

RESERVE STUDY FOR PIEDMONT HILLS

MAY 2016



Piedmont Hills Homeowners Association

PO Box 7268

Fredericksburg, VA 22404

Report #: 1

For Period Beginning: July 1, 2016

Ending: December 31, 2016

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Preface

Virginia's Statutes requires that associations prepare and distribute financial information, including a plan for funding future replacement of major components (roofs, exterior paint, and so on). The term "reserves" as used in this context refer to the funds set aside to cover these replacement costs.

Introduction

A reserve study provides a current estimate of the costs of repairing and replacing major common area components over the long term. Ideally, all major repair and replacement costs will be covered by funds set aside by the association as reserves, so that funds are there when needed.

The board has a fiduciary duty to manage association funds and property. This is why a reserve is important to buyers, owners, and lenders in giving a complete picture of the association's financial strength and market value.

The reserve funds also help in lowering costs if a "Special Assessment" is required to cover costs not covered in the budget or reserve fund.

The national standard four-part test is used to determine which expense items should be funded through Reserves. First, it must be a common area maintenance responsibility. Second, the component must have a limited life. Third, the limited life must be predictable (or it by definition is a "surprise" which cannot be accurately anticipated). Fourth, the component must be above a minimum threshold cost. This limits Reserve components to major, predictable expenses.

The board may authorize the temporary transfer of moneys from a reserve fund to the association's general operating fund to meet short-term cash flow requirements or other expenses. The board must bring the issue to a general meeting open to all residents for voting prior to any funds being used. The board should provide the reason the transfer is needed, some of the options for repayment, and whether a special assessment may be considered. If approved, the board shall issue a written finding, recorded in the minutes, explaining the reasons that the transfer is needed and describing when and how the money will be repaid to the reserve fund.

At least once every three years the board of directors shall conduct a visual inspection of the major components the association is responsible to repair, replace, restore, or maintain. At least yearly the board should review this study and make recommendations for any changes it may deem necessary to keep the study current.

Executive Summary

Results

Projected Starting Reserve Balance:\$9,000.00

Fully Funded Reserve Balance: \$21,000.00

Percent Funded: 42.9%

Recommended 2016 yearly Reserve Contribution:\$2,000.00

Recommended Special Assessment this year:\$0

Most Recent Reserve Contribution Rate: \$1,000.00

Economic Assumptions:

Net Annual “After Tax” Interest Earnings Accruing to Reserves ...2.00%

Annual Inflation Rate3.00%

The information in this Reserve Study is based on my site inspection on 14 May 2016.

Because our Reserve Fund is above 30% funded but below 70% funded at 42.9% funded, this represents a mid-range position. This is above the 0-30% “weak” range but still well below the 70% threshold that typifies Reserve Fund strength.

Our multi-year Funding Plan is designed to gradually bring us to the 100% level, or “Fully Funded”.

There are no anticipated Reserve projects anticipated for this year.

# Component	Useful Life (yrs)	Remaining Useful Life (yrs)	Current Average Cost	Future Average Cost
100 Retention Pond	75	34	21,000.00	57,370.00
101 Retention Pond	75	34	21,000.00	57,370.00
102 Retention Pond	75	34	21,000.00	57,370.00
103 Entrance Way Sign	25	4	24,000.00	27,012.00
104 Entrance Way Sign	25	4	24,000.00	27,012.00
105 Cypress Trees on Piedmont Drive	10	14	2,600.00	3,933.00
106 Community Bulletin Board	20	13	1,200.00	1,762.00

7 Total Funded Components

Site Inspection

During my site inspection on 14 May 2016 I physically examined each retention pond and walked around the surrounding area. I found no major issues with the overflows, the galvanized metal of the overflows, metal grates, or any soil erosion at the base of the overflows. The land formed into a mound around the overflows showed no signs of deterioration or erosion.

The entranceway signs were also inspected and no visible defects were noted. Both signs seem to be in good repair with no missing brick, mortar, or signs of degradation to the cement or brick. Even though the life cycle for the signs is rated at 30 years and there are 4 years remaining of useful life I feel unless the HOA wants a new design and no changes occur that the present signs could be used for many more years in their present state.

The 42 Leyland Cypress trees on both sides of the entrance to Piedmont Hill on Piedmont Drive are in overall good health. Though not technically considered assets I believe they should be included in the initial report. They were sprayed last fall (2015) for bag worms and are scheduled to be sprayed this year (May 2016) for the same issue. The community bulletin board is in good shape and was installed in 2010.

