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# THE REPLACEMENT RESERVE REPORT

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January 22, 2008

**Village Walk South of Vero Beach  
Homeowners Association, Inc**

602 Sixth Avenue  
Vero Beach, Florida 32962

Dear Managers and Trustees,

It is my pleasure to present you with the enclosed **REPLACEMENT RESERVE REPORT** for your association of homeowners at **VILLAGE WALK SOUTH OF VERO BEACH HOMEOWNERS ASSOCIATION, INC.**

The observations and recommendations noted in the report have been made only after close inspection and evaluation of the property components.

Thank you for the opportunity to prepare this analysis for you. I trust it will become a valuable aid and assist you in your property management endeavors.

Please do not hesitate to contact me with any questions or comments.

Very truly yours,

Charles J. Stuart, CPM

FIELD OFFICES:

BOSTON  
VIRGINIA BEACH  
TAMPA

The **VILLAGE WALK SOUTH OF VERO BEACH HOMEOWNERS ASSOCIATION, INC.** consists of one common interest realty association of homeowners guided by a Board of Trustees, with the assistance of a professional managing agent that administers day-to-day business affairs.

The trustees of the association have requested this reserve analysis to define the capital needs of the development for long term planning which will assist them in their obligations to fulfill their duties according to the Articles of Declaration of the Association of Unit Owners.

#### MISSION STATEMENT

The scope and purpose of this analysis is to provide financial conclusions that will suggest required funding levels for capital repairs and replacements to the building components and improvements within the charge of the trustees as defined in the Master Deed. The analysis does not intend to project an engineering of the property, opinions of utility or inutility, or an opinion of value of divided or undivided interests.

The methodology used is two-fold. First, to perform an analysis regarding current physical conditions, which, through non-invasive observations and our experience in such matters, would indicate the probable remaining life of the property components. Second, the report will suggest the costs associated with capital repair and replacement over the next twenty-year period. As a product of these two functions, the report will also comment on observations made, the level of proficiency in maintaining the physical plant, deferred and preventative maintenance, and any possible life extension of the components. This scope of work does not constitute an engineering study of the subject property. The client should interpret the enclosed material and determine if such a level of investigation is necessary.

When interpreting this report, the value of time should be considered. As a twenty-year period is a probable scenario based on our experiences, it is open to influences from many sources such as maintenance levels, economics, inflation of expenses, and the environment in which the property exists. Accordingly, give particular attention to suggested capital expenses during the next five-year period. With scheduled re-evaluation of the report every three years, the recommendations will remain a working tool for the benefit of the property.

The observations made during the field inspections of **January 22, 2008**, indicated that the level of service to the components is at a proficient level. A capsule of components exhibiting liabilities, obsolescence, or deferred maintenance follows.

**LIABILITIES**

This report is not intended as a loss or risk assessment, however, it will comment on possible liabilities that may present a financial risk to our client. During our property inspections, we did not encounter any such conditions.

**OBSOLESCENCE**

Within the text of the physical plant report pages the reader will note areas that indicate either functional or economic obsolescence. All obsolescence should be considered curable.

**DEFERRED MAINTENANCE**

It is obvious, in our professional opinion, that the property has maintained a responsible degree of maintenance. Given this history of operations, we did not observe, and would not expect to observe, intentionally deferred maintenance. This report suggests additional levels as an enhancement only.

The subject property has a chronological age of improvements of **7 years**. In our professional opinion, the *effective age* for the improvements, enmasse, is equal at approximately **7 years**.

**THE FUTURE**

The long-term cash flow analysis includes two predictions. One prediction includes *roof replacement costs* as the responsibility of the association, pages 14-17, indicating that the current funding level of **\$14,273 requires an increase to \$68,000** per year. This scenario will require a special assessment for approximately a third of the roof replacement costs.

The second prediction includes the cash flow charts, located in the Appendix section of the report, without *roof replacement costs*, and suggests that the current reserve rate of **\$14,273 to \$15,000** per year will meet the attrition and expenses of the property. This scenario will require a special assessment of approximately **\$1,259,700** to address roof replacement costs.

These predictions are suggested for a limited period of approximately three (3) years when regular updates are performed to adjust for physical conditions and inflation. All predictions are dependent on low inflation rates, annual interest income, and continued professional property management.

We hope that this report will benefit the owners by providing ample information to make informed decisions.

**HOW TO INTERPRET THIS DATA**

**The Project Profile:** Each of the property components receives a capsule look at “Effective Age” and probable remaining use life. Effective Age is determined by original product quality, maintenance and preventative maintenance received during the in-service period, and related actual wear and tear. The capsule continues with a checklist of conditions that may be of particular interest to the reader.

	ORIGINAL LIFE	CHRONOLOGICAL AGE	EFFECTIVE AGE	USE LIFE YEARS
ASPHALT	25	15	10	15
ROOFING	20	15	17	6

SUMMARY	
DEFERRED MAINTENANCE: OBSOLESCENCE:	Observed conditions requiring maintenance considered to have been intentionally deferred. Economic obsolescence is used to describe worn out components. Functional obsolescence describes out-dated components or in utility.
LIFE EXTENSION: ALTERNATIVES:	Functions suggested to extend component use life. New or better adapted products.
COMMENTS OBSERVATIONS PREVENTATIVE MAINTENANCE & SUGGESTIONS:	Describes conditions observed, remaining use life, product specifications, and eventual timing and cost associated with replacement.

