

A Review of the
Morningside Woods Reserve Funding Study for 2008/2009
that was prepared by
M & M Business Enterprises

Actually their Study might better be titled:

**Morningside Woods
Brute Force Reserve Study**

There are several 'arithmetic' mistakes in the study, but there are two major conceptual flaws:

Roofs

The Roofs are cement tile with a lifetime of 50+ years, but in the Study were given a life expectancy of 30 years, for reasons of undergarment degradation with age. The manufacturer of the tiles, Monier, addresses this subject directly. From their website's Technical FAQs is this:

Q: Is it ever a necessity to change the underlayment of a tile roof? The tile has a long life time but what about the underlayment? I live in a condo complex and they are considering replacing the underlayment of about 18 years but this obviously is a very expensive procedure. Is this typical in the desert?

A: The underlayment beneath the tile can, in fact require replacement in the event that it no longer serves the purpose that it was designed for. There can be any number of reasons for this premature failure, ranging from prolonged exposure prior to tile installation to poor workmanship.

The underlayment is intended as the back-up system for the tile and, as such, only comes into play when water finds its way beneath the tile. Since you are faced with this task of reworking the roof, I would suggest that you select a good quality underlayment but make sure that the tiles are installed in such a manner that water does not easily get underneath the tile.

The roofs were installed by the well respected Piva Roofing Company in Escondido, which is in the mild climate of southern California. Another related error is that the estimated replacement cost of \$1,505,702 is about three times the original price of the roofs, which was \$534,575.

Streets

The Study plans for resurfacing the streets in three years. The streets have not changed in appearance in the last 20 years and it is believed that resurfacing would be a waste of money. In the early 90s an area on Wintergreen Glen of about 10' by 30' was – in effect – resurfaced. Today it is not apparent the area was 'resurfaced'. (It is in front of 1709 – 1717 WG). A much more cost effective approach is to plan for street repairs when they are slurry coated. The contracts have been around \$30,000 in the past.

Alternative Cash Flow Analysis

The next two pages are 'recalculations' of two pages in the Study but with the above comments taken into account, and some mistakes in the Study corrected.

These calculations show Morningside Woods is actually Fully Funded. The cash flow analysis shows the Reserve Fund balance would not be below \$100,000 in the next 30 years.

Bruce Osterberg
Former Treasurer and President
Morningside Woods Board of Directors

MW Plan 2008-09

<u>Component/Description</u>	<u>Replace Cost</u>	<u>Est'd Life</u>	<u>Est'd Rem</u>	<u>Annual Alloc</u>	<u>Year End Req'd</u>	<u>Current Balance</u>	<u>Ov/(Un) Req'd</u>	
Fences/etc.	22,215	20	13	1,111	7,775	6,503	(1,272)	
Furniture (Pool)	750	7	3	107	429	358	(70)	
Irrigation								
Backflow	9,100	20	18	455	910	761	(149)	
Controllers	9,975	10	4	998	5,985	5,006	(979)	
Total Irrig:	19,075			1,453	6,895	5,767	(1,128)	
Lighting Fixtures	33,700	20	6	1,685	23,590	4,190	(19,400)	
Minor Repairs	10% of Paint Cost per home							
Phase 1	3,213	7	5	459	918	768	(150)	
Phase 2	4,158	7	6	594	594	497	(97)	
Phase 3	3,402	7	0	486	3,402	2,845	(557)	
Phase 4	3,402	7	1	486	2,916	2,439	(477)	
Phase 5	3,213	7	2	459	2,295	1,920	(375)	
Total Minor:	17,389			2,484	10,125	8,469	(1,656)	
Painting	\$1,890 per home							
Phase 1	17	32,130	7	5	4,590	9,180	7,678	(1,502)
Phase 2	22	41,580	7	6	5,940	5,940	4,968	(972)
Phase 3	18	34,020	7	0	4,860	34,020	28,455	(5,565)
Phase 4	18	34,020	7	1	4,860	29,160	24,390	(4,770)
Phase 5	17	32,130	7	2	4,590	22,950	19,196	(3,754)
Pool Fence		1,625	2	1	812	812	680	(133)
Total Painting:	175,504			25,754	102,062	85,366	(16,696)	
Spa								
Heater	2,400	12	8	200	800	669	(131)	
Filter	800	15	11	53	213	178	(35)	
Pump	825	8	0	103	825	690	(135)	
Pump	1,000	8	2	125	750	627	(123)	
Jet Pump	1,000	8	2	125	750	627	(123)	
Replaster/Tile	3,500	5	1	700	2,800	2,342	(458)	
Pool								
Heater	2,600	12	10	217	433	362	(71)	
Filter	1,000	15	13	67	133	112	(22)	
Pump	825	8	0	103	825	690	(135)	
Replaster/Tile	6,500	10	0	650	6,500	5,437	(1,063)	
Deck Sealant	1,738	5	1	348	1,390	1,163	(227)	
Bath Renovate	2,000	25	1	80	1,920	1,606	(314)	
Total Spa/Pool:	24,188			2,771	17,340	14,504	(2,837)	
Streets/Walkways								
Reseal								
Walkways	3,800	8	4	475	1,900	1,589	(311)	
Streets	32,800	4	0	8,200	32,800	27,434	(5,366)	
Total Streets:	36,600			8,675	34,700	29,023	(5,677)	
SubTotals	329,421			44,039	202,917	154,180	(48,736)	
Contingency: 5%	16,471			2,202	10,146	7,709	(2,437)	
Totals:	345,892			46,241	213,063	161,889	(51,173)	

