Michigan Reserve Associates LLC

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October 25, 2023

Board of Directors
Anytown Condominium Association
100 Sample Street
Anytown, Michigan 48100

Re: Annual Budget Development Report – Next Steps in the Process
Anytown Condominium Association
Grand Rapids, Michigan

Dear Board of Directors:

Please find enclosed the annual budget development report for Anytown Condominium Association. In this letter I will comment briefly on the next steps required to finalize the report.

Now that the preliminary report has been delivered, the next step is a collaborative review process. During that time, the Association should carefully read the preliminary annual budget development report and review the accompanying charts and graphs. All comments are welcome. In particular, the Association should make sure that all budgetary and financial information provided to Michigan Reserve Associates has been presented back to the Association accurately.

If at the end of the review process you decide that no changes are needed, then the annual budget development reporting process is complete and no further communications are needed with Michigan Reserve Associates.

However, if you wish to request changes to the report, please follow the series of escalating communication steps detailed below. It is our experience that virtually all issues and questions can be resolved by using the following protocol.

1) Submit questions and comments in writing (email preferred) and reference the report's page numbers when relevant. All communications should be vetted internally and funneled through a designated point person, such as a board member or property manager. It can get confusing if multiple people request changes, especially if there is not common agreement from the Association on what those changes should be.

2) If, after written communications have been completed, more in-depth communication is needed, a conference call can be arranged. Please provide a list

of general topics and questions in advance so that we are effective with our time together.

Respectfully submitted,

Paul Conahan

Paul K.T. Conahan, MBA, RS
State Certified General Real Estate Appraiser
License No. 1201002454

Kai Conahan

Kai B. Conahan

Annual Budget Development Report

Anytown Condominium Association
Grand Rapids, Michigan

For The January 1, 2023 to December 31, 2023 Fiscal Year

Photo: View of generic association

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October 25, 2023

Board of Directors
Anytown Condominium Association
100 Sample Street
Anytown, Michigan 48100

Re: Annual Budget Development Report
Anytown Condominium Association
Grand Rapids, Michigan

Dear Board of Directors:

In fulfillment of our agreement as outlined in the letter of engagement dated May 1, 2023, we are pleased to transmit this annual budget development report for the Anytown Condominium Association. This report provides a comprehensive comparative analysis between Anytown Condominium Association's budget and our database of 700+ similar associations located in Michigan and throughout the Midwest as well as our recommendations based on these findings.

Our recommendations are qualified by certain definitions, assumptions, limiting conditions, and certifications which are set forth in the attached report.

The intended user of this report is the Anytown Condominium Association. This report is to be used by the intended user for the purpose of developing the Association's annual budget. The scope of work included in this study is unique to the intended use and intended user, and this report may not be utilized for any other use or user.

This report adheres to the applicable sections of the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Foundation, as well as the *Code of Professional Ethics* of the Appraisal Institute.

This letter also confirms that Michigan Reserve Associates has provided the client with an option to receive an **Updated** annual budget development Report within five-years of the date shown above. This option provides the client with the right but not the obligation to receive an updated report at a guaranteed update price of **$295** and this option may be used more than once in a five-year period.

Respectfully submitted,

Paul K.T. Conahan, MBA, RS
State Certified General Real Estate Appraiser
License No. 1201002454

Kai B. Conahan

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EXECUTIVE SUMMARY

INTRODUCTION

An Annual Budget Development Report is a budgetary planning tool specifically designed to help an Association's board of directors and manager (if applicable) budget appropriately for the Association's needs over the upcoming fiscal year. By using a rigorous comparative methodology, an annual budget development report:

1) Compares the Association's existing or proposed budget for the upcoming fiscal year with the budgets of similar associations in Michigan.
2) Identifies areas where the Association is spending more or less than the average similar association.
3) Provides helpful insights and recommendations for how to utilize the Association's resources most efficiently.
4) Gauges the Association's financial health in comparison to similar Associations by comparing its assets, liabilities, and owner's equity.

The Annual Budget Development Report is typically completed on a yearly basis in order to ensure the most recent financial information is incorporated in our analysis and that co-owner resources are being utilized efficiently.

On May 1, 2023 Anytown Condominium Association (Anytown) directed Michigan Reserve Associates to do an annual budget development report. We began our budget development report for Anytown by reviewing its physical characteristics and responsibility profile in order to determine which category of association it most closely resembles so that we could conduct a rigorous comparative analysis on an apples-to-apples basis. Our review led us to conclude that Anytown most closely matches the physical characteristics and responsibility profile of a standard condominium (further discussed in the Development Types and Characteristics Section).

When we subsequently compared Anytown's budget with the budgets of similar standard condominiums we classified 6 of Anytown's budget categories as "normal," 5 budget categories as "abnormally low," and 14 categories as "abnormally high."

The following table summarizes our findings:

Budget Category	Total Annual Amount	Annual Amount Per Unit	Typical Annual Amount Per Unit	Percentile	Per Unit Expense Classification
Administrative and Insurance					
Administrative	$73,676.00	$391.89	$251.30	90%	Abnormally High
Insurance	$40,274.00	$214.22	$298.71	27%	Abnormally Low
Maintenance and Repair					
General Maintenance	$27,467.00	$146.10	$204.45	48%	Normal
Roof Maintenance and Repair	$4,095.00	$21.78	$60.87	27%	Abnormally Low
Gutter Cleaning	$16,664.00	$88.64	$42.91	85%	Abnormally High
Structural Repair	$75,788.00	$403.13	$25.65	100%	Abnormally High
Exterior Painting	$150,050.00	$798.14	$325.64	92%	Abnormally High
Window Repairs	$26,346.00	$140.14	$68.74	80%	Abnormally High
Electrical Repair	$1,204.00	$6.40	$38.03	14%	Abnormally Low
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Gardening and Snow Removal					
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Reserve Contribution	$336,406.00	$1,789.39	$774.89	95%	Abnormally High
Micellaneous					
Other	$97,825.00	$520.35	$438.16	76%	Abnormally High
Total	$1,365,871.00	$7,265.27	$4,348.08		

When we compared Anytown's assets, liabilities, and owner's equity with similar standard condominiums we classified Anytown's assets per unit as "normal," liabilities per unit as "normal," and owner's equity per unit as "normal."

The following table summarizes our findings:

	Nominal Amount	Nominal Amount Per Unit	Typical Nominal Amount Per Unit	Percentile Ranking	Per Unit Classification
Assets					
Operating Funds	$149,015.66	$792.64			
Reserve Funds	$420,255.38	$2,235.40			
Other Assets	$52,052.22	$276.87			
Total Assets	$621,323.26	$3,304.91	$2,951.11	57%	Normal
Liabilities					
Short-Term Liabilities	$61,288.73	$326.00			
Long-Term Liabilities	$0.00	$0.00			
Other Liabilities	$0.00	$0.00			
Total Liabilities	$61,288.73	$326.00	$910.45	58%	Normal
Equity					
Owners Equity	$560,034.53	$2,978.91			
Other Equity	$0.00	$0.00			
Total Equity	$560,034.53	$2,978.91	$2,823.11	57%	Normal

While our classifications of normal, abnormally low, or abnormally high for each category discussed throughout the remainder of the report are not inherently indicative of a problem or cause for concern, we recommend thoroughly reviewing each category flagged as either "abnormally low" or "abnormally high" to determine the reason why each of these components differs so significantly from Anytown's peers. The remainder of this report provides an analysis of each line item in the Association's budget and balance sheet as well as our insights and recommendations for how to utilize Anytown's resources more effectively and improve its financial standing.