Each component receives a narrative of critical analysis, and a description of how funding and expenses are based, then recapped in the following format. This information is incorporated into the cash flow charts.

INVENTORY & COST ANALYSIS							
	QUANTITY	UNIT	UNIT VALUE	TOTAL VALUE	USE LIFE	CONSTANT SEGREGATED FUNDING	ACTUAL CASH EXPENSE & YEAR (S) SAMPLE
ASPHALT	1	LS	\$20,000	\$20,000	20	\$1,000 per year	\$0.00
TILE	100	SF	\$40.00	\$4,000	10	\$400 years 1-10	\$4,000 year 11

**Two Types of Funding, and the Cash Flow Charts:**

*Segregated Funding* is the long-term reserve rate for each component over its useful life. Funding is established to coincide with attrition. The collective sum of all components’ segregated reserve builds the “maximum” funding level.

*Dedicated or Actual Expense* describes the use of existing or future funds for a planned expenditure. The collective sum of cash in / cash out builds the “minimum” suggested level of funding.

In both scenarios, the cash flow charts include current reserve balances, the impact of the current reserve rate, and a suggested rate to meet both levels of funding.

This section of the report describes conditions, which form the basis of establishing a funding level for unknown conditions. Typically, these items would include components of the improvements that are unavailable for inspection and evaluation of condition. It is not based on a percentage or other factor that forms a simple cushion.

The WATER SUPPLY LINES, PLUMBING, and SANITARY FACILITIES, FLUES, CHASES, DRAINS, ELECTRICAL SUPPLY, CONDUITS, ETC., do not have a history of failure and can be expected to attain a normal life span well in excess of an additional fifty years. The degree of failure and service can only be determined over time. Funding an annual contingency is suggested at a level of **\$1,500 per year**.

We have not determined any conditions associated with ENCROACHMENTS and EASEMENTS. **Minimum** funding should be established should the need arise to defend or act against such condition. A starting level of **\$50** is suggested.

The limited common area also includes the STRUCTURE AND FOUNDATION. Water penetration and damage from cyclic freeze-thaw periods is likely to have an influence on capital costs. We suggest annual funding of **\$700**.

**TOTAL RECOMMENDED FUNDING: \$2,250 PER YEAR.**

Although this amount may be arbitrary in scope, it creates funding that can be adjusted in future updates after the performance history is reviewed.

**OPERATING POLICIES AND PROCEDURES**

The property has benefited from the services of a professional managing agent that is aware of proficient practices and policies. The site has good curb appeal and image. Overall attention to detail is very good, especially at maintenance and service levels.

**PREVENTATIVE MAINTENANCE AND LIFE EXTENSION**

The property should maintain a service request and delivery system that records the failures, service levels, complaints, etc. of each component listed in this report. This system should also be utilized to record preventative maintenance efforts. A sample has been included for review.

**OPERATING BUDGET ANALYSIS**

As a client of **THE REPLACEMENT RESERVE REPORT**, the agent or owner will receive annual information for a custom analysis by the Experience Exchange Division of the Institute of Real Estate Management. The service is free and confidential.

**HISTORICAL OPERATIONS**

An analysis has not been conducted.

**LOSS & RISK HISTORY**

No history was available.

**MAXIMUM INCOME POTENTIAL**

We did not conduct an analysis; income is apparently sufficient to support debt and reserves. We strongly suggest that the association conduct a formal market analysis (via best of type, built up pricing method) of area comparable and other condominium projects. The trustees must be aware of assessment rates, special assessments, reserve funding, etc. and the corresponding effects on divided interests of all homeowners.

**TRUST DOCUMENT AND COMPLIANCE**

An analysis has not been conducted, nor was one warranted or requested.

## SUGGESTIONS FOR IMMEDIATE ATTENTION

1. Immediately address all liability issues noted in this report. Obtain an opinion from your legal counsel. Provide your attorney with a copy of this report.
2. Forward a copy of this report to your accounting professionals.
3. We suggest the following procedure:
  - a. Utilize a tracking system for failure and service levels required by the components identified in this report.
  - b. Increase awareness of possible liabilities such as toeholds, railings, etc. that exist within the common areas.
  - c. Increase the scope of line items in your operating budget to coincide with the identified titles/inventory in this report. It is important to track all expenses, of a capital and operating allocation, between up-dates and reviews.
4. The trustees may elect to use all, some, or none of our suggestions and predicted scenarios.
5. Encourage formal subcommittees to the board of trustees such as buildings and grounds, social, etc. It is important to create spirit community spirit and interest in the property. Start a newsletter for business and community news.
6. If you have not already done so, consider membership in **COMMUNITY ASSOCIATIONS INSTITUTE (CAI)**. CAI is a non-profit foundation for the protection and advancement of condominium associations.
7. Devise a strategy with your **CPA** to protect reserve funds. Do not keep your funds in a single account; be aware of **FDIC** insurance for protection of the accounts. Require two signatures on all instruments for the reserve accounts.

