$98,964	$70,956	$28,009	$47,486	$242,239	Repair siding and trim
2056	$650	$101,438	$72,730	$28,709	$2,627	$271,954	Replace irrigation system PVB and clock
2057	$667	$103,974	$74,548	$29,426		$305,460	
2058	$667	$104,052	$76,412	$27,640	$32,825	$304,857	Paint siding and trim
2059	$667	$104,052	$78,322	$25,730		$335,160	
2060	$667	$104,052	$80,280	$23,772		$363,960	
2061	$667	$104,052	$82,287	$21,765		$391,185	
2062	$667	$104,052	$84,344	$19,708		$416,760	
2063	$667	$104,052	$86,453	$17,599		$440,611	
2064	$667	$104,052	$88,614	$15,438		$462,658	
2065	$667	$104,052	$90,829	$13,223	$39,018	$443,803	Paint siding and trim
2066	$667	$104,052	$93,100	$10,952	$110,366	$351,046	Replace roof
2067	$667	$104,052	$95,428	$8,624		$364,936	
2068	$667	$104,052	$97,813	$6,239		$376,649	

Leisure Village Aerial Views

View from north	
View from west	
View from south	
View from east