This annual budget development report was issued by Michigan Reserve Associates LLC on October 25, 2023 and should be renewed one year from the date of issuance on **October 24, 2024** in order to ensure it is up to date with the most recent association financials and most importantly comparative datapoints from our in-house database.

METHODOLOGY

INTRODUCTION

We utilize a rigorous, data driven comparative methodology to develop our annual budget development reports. We compare the Association's responsibility profile, physical characteristics, operating practices, and current financial position on an apples-to-apples basis with similar associations in the same geographic area in order to provide targeted insights and recommendations which can be utilized in the annual budget development process.

DEVELOPMENT TYPE ASSIGNMENT

The budget development reporting process starts with a review of the Association's governing documents and physical profile. The goal of this step in the development process is to match the subject association with a representative sample of similar associations which share the same responsibilities and physical characteristics for our comparative analysis.

BUDGET ANALYSIS

After assigning the subject association a development type, our next goal is to compare its budget with associations of similar size and of the same development type. The goal of our comparative analysis is to identify areas where the subject association is spending either significantly more or significantly less than what we would expect given its responsibility profile and physical characteristics. In order to do so, we group each budgetary line item into common standardized budgetary categories and quantify each on a per unit basis in order to make an apples-to-apples comparison with similar associations.

We rank each per unit budgetary category against the same per unit budgetary category of similar associations by assigning it a percentile. The rationale behind assigning each per unit budgetary category a percentile is that it helps illustrate whether the association's expenses in this category are in alignment with what we would expect given its physical characteristics and responsibility profile identified previously.

Michigan Reserve Associates considers a percentile ranking of between 30-70% relatively normal, a percentile ranking of less than 30% abnormally low, and a percentile ranking of greater than 70% as abnormally high.

BALANCE SHEET ANALYSIS

The final section of the report focuses on the Association's current financial position to determine whether its assets, liabilities, and equity are in alignment with what we would expect given its responsibility profile and physical characteristics.

We compare the subject association's assets, liabilities, and equity on a per unit basis with similar associations using a similar methodology as the budget analysis section. We also utilize a similar percentile ranking methodology to help demonstrate how the subject association's assets, liabilities, and equity per unit rank in comparison with its peers.

However, unlike the budget analysis section, in order to properly understand the association's current financial position, it is not enough to make comparisons with similar associations. For this section of the report, we also break down the composition of the Association's assets in order to more accurately determine its financial strength. Specifically, we calculate the Association's debt-to-assets ratio and equity-to-assets ratio in order to determine what percentage of its assets were financed or acquired through debt and which were funded internally using association funds.

Development types and characteristics

Introduction

In order to identify Anytown's potential atypical characteristics and operational inefficiencies it is important to make comparisons on an apples-to-apples basis. While associations vary widely across their identifiable characteristics, this annual budget development report focuses on two key variables which greatly influence every association's financial responsibilities: physical characteristics and legal responsibilities. Matching Anytown's physical characteristics and legal responsibilities with those of similar association's allows us to make accurate comparisons and offer targeted recommendations for improvement throughout the rest of the report.

Development Types

In Michigan, Michigan Reserve Associates has identified three primary development types which differ from one another based on both physical characteristics and responsibility allocation between the Association and its co-owners:

1) site condominiums
2) standard condominiums
3) high-density condominiums

This section of the report details the differences between these three development types and concludes by identifying which category Anytown falls under.

<u>Site Condominiums</u>

This development type is typically characterized by:

- Freestanding residential homes.
- Minimal Association responsibilities compared with other development types. All buildings and improvements within each co-owner's assigned lot are typically excluded from Association responsibilities. Large operational financial responsibilities generally include lawncare and snow removal. Large common element

replacement responsibilities typically include streets, sidewalks, and shared amenities such as a clubhouse, pool, or tennis court.

- Low monthly fees compared with other development types. Because the Association is typically responsible for relatively few common elements it is generally able to charge co-owners a comparatively low monthly fee and still meet its financial obligations.

<u>Standard Condominiums</u>

This development type is typically characterized by:

- Freestanding or multi-unit residential buildings. Each unit normally has its own entry and there are no shared indoor common areas for residential buildings.
- Increased Association responsibilities compared with site condominiums. While standard condominiums typically have the same common area operational financial responsibilities as site condominiums, standard condominiums must typically also maintain the exterior of residential buildings. Large operational costs for standard condominiums can include lawncare, snow removal, building painting and partial wood replacement, brick tuck pointing and deck/balcony staining. Large common element replacement responsibilities can include streets, sidewalks, driveways, decks/balconies, windows, roofs, exterior siding, and shared amenities such as a clubhouse, pool or tennis court if applicable.
- Increased monthly fees compared with site condominiums. Because the Association must pay for the maintenance of building exteriors and the replacement of exterior building components, standard condominiums must typically charge a higher monthly fee so that they can meet their financial obligations.

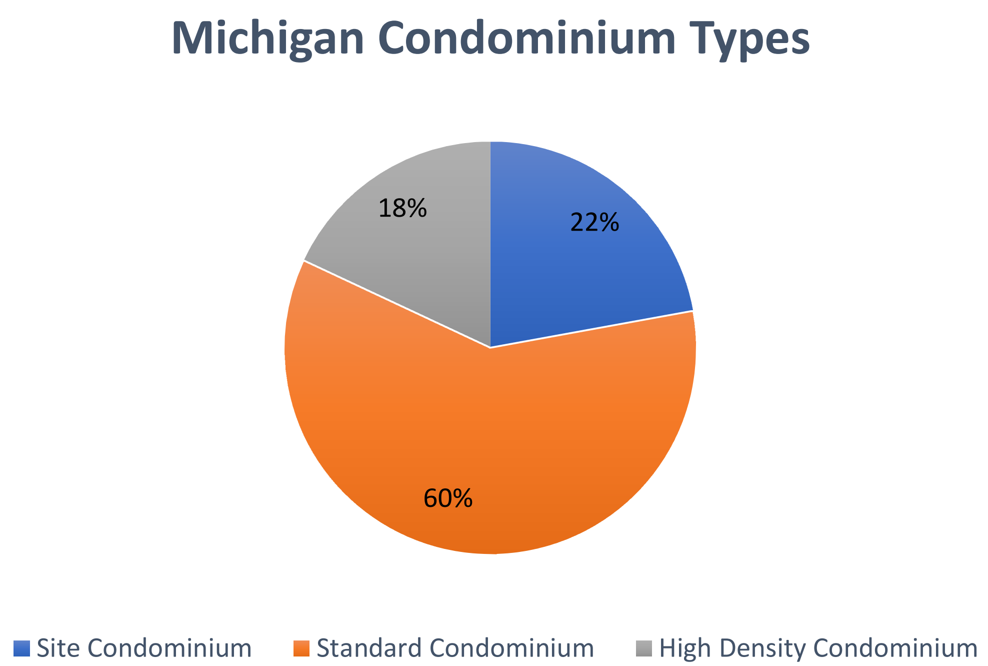
<u>High-density Condominiums</u>

This development type is typically characterized by:

- Multi-unit or high-rise residential buildings. Each building typically has a shared entryway, common hallways, and interior common areas.
- Extensive Association responsibilities which, in addition to those typically held by standard condominiums, also includes interior building maintenance. Large operational financial responsibilities for high-density condominiums are generally the

same as standard condominiums but may also include increased costs related to mechanical maintenance, personnel expenses, and interior cleaning costs. Large common element replacement responsibilities are also generally the same as standard condominiums but may also include mechanical system replacement and interior common area renovations.