During our investigation and observations, we encountered the following conditions that limited our presentation or resulted in assumptions:

1. No invasive testing was performed on any component.
2. Property perimeters were not observed for accuracy.
3. An engineering of the property has not been conducted.

**THE REPLACEMENT RESERVE REPORT** is not intended to give advice of a legal nature, and, accordingly, should not be used as such advice. An engineering of the property has not been performed, and no assessment of code compliance, any form of 21E, asbestos, or lead paint conditions offered. This **REPORT** does not warrant expressing an opinion of utility or inutility.

Many of the observations made in the **REPORT** are a result of random sampling of property components. This process would not allow for discovery of all potential defects or hazards associated with the physical plant. The report should not be used for the purpose of loss prevention or risk assessment.

Much of the information made available to the author is a result of personnel interviews, such as with managing agents, maintenance personnel, contractors, etc. While these sources are deemed reliable, they cannot be guaranteed authoritative.

The financial projections are supported for only the time frame in which they were compiled. Use of this information cannot be supported beyond that period, which would require regular review and amendments to the **REPORT**.

This information is intended for the sole use of **VILLAGE WALK SOUTH OF VERO BEACH HOMEOWNERS ASSOCIATION, INC.**, its members, unit owners, manager, legal counsel, and accounting professionals. Use by any other entity is prohibited. All rights reserved under copyright laws of the United States (**RRR2008**).

**THE REPLACEMENT RESERVE REPORT** has been prepared for numerous government-assisted housing complexes, condominium associations, developers, institutions, and other facilities throughout New England since 1984. In the spring of 1993, we opened our Cape Canaveral office to serve North and South Carolina, Georgia, and Florida. In 1996, our Virginia Beach branch opened to serve the mid-Atlantic region.

**CHARLES J. STUART, CPM** is the **REPORT**'s author and founder. A Certified Property Manager of the Institute of Real Estate Management, Mr. Stuart has over thirty years of industry experience and is an author and speaker regarding the subject of capital planning and replacement reserves for the Community Associations Institute. Mr. Stuart is also a course instructor for the Institute of Real Estate Management, a contributing editor and author for the R. S. Means Company, a worldwide construction consulting and estimating company, and a member of the Sweet's CD-ROM Advisory Council.

**E. LEE REID HEADS THE TAMPA OFFICE.** Mr. Reed holds a University of Memphis MBA, unlimited Class "A" Florida General Contractors license, a Florida real estate brokers license, and is a Certified Commercial Investment Member (CCIM) candidate. Mr. Reed has over twenty five years experience in real estate development, property management, and association matters.

**STEPHEN SALA, CIVIL ENGINEER** brings twenty years of diverse experience, in the design and construction areas of engineering, from projects that span both domestic and international markets. Mr. Sala has been involved with projects varying in value from five to two million dollars. An author on the subject of construction management, Mr. Sala is also regarded as a specialist in "expert testimony" on this subject.

**JAMES A. DOHRMAN, PE - CIVIL** is registered in five states as a Professional Engineer with a specialty in *Forensic Engineering*. Mr. Dohrman has extensive international and domestic experience in solid waste and related water resource subjects as well as being an accomplished author and speaker in these areas.

**JOHN G. SWENOR, PE – CIVIL** holds membership in the American Society of Professional Engineers and the Society of Professional Real Estate Inspectors. He has been involved in the construction field for the past 25 years with projects ranging in size to \$30 million that encompass commercial, institutional, and residential use. Mr. Swenor has acted as an owner's representative and inspector on several school projects and been involved in all aspects of project and trade inspections. Additionally, Mr. Swenor has extensive knowledge of capital planning for institutional properties.

Our staff also includes experienced personnel that conduct measurements and inventory of the physical plants, and an administrative team that is experienced with AutoCad and architectural costs software systems.

It is assumed that the property known as **VILLAGE WALK SOUTH OF VERO BEACH HOMEOWNERS ASSOCIATION, INC.** is in compliance with all federal, state, and local laws, codes, regulations, and statutes.

**THE REPLACEMENT RESERVE REPORT** or its authors are not responsible for defects known or unknown, and reject all liability for such defects, known, or unknown, which may effect or cause harm or damage to the association or its residents.

All subsequent reviews and amendments to this **REPORT** are an expense beyond the invoice associated with this **REPORT**. **THE REPLACEMENT RESERVE REPORT** is not responsible to perform future reviews and amendments.

Any adjustments, changes, alterations, additions, or deletions to this **REPORT** by anyone other than the author voids the entire report. Possession of this report does not constitute authorized ownership.

Competent management of the entity is assumed.

All values and projections are open to influences from the economy, the environment, the level of service, and the degree of actual wear and tear through use. Accordingly, all opinions expressed are subject to change.

**CASH FLOW CHARTS WITHOUT ROOFING COSTS & RESERVE**

**ADDITIONAL PROPERTY PHOTOGRAPHS**

**ANNUAL OPERATING CALENDAR**  
A proforma sample is included.