

PRESIDENTS MESSAGE ON RESERVE FUNDING

I hope everyone is well.

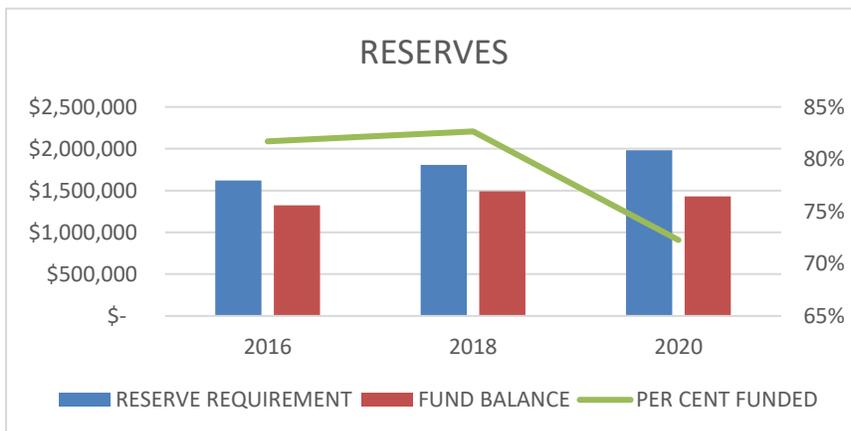
We have received the 2020 Reserve Study from J.R. Frazier, it is posted on the First Service website. I encourage you to take a look at it,

You have heard quite a bit of discussion about the Reserves, especially around budget time. I thought since we are all a little bored, why not discuss our Reserves. Naturally the first question is why do we have reserves and what are they for. Following is a quote from Florida State Statute 720. This is the state statute for Homeowner's Associations. This same quote is included in our bylaws.

"In addition to annual operating expenses, the budget must include reserve accounts for capital expenditures and deferred maintenance. These accounts must include, but are not limited to, roof replacement, building painting, and pavement resurfacing, regardless of the amount of deferred maintenance expense or replacement cost, and for any other item that has a deferred maintenance expense or replacement cost that exceeds \$10,000"

Statute 720 also states if the developer established reserves the HOA must maintain them. The theory is that with adequate reserves special assessments are not needed. This has been true for us for 44 years. We have never had a special assessment.

The past several years our reserves have not been keeping up with the current reserve requirement for our assets. I hope the following chart will help explain things. There are 3 colors on the chart. Blue is the current reserve requirement. That is the amount of reserves we should have on hand now. The brown is the funds we do have on hand. The green line shows our performance in meeting the reserve requirement. You can see that our percentage of reserves to assets is going down. In 2018 we had hit 83% as a percentage of the current reserve requirement we are now at 72%. Keep in mind, that condominiums by law are required to be at 100%.

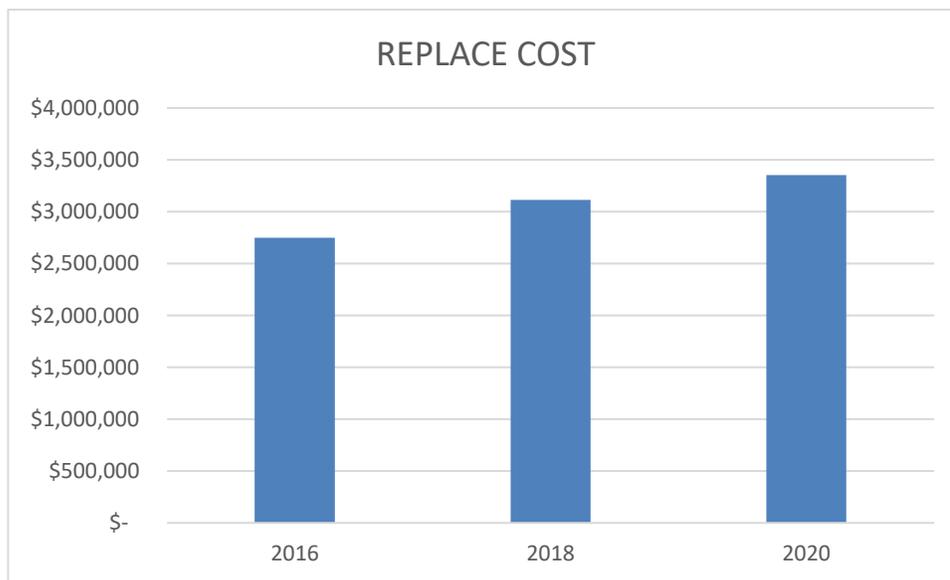


Following is a quote from our reserve study regarding our current reserve standing:

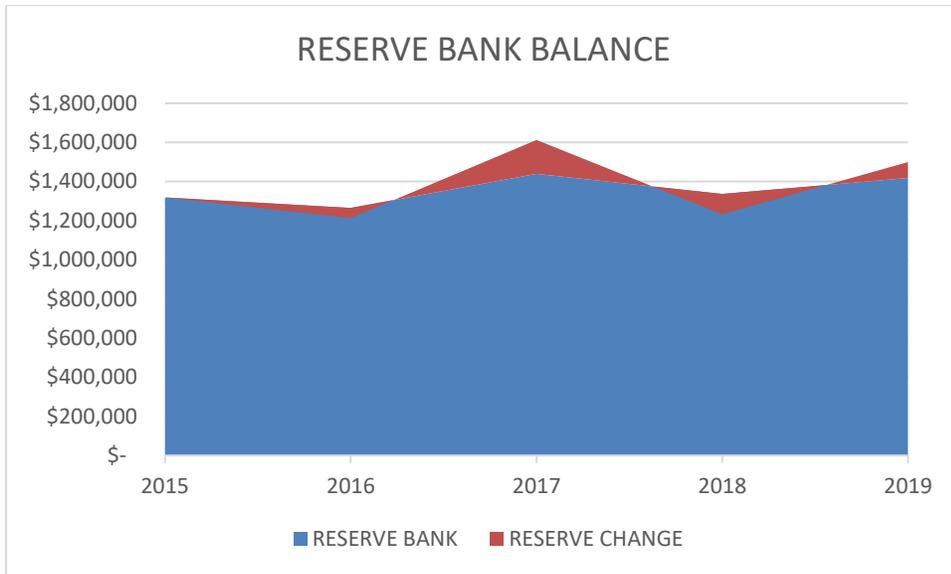
“This association’s financial strength is high at the 70% or greater reserve level of funding. This association’s reserves are approximately 72% funded. The percentage is derived by dividing the Association’s Reserve Fund Balance of \$1,431,253 on January 31, 2020 by the Current Reserve Requirement stated on page B1 of this report. According to a study done by the Association of Professional Reserve Analysts (APRA), an association that is greater than 70% funded runs a 1% risk of special assessments during any one yearly period.”

It certainly would seem we do not want to hit that magic number of 70%

The next question is how did we get here and slip to 72% from 83%. The next graph shows you the cost of replacing our assets as computed by the reserve study. In 2016 assets were valued at \$2,749,858, but in 2020 they were valued at \$3,354,224. This is due to increases in materials and construction. Inflation is also a factor. Also, we have added to reserve for things we did not own before like pavers and other improvements and additions. As the cost of the assets increases the current reserve requirement increases.



Below is a chart of our reserve bank balance. As you can see it has not increased much from 2015. In 2015 the bank balance was \$1,318,818 and had increased by less than \$100,000 to \$1,417,700. This is not enough of an increase to keep up with our needs and inflation.



It is interesting to note that when Stan Monfette became president reserves were less than \$250,000. During his tenure the reserve balance rose to \$1,237,000. That was due to adding close to \$350,000 per year to the reserves. Below is a chart of our recent additions to reserves. I would like to thank Stan, his Board and all those residents for their fiscal responsibility. I have trust that our board will reverse the current trend and begin increasing the reserves again.

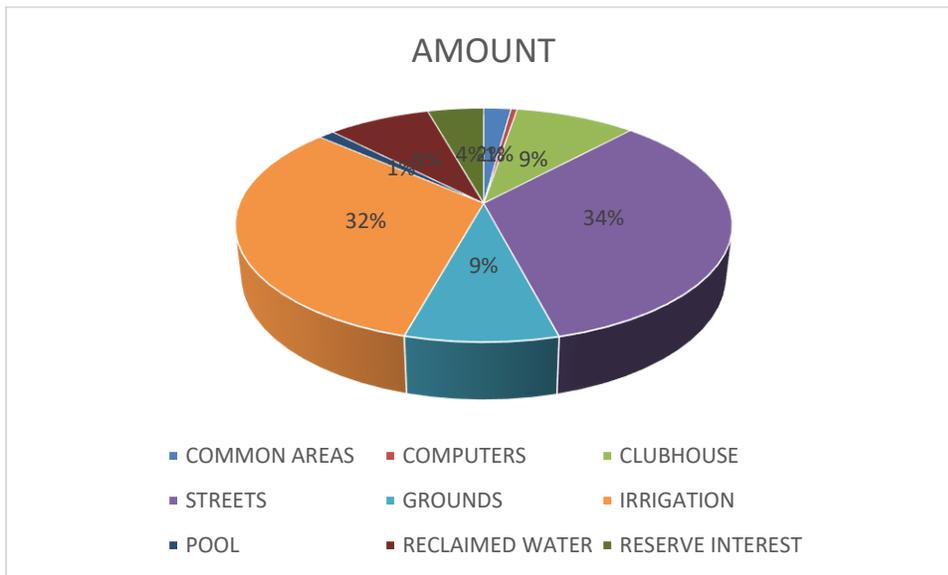


As you can see our reserve transfers have become quite low (chart above). The last 3 years they have only been \$202,976. In 2017 it was \$242,726. The increase in assets, the low reserve transfer and asset

spending have not allowed the reserves to grow. To get back on track we should consider a number of measures including:

- 1) Transfer monies from the operating balance
- 2) Increase the yearly reserve transfer
- 3) Do not buy anything from the reserves that money was not specifically saved for.

The other problem with the reserves is that areas where we need funds the reserve comes up short. For instance, the pool reserve only has \$18,287 and the reserves for the clubhouse is \$141,468. Looking at the value and upkeep of these assets it is way too low. Most of the areas are underfunded. The following chart will show the distribution of the fund.



I hope this will begin a conversation on a very important issue. If you have any questions please contact me. If there is any interest, I will schedule a zoom townhall meeting.

We have had some maintenance issues recently including a sink hole from a leaking culvert on Roma way. It required closing the street and digging for repairs. There was a leak on 16th street that required pipe repair. Also, a pipe broke behind the houses on Vastine that required shutting down irrigation Pump 1. Maintenance will work to repair that as soon as possible.

Maintenance staff have been making improvements to the building while the facility is closed. Billy really did a great job renovating the contractor's bathroom at almost no cost. This will allow us to close the rest of the building to the elections department because they will be able to use the outside bathroom. There has been quite a lot of cleaning and some painting. The auditorium floor looks great and all the chairs have been cleaned. The building will look great when you return. The entire staff has been doing a great job keeping the Association going during the lockdown. The Board is continuing to approve Property Improvement Forms and new house sales.

Stay well and take care of each other.

Sincerely wishing you the best

Howard Weisberg, President