The graph below illustrates the market share of each development type previously described based on a sample of 223 developments from our in-house date base:



According to data provided by our in-house database, after the Michigan Condominium Act was introduced in 1978 the first development type to embrace the new legal framework was high-density condominiums which have an average build date of 1985. Representing approximately 18% of developments in Michigan today, high-density condominiums were eclipsed by standard condominiums and site condominiums due to plentiful land, but are making a resurgence as demand for affordable housing has increased in recent years. There has also been a recent notable increase in the number of older industrial and commercial buildings which are being redeveloped into condominiums.

The creation of standard condominiums picked up steam shortly after the high-density condominium boom in the 1980s and have a typical build date of 1993. Representing 60% of developments in Michigan, standard condominiums are by far the most common development type in The Mitten State.

Site condominiums are the newest development in Michigan with a typical build date of 2003. With a current market share of 22% site condominiums may be in the minority for now but represent an increasing percentage of new builds throughout the state as developers attempt to place more responsibilities on co-owners in order to lower monthly association fees.

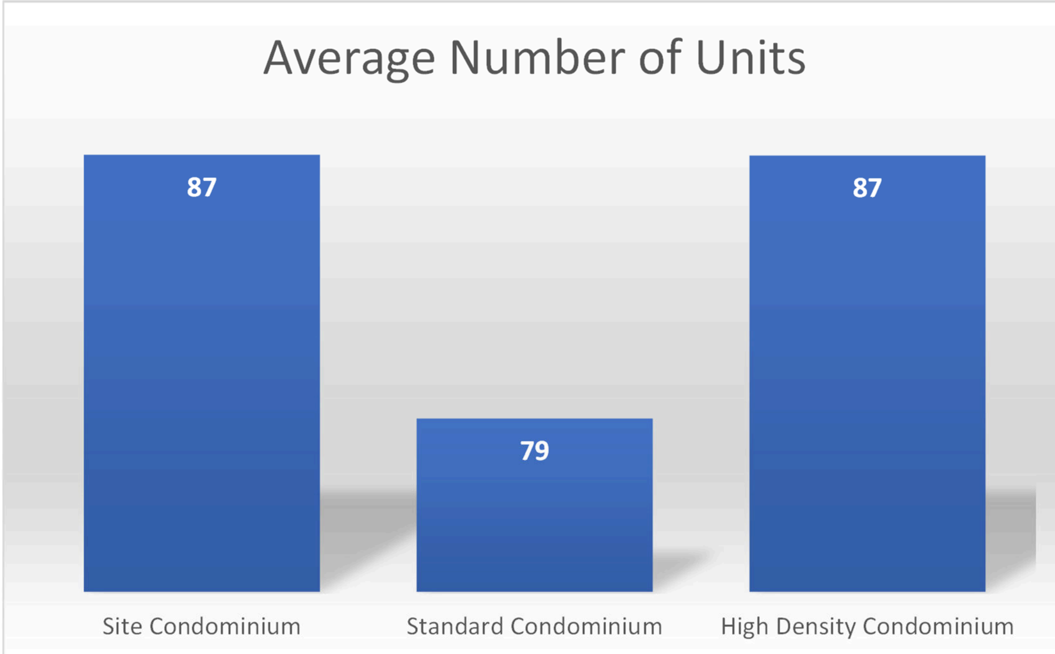
DEVELOPMENT TYPE COMPARISONS AND INSIGHTS

There are several notable aspects of each development type which can be utilized to understand how they differ from one another.

Average Number of Units

The number of units contained in a development has a large impact on an association's ability to keep monthly fees low by spreading the cost of maintenance, repair, and replacement of common elements among a greater number of households. As a general rule of thumb, the larger the association is the lower the per unit monthly fee will be when compared with similar associations of varying sizes.

In Michigan, site condominiums and high-density condominiums are generally significantly larger than standard condominiums and are therefore able to spread costs among their co-owners in a more cost efficient manner. This relationship is summarized in the graph presented below:

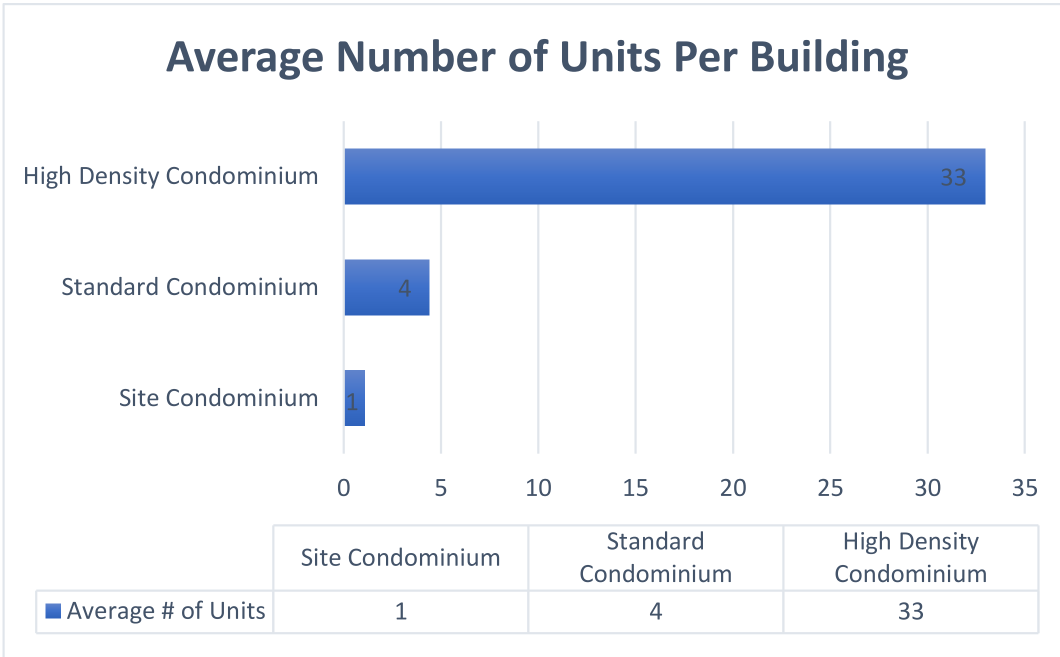


<u>Average Number of Units per Building</u>

Another factor which influences an association's ability to keep its monthly dues in check is its number of units per building. As the number of units per building increases, the amount of common elements related to each building for which the association is responsible for decreases on a per unit basis. For example, a free standing single-family home typically has around 2,500 SF of asphalt shingle roof whereas a high-density development with multiple units per building typically has approximately 850 SF of asphalt shingle roof per unit. In this example, if asphalt shingle roof replacement was an Association responsibility it is easy to see that as the number of units per building increases the amount of asphalt shingle roofing replacement per unit the association will need to budget for decreases in a linear fashion.