Reserve Fund Balance:	\$178,208	Aug 2008	76% Funded
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Calculated Reserve Allocation:	\$3,853 per mo - 30 Year Min Bal:	\$112,411
Current Reserve Allocation:	\$3,828 per mo - 30 Year Min Bal:	\$117,594

**Calculated Reserve Fund Cash Flow
30-Year Cash Flow Projection
Current Reserve Allocation**

Monthly Reserve Allocation: \$3,828

<u>Fiscal Year</u>	<u>Begin Year</u> <u>Balance</u>	<u>Reserve</u> <u>Allocation</u>	<u>Estimated</u> <u>Expenses</u>	<u>Year End</u> <u>Balance</u>
2008 / 2009	178,208	45,936	82,291	141,853
2009 / 2010	141,853	45,936	48,599	139,190
2010 / 2011	139,190	45,936	39,210	145,916
2011 / 2012	145,916	45,936	2,494	189,358
2012 / 2013	189,358	45,936	48,904	186,391
2013 / 2014	186,391	45,936	38,816	193,510
2014 / 2015	193,510	45,936	88,910	150,537
2015 / 2016	150,537	45,936	40,999	155,473
2016 / 2017	155,473	45,936	77,986	123,424
2017 / 2018	123,424	45,936	38,816	130,543
2018 / 2019	130,543	45,936	12,443	164,037
2019 / 2020	164,037	45,936	8,046	201,927
2020 / 2021	201,927	45,936	75,540	172,323
2021 / 2022	172,323	45,936	74,107	144,152
2022 / 2023	144,152	45,936	49,767	140,321
2023 / 2024	140,321	45,936	40,999	145,258
2024 / 2025	145,258	45,936	78,783	112,411
2025 / 2026	112,411	45,936	2,494	155,854
2026 / 2027	155,854	45,936	11,655	190,135
2027 / 2028	190,135	45,936	38,816	197,254
2028 / 2029	197,254	45,936	95,800	147,391
2029 / 2030	147,391	45,936	46,499	146,827
2030 / 2031	146,827	45,936	42,023	150,740
2031 / 2032	150,740	45,936	38,816	157,860
2032 / 2033	157,860	45,936	47,434	156,362
2033 / 2034	156,362	45,936	1,706	200,592
2034 / 2035	200,592	45,936	83,035	163,493
2035 / 2036	163,493	45,936	49,731	159,698
2036 / 2037	159,698	45,936	78,773	126,861
2037 / 2038	126,861	45,936	40,999	131,798

Minimum Balance: \$112,411

Reserve Allocation

45,936 per year
3,828 per month
42 per homeowner per month

Calculated Reserve Fund Cash Flow
30-Year Cash Flow Projection
Calculated Reserve Allocation

Monthly Reserve Allocation: \$3,853

<u>Fiscal Year</u>	<u>Begin Year</u> <u>Balance</u>	<u>Reserve</u> <u>Allocation</u>	<u>Estimated</u> <u>Expenses</u>	<u>Year End</u> <u>Balance</u>
2008 / 2009	178,208	46,241	82,291	142,158
2009 / 2010	142,158	46,241	48,599	139,800
2010 / 2011	139,800	46,241	39,210	146,831
2011 / 2012	146,831	46,241	2,494	190,578
2012 / 2013	190,578	46,241	48,904	187,915
2013 / 2014	187,915	46,241	38,816	195,340
2014 / 2015	195,340	46,241	88,910	152,671
2015 / 2016	152,671	46,241	40,999	157,912
2016 / 2017	157,912	46,241	77,986	126,167
2017 / 2018	126,167	46,241	38,816	133,592
2018 / 2019	133,592	46,241	12,443	167,390
2019 / 2020	167,390	46,241	8,046	205,585
2020 / 2021	205,585	46,241	75,540	176,286
2021 / 2022	176,286	46,241	74,107	148,420
2022 / 2023	148,420	46,241	49,767	144,894
2023 / 2024	144,894	46,241	40,999	150,136
2024 / 2025	150,136	46,241	78,783	117,594
2025 / 2026	117,594	46,241	2,494	161,341
2026 / 2027	161,341	46,241	11,655	195,927
2027 / 2028	195,927	46,241	38,816	203,352
2028 / 2029	203,352	46,241	95,800	153,792
2029 / 2030	153,792	46,241	46,499	153,534
2030 / 2031	153,534	46,241	42,023	157,752
2031 / 2032	157,752	46,241	38,816	165,176
2032 / 2033	165,176	46,241	47,434	163,984
2033 / 2034	163,984	46,241	1,706	208,518
2034 / 2035	208,518	46,241	83,035	171,724
2035 / 2036	171,724	46,241	49,731	168,234
2036 / 2037	168,234	46,241	78,773	135,702
2037 / 2038	135,702	46,241	40,999	140,943

Minimum Balance: \$117,594

Reserve Allocation

46,241 per year
 3,853 per month
 42 per homeowner per month