Projected Expenses

The figure below shows the array of the projected future expenses at your association. As with all computations in this Report, the estimates in this figure are based on the average or Best and Worst Case expense projections. As you can see, expenses are projected 30 years into the future, using the Inflation rate shown in the Executive Summary. This figure clearly shows the near term and future expenses that your association will face. Note the significant entranceway sign expense in approximately 4 years dominates the expense profile.

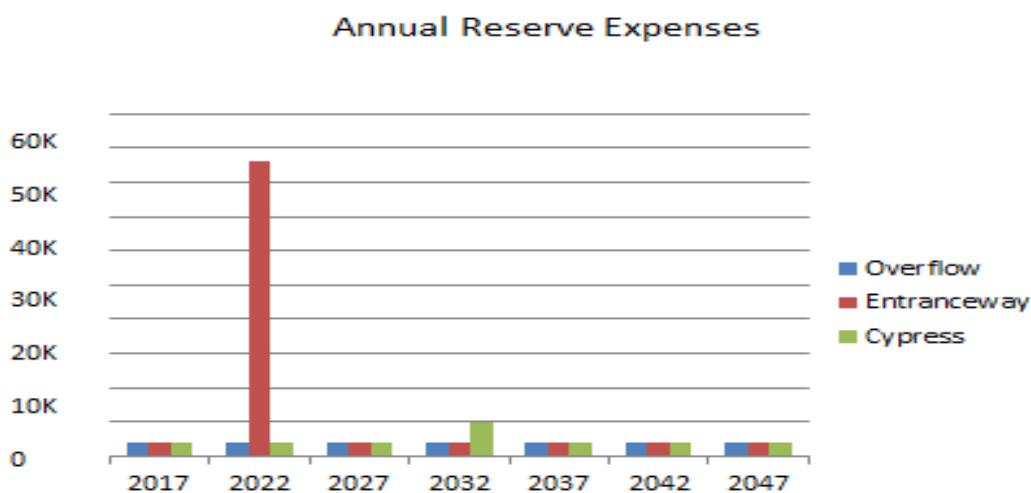


Figure 1

This is a projection of future events that may or may not take place as anticipated. While this Reserve Study is a one-year document, it is based on 30 years of looking forward into the future. Figure 1 shows that the entranceway will need to be planned for a review within 5 years and is the next expense to be considered at a cost of \$54,000.00.

Reserve Fund Status

The starting point for our financial analysis is our Reserve Fund balance, projected to be approximately \$9,400.00 as of 30 April 2016. Fully funded balance at the end of 30 years is \$69,000.00. Figure 2 shows an annual input of \$2,000.00 yearly over a 30 year period.

Reserve Funds Status Chart



Figure 2

The spike in 2022 is due to the end of the life cycle of the entranceway signs. As presently presented if the entranceways are replaced at end of their life cycle it will equate to a negative balance of \$33,000.00 and

a special assessment will have to be done to make up the difference. If a special assessment is approved it will mean that each homeowner will be responsible for an assessment of approximately \$252.00.

Reserve Component List Detail

# Component	Quantity	Useful Life (yrs)	Remaining Useful Life (yrs)	Best Cost	Current Worst Cost
100 Retention Pond	1	75	34	21,000.00	25,000.00
101 Retention Pond	1	75	34	21,000.00	25,000.00
102 Retention Pond	1	75	34	21,000.00	25,000.00
103 Entrance Way Sign	1	25	4	24,000.00	27,000.00
104 Entrance Way Sign	1	25	4	24,000.00	27,000.00
105 Cypress Trees on Piedmont Drive	42	10	14	2,600.00	4,000.00
106 Community Bulletin Board	1	20	10	1,200.00	1,500.00
7 Total Funded Components					

Figure 3



Overflow 100 – Off Forest
Grove Drive. Five feet wide
with covered top by six feet
tall with metal drainage
grate at the base.

Exhibit 1



Exhibit 2



Overflow 101 - Off
Royal Oaks Drive. Six
feet wide by six feet
tall. Open drain at
base.

Exhibit 3



Exhibit 4



Exhibit 5



Exhibit 6



Exhibit 7



Exhibit 8



Exhibit 9



105 Leyland Cypress trees
east of entranceway.
19 trees.

Exhibit 10



Exhibit 11