Site condominiums are typically unaffected by the number of units per building from a financial perspective because the Association is typically not responsible for building maintenance, repair, or replacement. However, in standard condominiums the Association is normally responsible for building exteriors. Because standard condominiums tend to have a relatively low number of units per building, they are adversely affected by the relationship described in the previous paragraph. High-density developments on the other hand typically benefit as they have fewer common elements on a per unit basis for which the association must budget for.

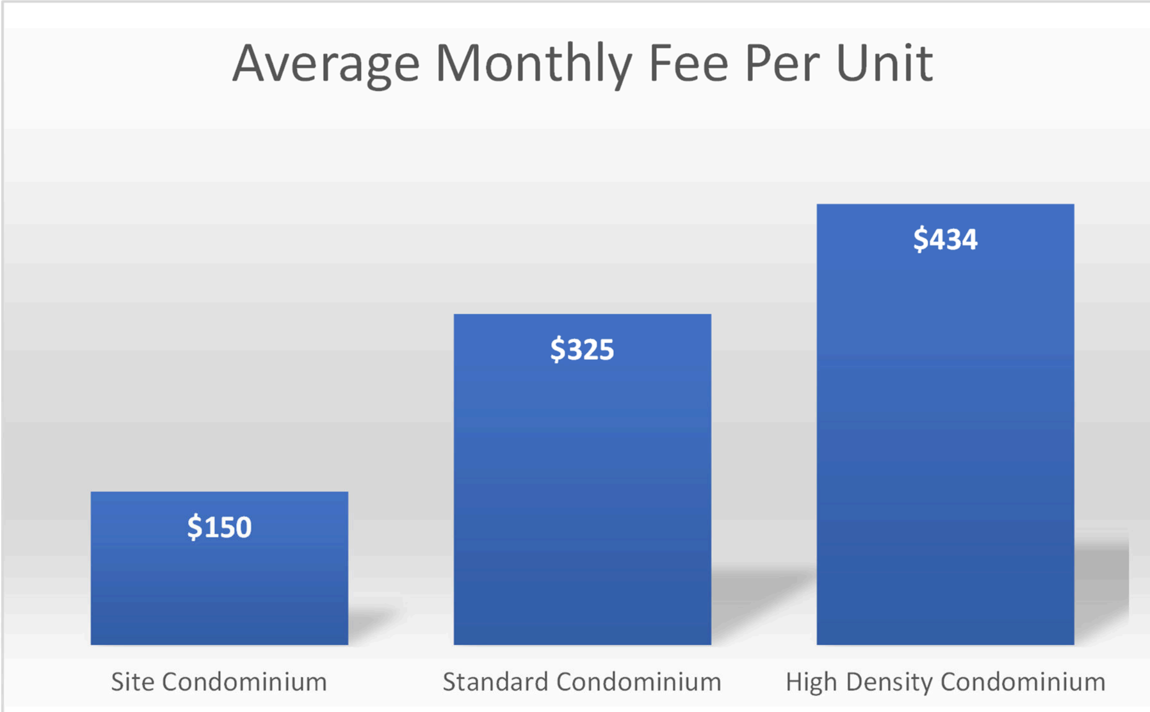
The graph below shows the average number of units per building for each development type in Michigan:



Average Monthly Dues

While there are advantages and disadvantages regarding the cost structure of each development type outlined above, the complexity of the project can generally be used as a proxy for inferring the monthly dues per co-owner required to fund the Association's operations and long-term budgetary planning.

The average monthly fee per unit for each development type is outlined in the graph below:



<u>Assignment of Development Type</u>

Based on Anytown's physical and responsibility characteristics, when developing this report we determined that Anytown most closely matches the profile of a standard condominium. The remainder of this report attempts to make comparisons between Anytown and a representative sample of similar standard condominiums in Grand Rapids and the surrounding geographic area.

Budget Analysis

Introduction

This section of the report is designed to determine how efficiently Anytown is utilizing its operating funds to meet its needs when compared with a representative sample of similar standard condominiums in the Grand Rapids and surrounding area which have similar responsibilities and operating profiles. Specifically, this section of the report compares Anytown's budget for the January 1, 2023 to December 31, 2023 fiscal year with the budgets of a representative sample of similar standard condominium's in the Grand Rapids and surrounding area.

The budget analysis portion of the report makes comparisons based on a per unit methodology which accounts for differences in the sizes of different communities. Because the number of units varies widely between different communities it is important to limit our comparative analysis to associations which are roughly the same size as Anytown. Therefore, for the purposes of this report we limited our comparative analysis to associations which have between 100 and 250 units.

In order to make comparisons between communities which use a variety of accounting practices and names for budgetary expenses, we must group line items into easily comparable and commonly shared budgetary categories. After reviewing Anytown's most recent operating budget we placed each line item into one of the common standard condominium expense categories in the chart below which summarizes our findings (please see page "A" of the addenda section of the report to view an itemized list of how we categorized each line item on the budget):

Budget Category	Total Annual Amount	Annual Amount Per Unit	Typical Annual Amount Per Unit	Percentile	Per Unit Expense Classification
Administrative and Insurance					
Administrative	$73,676.00	$391.89	$251.30	90%	Abnormally High
Insurance	$40,274.00	$214.22	$298.71	27%	Abnormally Low
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Micellaneous					
Other	$97,825.00	$520.35	$438.16	76%	Abnormally High
Total	$1,365,871.00	$7,265.27	$4,348.08		

In order to determine how Anytown's expenditures for the January 1, 2023 to December 31, 2023 fiscal year compare on a per unit basis to similar standard condominiums in the Grand Rapids and surrounding area we calculated each budget category's per unit relative percentile. The percentile for each budget category indicated in the chart above shows how Anytown ranks in terms of the nominal expense per unit in comparison with the average standard condominium. As a general rule of thumb, a percentile lower than 50% indicates that Anytown will spend less on a per unit basis than the average standard condominium in the January 1, 2023 to December 31, 2023 fiscal year whereas a percentile higher than 50% indicates it will spend more.

The per unit expense classification for each budget category is based on its percentile ranking. Michigan Reserve Associates considers a percentile ranking of between 30-70% relatively normal, a percentile ranking of less than 30% abnormally low, and a percentile ranking of greater than 70% as abnormally high. The following table summarizes the number of budget categories which fall into each per-unit expense classification:

Summary of Per Unit Expense Classifications	
Administrative and Insurance	
Number of Abnormallly Low Expense categories Identified:	1
Number of Normal Expense Categories Identified:	0
Number of Abnormally High Expense Categories Identified:	1
Maintenance and Repairs	
Number of Abnormallly Low Expense Categories Identified:	2
Number of Normal Expense Categories Identified:	2
Number of Abnormally High Expense Categories Identified:	8
Gardening and Snow Removal	
Number of Abnormallly Low Expense Categories Identified:	0
Number of Normal Expense Categories Identified:	3
Number of Abnormally High Expense Categories Identified:	1
Utilities	
Number of Abnormallly Low Expense Categories Identified:	2
Number of Normal Expense Categories Identified:	1
Number of Abnormally High Expense Categories Identified:	3
Miscellaneous	
Number of Abnormallly Low Expense Categories Identified:	0
Number of Normal Expense Categories Identified:	0
Number of Abnormally High Expense Categories Identified:	1
All Expense Items Combined	
Number of Abnormallly Low Expense Categories Identified:	5
Number of Normal Expense Categories Identified:	6
Number of Abnormally High Expense Categories Identified:	14

Normal Budgetary Expense Categories: Anytown has 6 budgetary expense categories for the January 1, 2023 to December 31, 2023 fiscal year which are classified as "normal" on a per unit basis based on their percentile ranking. Expense categories classified as normal are in alignment with what we would expect to see given Anytown's physical characteristics and responsibility profile. While we always recommend monitoring every expense category continually for abnormalities, it is unlikely that there is something significantly influencing these expenses which may require remedial action.

Abnormally Low Budgetary Expense Categories: Anytown has 5 budgetary expense categories for the January 1, 2023 to December 31, 2023 fiscal year which are classified as "abnormally low" on a per unit basis based on their percentile ranking of below 30%. A percentile ranking of 30% or lower implies that Anytown is budgeting less on an expense category than at least 70% of its peers. Expense categories classified as abnormally low are not in alignment with what we would typically expect to see given Anytown's physical characteristics and responsibility profile. While all else being equal, experiencing lower budgetary expenses in a budget category is a good thing these categories should nonetheless be evaluated by the client to determine the reason why the association is spending so little in comparison to other similar standard condominiums. It is entirely possible that there is a rational reason for how the client is able spend comparatively less on these categories, but it is also possible that the discrepancy is due to insufficient funds being allocated to required maintenance or repair items.

We recommend using "root cause analysis" to identify why an expense category is classified as "abnormally low." Specifically, using root cause analysis entails:

1) Identifying all possible reasons why the Association is spending comparatively less than the average standard condominium.
2) Systematically eliminating possible reasons to arrive at a most plausible culprit (root cause).
3) If the root cause for an expense category's abnormally low level of funding is readily apparent and justifiable no further action is necessary. However, if the root cause is difficult to identify or unjustifiable, consider making funding adjustments.

One reason why Anytown may be experiencing less annual expenses in a given category could be because it has less physical assets to maintain, repair, and/or replace than similar standard condominiums. For example if Anytown has far less asphalt square footage per unit to maintain than the average standard condominium it would make sense that it would similarly spend far less annually on asphalt repairs and it would likewise make sense that the expense category for asphalt repairs would be classified as "abnormally low." However, if Anytown has far more asphalt square footage per unit to maintain than the average standard condominium it would not make sense for its asphalt repair expense category to be less than its peers and the asphalt repair expense category being classified as “abnormally low” would be indicative of potential underfunding of required road maintenance.

Maintaining low association fees could be another reason why an expense category may be flagged as “abnormally low.” Many associations choose to underfund certain expense categories in an attempt to avoid raising annual association fees. This management style typically results in significant amounts of deferred maintenance which may lead to special assessments down the road.

While not exhaustive, the above examples provide several reasons why an expense category may be classified as “abnormally low” and whether the reason is justifiable.

Abnormally High Budgetary Expense Categories: Anytown has 14 budgetary expense categories for the January 1, 2023 to December 31, 2023 fiscal year which are classified as “abnormally high” on a per unit basis based on their percentile ranking of above 70%. A percentile ranking of 70% or higher implies that Anytown is budgeting more on an expense category than at least 70% of its peers. Expense categories classified as abnormally high are also not in alignment with what we would typically expect to see given Anytown’s physical characteristics and responsibility profile. While there are many reasons why an association may be experiencing significantly higher expenses in a given category than its peers, it is also possible that Anytown is spending excessively in some areas while neglecting others. One way to quickly verify this supposition is by checking to see if Anytown has a relatively large number of expense categories flagged as both “abnormally high” and “abnormally low.” As with expense categories flagged as “abnormally low” we recommend going through a similar root cause analysis for each expense category flagged as “abnormally high” in order to determine if the current level of spending is justifiable.

One reason why an expense category may be flagged as “abnormally high” is because Anytown is not going through an adequate selection and bidding process for projects and contracted services (if applicable). We always recommend reviewing and rebidding contracted services on a regular basis and obtaining a minimum of three bids for each project or contracted service.

It is also possible that there is a valid reason for why Anytown may be experiencing comparatively high expenses in a budgetary category. A common reason why an expense category is flagged as “abnormally high” is because the association has more maintenance, repair and/or replacement responsibility for a limited or general common element related to the budgetary category than its peers. Going back to the asphalt example used previously, if Anytown has more asphalt to maintain than the average standard condominium association it would make sense that it would experience more repair costs on an annual basis than its peers and an “abnormally high” budget expense classification for asphalt repair would be justified. However, if Anytown has less asphalt square footage per unit than the typical standard condominium association it would not make sense for Anytown’s asphalt repair budget category to be classified as “abnormally high.”

While not exhaustive, the above examples provide several reasons why an expense category may or may not be classified as “abnormally high.” We recommend reviewing each of these expense categories to see if there is a plausible reason for why each is receiving comparatively higher levels of funding to ensure that there are no expense categories where association funds are being negligently spent.

The following narrative discusses each budget category and potential insights in detail:

Administrative and Insurance

Administrative: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 100% of standard condominium associations have administrative expenses as a budgetary expense category. Administrative items include expenses such as bank service charges, office expense, postage and delivery, management fees, technology fees, legal fees, and accounting fees among others.

An association's administrative expenses are influenced primarily by its size and complexity. Contrary to what you might imagine, the larger the association the smaller the overall administrative fees per unit are likely to be. The reason behind this is that larger associations tend to benefit from economies of scale. On the other hand, when it comes to complexity the relationship is more straightforward: the more complex the association (i.e. the number and scope of the association's responsibilities) the higher the per unit administrative expense is likely to be. Therefore, larger, and less complex associations are likely to experience less per unit administrative expenses while smaller and more complex associations are likely to experience increased administrative expenses.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $73,676.00 (5.39% of the total annual budget) for administrative expenses which equates to an annual cost of $391.89 per unit. In comparison, the average standard condominium association which also has administrative expenses as a budget category typically budgets $251.30 per unit annually meaning that Anytown is currently budgeting $140.59 (55.95%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 90th percentile when compared with similar standard condominium associations. This means that while approximately 90% of comparable standard condominium associations budget less on a per unit basis annually for administrative expenses than Anytown, 10% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Insurance Charges: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 100% of standard condominium associations have insurance charges as a budgetary expense category. The payment of annual insurance premiums is a mandatory annual expense for most associations and tends to account for a sizeable amount of the total annual budget. In order for the board of directors to meets its fiduciary duty to its co-owners Michigan Reserve Associates recommends reviewing both the terms and conditions and the annual premiums being charged by the current insurer regularly and compare with at least two additional insurers to ensure that Anytown is getting the most comprehensive coverage for the lowest possible premium.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $40,274.00 (2.95% of the total annual budget) for insurance charges which equates to an annual cost of $214.22 per unit. In comparison, the average standard condominium association which also has insurance charges as a budget category typically budgets $298.71 per unit annually meaning that Anytown is currently budgeting $84.48 (28.28%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 27th percentile when compared with similar standard condominium associations. This means that while approximately 27% of comparable standard condominium associations budget less on a per unit basis annually for insurance charges than Anytown, 73% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally low." While spending comparatively less in this category does not necessarily mean that there is anything wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Maintenance and Repair

General Maintenance: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 100% of standard condominium associations have general maintenance charges as a budgetary expense category. This basket of budgetary expenses generally includes items such as contracted building maintenance, general maintenance supplies, and other miscellaneous items related to day-to-day maintenance. We recommend reviewing maintenance contracts and invoices regularly to ensure association funds are being utilized efficiently and appropriately. It is also important to go through a proper due diligence process when bidding out maintenance contracts by obtaining a minimum of three contractor bids for each project or yearly service contract.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $27,467.00 (2.01% of the total annual budget) for general maintenance charges which equates to an annual cost of $146.10 per unit. In comparison, the average standard condominium association which also has general maintenance charges as a budget category typically budgets $204.45 per unit annually meaning that Anytown is currently budgeting $58.35 (28.54%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 48th percentile when compared with similar standard condominium associations. This means that while approximately 48% of comparable standard condominium associations budget less on a per unit basis annually for general maintenance charges than Anytown, 52% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Roof Maintenance and Repair: This is a common budgetary expense category for standard condominium associations and is often included in the general maintenance expense category. In Michigan, approximately 52% of standard condominium associations have roof maintenance and repair charges as a budgetary expense category. Roof maintenance and repair is necessary to ensure that one of the association’s biggest assets is properly maintained. Roof maintenance and repairs can include addressing ice damning issues, fixing minors leaks, and other minor patching issues. While it is common for newly installed roofs to require little to no maintenance on a yearly basis, as roofs age they will generally require more extensive and more frequent repairs. While regular maintenance and repair is recommended for the entire useful life most roofing types, eventual replacement should also be budgeted for and not supplemented indefinitely with maintenance repair work.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $4,095.00 (0.30% of the total annual budget) for roof maintenance and repair charges which equates to an annual cost of $21.78 per unit. In comparison, the average standard condominium association which also has roof maintenance and repair charges as a budget category typically budgets $60.87 per unit annually meaning that Anytown is currently budgeting $39.09 (64.22%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 27th percentile when compared with similar standard condominium associations. This means that while approximately 27% of comparable standard condominium associations budget less on a per unit basis annually for roof maintenance and repair charges than Anytown, 73% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally low." While spending comparatively less in this category does not necessarily mean that there is anything wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Gutter Cleaning: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 62% of standard condominium associations have gutter cleaning charges as a budgetary expense category. Gutter cleaning is a routine maintenance item and should be completed on a regular basis. When bidding out this project the Association should obtain a minimum of three bids from different contractors to ensure that Anytown is getting the best price possible for the services being rendered.

If not already present, we recommend that the Association consider installing gutter guards/leaf shields. While these upgrades do not necessarily eliminate the need for gutter cleaning they can potentially significantly decrease the frequency it will be required

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $16,664.00 (1.22% of the total annual budget) for gutter cleaning charges which equates to an annual cost of $88.64 per unit. In comparison, the average standard condominium association which also has gutter cleaning charges as a budget category typically budgets $42.91 per unit annually meaning that Anytown is currently budgeting $45.73 (106.56%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 85th percentile when compared with similar standard condominium associations. This means that while approximately 85% of comparable standard condominium associations budget less on a per unit basis annually for gutter cleaning charges than Anytown, 15% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Structural Repair: This is a relatively uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 24% of standard condominium associations have structural repair charges as a budgetary expense category. Structural repairs are generally hard to predict and can be prohibitively expensive. Because of their large cost, major structural repairs are often funded using reserve funds or by special assessment. Therefore, when structural repairs appear in an association's operating budget it is normally to address less expensive and targeted issues.

Because of their unpredictability, structural repairs are not normally routinely budgeted for in the operating budget. However, as associations age structural repair issues tend to increase in frequency and can potentially become a yearly expense item. In order to prevent operating account deficits related to unexpected structural repair issues it is recommended that Anytown establish a contingency allowance in its operating budget and in its reserve funding plan. The size of these contingencies depends largely on the age and needs of the Association and therefore it is also recommended that structures Anytown is responsible for be routinely inspected so that issues can be spotted and saved for in advance.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $75,788.00 (5.55% of the total annual budget) for structural repair charges which equates to an annual cost of $403.13 per unit. In comparison, the average standard condominium association which also has structural repair charges as a budget category typically budgets $25.65 per unit annually meaning that Anytown is currently budgeting $377.48 (1,471.53%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 100th percentile when compared with similar standard condominium associations. This means that while approximately 100% of comparable standard condominium associations budget less on a per unit basis annually for structural repair charges than Anytown, 0% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Exterior Painting: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 62% of standard condominium associations have exterior painting charges as a budgetary expense category. Exterior painting is a required routine maintenance item for many siding types. Regular painting is normally funded via operations, especially if the project is completed in phases whereby the association paints a set percentage of buildings per year. However, when painting is not phased it is not uncommon for this expense to be funded using gradually accrued reserve funds. We recommend that the Association obtain painting bids from at least three contractors in order to ensure that it is getting the best possible price for the services being rendered.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $150,050.00 (10.99% of the total annual budget) for exterior painting charges which equates to an annual cost of $798.14 per unit. In comparison, the average standard condominium association which also has exterior painting charges as a budget category typically budgets $325.64 per unit annually meaning that Anytown is currently budgeting $472.50 (145.10%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 92nd percentile when compared with similar standard condominium associations. This means that while approximately 92% of comparable standard condominium associations budget less on a per unit basis annually for exterior painting charges than Anytown, 8% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Window Repairs: This is a relatively uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 24% of standard condominium associations have window repair charges as a budgetary expense category. Window repairs include fixing broken seals and small scale replacements if necessary. As windows age the number of seals which will fail will increase exponentially and this expense category will likely increase as a result. While regular window repairs and maintenance will be necessary throughout the useful life each window the Association is responsible for eventual replacement will be necessary and should be budgeted for using gradually accrued reserve funds rather than perpetually relying on maintenance and repair work. Window maintenance and repair contracts should go through a competitive bidding process by obtaining a minimum of three bids to ensure that Anytown gets the best possible price for the services being rendered.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $26,346.00 (1.93% of the total annual budget) for window repair charges which equates to an annual cost of $140.14 per unit. In comparison, the average standard condominium association which also has window repair charges as a budget category typically budgets $68.74 per unit annually meaning that Anytown is currently budgeting $71.40 (103.87%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 80th percentile when compared with similar standard condominium associations. This means that while approximately 80% of comparable standard condominium associations budget less on a per unit basis annually for window repair charges than Anytown, 20% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Electrical Repairs: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 67% of standard condominium associations have electrical repair charges as a budgetary expense category. Electrical repairs are an unpredictable but frequently occurring expenditure. This expense category tends to increase as associations age and the budget should increase accordingly. Electrical repair work is generally a minor part of most standard condominium association’s total annual budget but contracts should still go through a competitive bidding process to ensure association funds are utilized efficiently.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $1,204.00 (0.09% of the total annual budget) for electrical repair charges which equates to an annual cost of $6.40 per unit. In comparison, the average standard condominium association which also has electrical repair charges as a budget category typically budgets $38.03 per unit annually meaning that Anytown is currently budgeting $31.62 (83.16%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 14th percentile when compared with similar standard condominium associations. This means that while approximately 14% of comparable standard condominium associations budget less on a per unit basis annually for electrical repair charges than Anytown, 86% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally low." While spending comparatively less in this category does not necessarily mean that there is anything wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Drainage Remediation: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 62% of standard condominium associations have drainage remediation charges as a budgetary expense category. Drainage remediation is an extremely unpredictable expense category which depends largely on the age of the association and the quality of its initial construction. Because of the unpredictability of drainage remediation issues Anytown is likely to experience moving forward we recommend that the association establish a contingency in both its operating budget and reserve funding plan which is earmarked for such unexpected expenditures. In addition, we recommend that the association have its drainage infrastructure regularly inspected so that issues can be identified and saved for accordingly in order to avoid operating budget deficits and potential special assessments.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $13,006.00 (0.95% of the total annual budget) for drainage remediation charges which equates to an annual cost of $69.18 per unit. In comparison, the average standard condominium association which also has drainage remediation charges as a budget category typically budgets $43.50 per unit annually meaning that Anytown is currently budgeting $25.68 (59.05%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 77th percentile when compared with similar standard condominium associations. This means that while approximately 77% of comparable standard condominium associations budget less on a per unit basis annually for drainage remediation charges than Anytown, 23% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Irrigation Repairs: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 86% of standard condominium associations have irrigation repair charges as a budgetary expense category. Irrigation repairs can include expenses such as fixing leaks, replacing sprinkler heads and replacement of valves/controls/pumps if necessary. As most associations age, the frequency and scope of irrigation repairs increases dramatically. While this expenses category is likely to be a consistent part of most standard condominium's operating budget it is unlikely that complete replacement will be required. In our experience it is rare for an association to completely remove and replace its irrigation system unless there was an original installation problem or the sprinklers use outdated technology such as a vacuum system. We recommend that irrigation repair contracts be regularly reviewed and rebid to ensure that the Association is getting the best possible price for the services being provided.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $44,102.00 (3.23% of the total annual budget) for irrigation repair charges which equates to an annual cost of $234.59 per unit. In comparison, the average standard condominium association which also has irrigation repair charges as a budget category typically budgets $65.30 per unit annually meaning that Anytown is currently budgeting $169.29 (259.25%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 100th percentile when compared with similar standard condominium associations. This means that while approximately 100% of comparable standard condominium associations budget less on a per unit basis annually for irrigation repair charges than Anytown, 0% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Asphalt Road Repairs and Maintenance: This is a relatively uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 38% of standard condominium associations have asphalt road repairs and maintenance charges as a budgetary expense category. This expense category generally includes items such as patching, restriping, and other minor repairs. As asphalt streets age the frequency and scope of repairs required tend to increase. All contracts for road repairs and maintenance should go through a competitive bidding process to ensure the Association is getting the best price possible for the services being provided.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $21,019.00 (1.54% of the total annual budget) for asphalt road repairs and maintenance charges which equates to an annual cost of $111.80 per unit. In comparison, the average standard condominium association which also has asphalt road repairs and maintenance charges as a budget category typically budgets $53.36 per unit annually meaning that Anytown is currently budgeting $58.44 (109.52%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 88th percentile when compared with similar standard condominium associations. This means that while approximately 88% of comparable standard condominium associations budget less on a per unit basis annually for asphalt road repairs and maintenance charges than Anytown, 13% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Concrete Repair and Replacement: This is a common budgetary expense category for standard condominium associations. In Michigan, approximately 43% of standard condominium associations have concrete repair and replacement charges as a budgetary expense category. This expense category can include items such as partial replacements, lifting, and sealing. As concrete ages the frequency and scope of repairs and replacements required tends to increase dramatically and become a yearly expense. We recommend that contracts for concrete repair and replacement be competitively bid and regularly reviewed to ensure that Association funds are being utilized efficiently and effectively.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $8,000.00 (0.59% of the total annual budget) for concrete repair and replacement charges which equates to an annual cost of $42.55 per unit. In comparison, the average standard condominium association which also has concrete repair and replacement charges as a budget category typically budgets $201.27 per unit annually meaning that Anytown is currently budgeting $158.71 (78.86%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 33rd percentile when compared with similar standard condominium associations. This means that while approximately 33% of comparable standard condominium associations budget less on a per unit basis annually for concrete repair and replacement charges than Anytown, 67% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Pool Maintenance: This is an uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 14% of standard condominium associations have pool maintenance charges as a budgetary expense category. Expenses related to pool maintenance typically include pool chemical testing and balancing, pump/heater maintenance, and other minor repairs. We recommend that contracted services for pool maintenance go through a competitive bidding process in order to ensure Association funds are spent efficiently.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $36,729.00 (2.69% of the total annual budget) for pool maintenance charges which equates to an annual cost of $195.37 per unit. In comparison, the average standard condominium association which also has pool maintenance charges as a budget category typically budgets $86.40 per unit annually meaning that Anytown is currently budgeting $108.96 (126.11%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 100th percentile when compared with similar standard condominium associations. This means that while approximately 100% of comparable standard condominium associations budget less on a per unit basis annually for pool maintenance charges than Anytown, 0% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Landscaping and Snow Removal

Lawn and Landscaping: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 100% of standard condominium associations have lawn and landscaping expenses as a budgetary expense category. Items in the lawn and landscaping expense category can include contracted mowing services, flower planting, Roundup treatments, and other related expenses. Because lawn and landscaping expenses tend to be contracted services it is important to review contracts with vendors regularly and that contracts go through a competitive bidding process to ensure association resources are being efficiently and effectively utilized. This expenses category tends to be a large part of most association's operating budget and therefore should be closely monitored.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $232,757.00 (17.04% of the total annual budget) for lawn and landscaping expenses which equates to an annual cost of $1,238.07 per unit. In comparison, the average standard condominium association which also has lawn and landscaping expenses as a budget category typically budgets $421.74 per unit annually meaning that Anytown is currently budgeting $816.33

(193.56%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 100th percentile when compared with similar standard condominium associations. This means that while approximately 100% of comparable standard condominium associations budget less on a per unit basis annually for lawn and landscaping expenses than Anytown, 0% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Fertilization: This is a common budgetary expense category for standard condominium associations. In Michigan, approximately 57% of standard condominium associations have fertilization expenses as a budgetary expense category. Fertilization is often a routine expense category necessary to maintain the aesthetic appearance of an association’s entry areas and other decorative features. Because fertilization is often recommended and implemented by contracted service providers it is important to solicit multiple bids and review contracts on a regular basis to ensure association funds are utilized efficiently and that all fertilization treatments recommended are indeed necessary.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $10,640.00 (0.78% of the total annual budget) for fertilization expenses which equates to an annual cost of $56.60 per unit. In comparison, the average standard condominium association which also has fertilization expenses as a budget category typically budgets $55.81 per unit annually meaning that Anytown is currently budgeting $0.79 (1.41%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 67th percentile when compared with similar standard condominium associations. This means that while approximately 67% of comparable standard condominium associations budget less on a per unit basis annually for fertilization expenses than Anytown, 33% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Tree Trimming: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 95% of standard condominium associations have tree trimming expenses as a budgetary expense category. Tree trimming is a routine maintenance item required to maintain the aesthetic appeal of the Association and adhere to insurance stipulations. Because this item is generally offered through a contracted service provider it is important to solicit multiple bids to ensure association funds are being efficiently utilized.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $15,000.00 (1.10% of the total annual budget) for tree trimming expenses which equates to an annual cost of $79.79 per unit. In comparison, the average standard condominium association which also has tree trimming expenses as a budget category typically budgets $92.84 per unit annually meaning that Anytown is currently budgeting $13.06 (14.06%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 50th percentile when compared with similar standard condominium associations. This means that while approximately 50% of comparable standard condominium associations budget less on a per unit basis annually for tree trimming expenses than Anytown, 50% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Pest Control: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 86% of standard condominium associations have pest control charges as a budgetary expense category. This expense category often represents a minor portion of most standard condominium's operating budget. Nonetheless expenses related to pest control should be regularly reviewed to ensure that the services meet the Association's requirements for the lowest possible cost.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $4,182.00 (0.31% of the total annual budget) for pest control charges which equates to an annual cost of $22.24 per unit. In comparison, the average standard condominium association which also has pest control charges as a budget category typically budgets $22.21 per unit annually meaning that Anytown is currently budgeting $0.04 (0.17%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 53rd percentile when compared with similar standard condominium associations. This means that while approximately 53% of comparable standard condominium associations budget less on a per unit basis annually for pest control charges than Anytown, 47% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Utilities

Electricity: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 95% of standard condominium associations have electricity charges as a budgetary expense category. Electricity charges are often related to common area lighting. However, it is not uncommon for some standard condominiums, particularly older ones, to pay for co-owner electricity use in addition to common area usage. It is very important to ensure that the Association is adhering to the responsibility delineation as outlined in its master deed as it is not uncommon for some associations to mistakenly pay for utility expenses they are not legally required to pay for. We recommend that the Association review its governing documents with an experienced condo attorney and develop a maintenance matrix with their supervision to ensure the Association's responsibilities are properly codified and followed.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $13,220.00 (0.97% of the total annual budget) for electricity charges which equates to an annual cost of $70.32 per unit. In comparison, the average standard condominium association which also has electricity charges as a budget category typically budgets $52.17 per unit annually meaning that Anytown is currently budgeting $18.15 (34.80%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 70th percentile when compared with similar standard condominium associations. This means that while approximately 70% of comparable standard condominium associations budget less on a per unit basis annually for electricity charges than Anytown, 30% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Water and Sewer: This is a typical budgetary expense category for standard condominium associations. In Michigan, approximately 90% of standard condominium associations have water and sewer charges as a budgetary expense category. Water and sewer charges are often related to common area irrigation. However, it is not uncommon for some standard condominiums, particularly older ones, to pay for co-owner water and sewer expenses in addition to common area usage. It is very important to ensure that the Association is adhering to the responsibility delineation as outlined in its master deed as it is not uncommon for some associations to mistakenly pay for utility expenses they are not legally required to pay for. We recommend that the Association review its governing documents with an experienced condo attorney and develop a maintenance matrix with their supervision to ensure the Association's responsibilities are properly codified and followed.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $93,527.00 (6.85% of the total annual budget) for water and sewer charges which equates to an annual cost of $497.48 per unit. In comparison, the average standard condominium association which also has water and sewer charges as a budget category typically budgets $446.15 per unit annually meaning that Anytown is currently budgeting $51.33 (11.51%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 50th percentile when compared with similar standard condominium associations. This means that while approximately 50% of comparable standard condominium associations budget less on a per unit basis annually for water and sewer charges than Anytown, 50% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "normal." Because this expense category has been flagged as normal, no immediate remedial action is recommended. However, Michigan Reserve Associates always recommends reviewing expense categories in this classification regularly to ensure that funds are being efficiently utilized.

Gas: This is a relatively uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 29% of standard condominium associations have gas charges as a budgetary expense category. Gas expenses are often related to common area heating. However, it is not uncommon for some standard condominiums, particularly older ones, to pay for co-owner gas expenses in addition to common area usage. It is very important to ensure that the Association is adhering to the responsibility delineation as outlined in its master deed as it is not uncommon for some associations to mistakenly pay for utility expenses they are not legally required to pay for. We recommend that the Association review its governing documents with an experienced condo attorney and develop a maintenance matrix with their supervision to ensure the Association's responsibilities are properly codified and followed.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $3,368.00 (0.25% of the total annual budget) for gas charges which equates to an annual cost of $17.91 per unit. In comparison, the average standard condominium association which also has gas charges as a budget category typically budgets $12.11 per unit annually meaning that Anytown is currently budgeting $5.80 (47.88%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 83rd percentile when compared with similar standard condominium associations. This means that while approximately 83% of comparable standard condominium associations budget less on a per unit basis annually for gas charges than Anytown, 17% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Internet and Phone: This is a relatively uncommon budgetary expense category for standard condominium associations. In Michigan, approximately 29% of standard condominium associations have internet and phone charges as a budgetary expense category. Internet and phone expenses are typically related to common area or administrative usage. However, it is not uncommon for some standard condominiums, particularly older ones, to pay for co-owner internet and phone expenses in addition to common area usage. It is very important to ensure that the Association is adhering to the responsibility delineation as outlined in its master deed as it is not uncommon for some associations to mistakenly pay for utility expenses they are not legally required to pay for. We recommend that the Association review its governing documents with an experienced condo attorney and develop a maintenance matrix with their supervision to ensure the Association’s responsibilities are properly codified and followed.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $75.00 (0.01% of the total annual budget) for internet and phone charges which equates to an annual cost of $0.40 per unit. In comparison, the average standard condominium association which also has internet and phone charges as a budget category typically budgets $83.05 per unit annually meaning that Anytown is currently budgeting $82.65 (99.52%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 0th percentile when compared with similar standard condominium associations. This means that while approximately 0% of comparable standard condominium associations budget less on a per unit basis annually for internet and phone charges than Anytown, 100% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally low." While spending comparatively less in this category does not necessarily mean that there is anything wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Garbage Removal: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 67% of standard condominium associations have garbage removal charges as a budgetary expense category. This expenses category tends to be an annual and relatively inflexible budget item for most standard condominiums. Because there are relatively few garbage removal contractors, they tend to enjoy competitive pricing power. Nonetheless, it is important to solicit bids from multiple contractors if possible to ensure association resources are effectively and efficiently allocated.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $20,451.00 (1.50% of the total annual budget) for garbage removal charges which equates to an annual cost of $108.78 per unit. In comparison, the average standard condominium association which also has garbage removal charges as a budget category typically budgets $182.83 per unit annually meaning that Anytown is currently budgeting $74.05 (40.50%) less on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 7th percentile when compared with similar standard condominium associations. This means that while approximately 7% of comparable standard condominium associations budget less on a per unit basis annually for garbage removal charges than Anytown, 93% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally low." While spending comparatively less in this category does not necessarily mean that there is anything wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

Reserve Contribution

Reserve Contribution: This is a universal budgetary expense category for standard condominium associations. In Michigan, because associations must allocate a minimum of 10% of their annual budget on a non-accumulative basis for reserve contribution, 100% of standard condominium associations have Reserve Contribution charges as a budgetary expense category. An association's reserve contribution is the amount of its annual budget allocated to pay for its long-term liabilities which are not accounted for in the operating budget.

The minimum 10% reserve contribution required under Michigan law is often not sufficient to pay for many associations' long-term liabilities. The magnitude of an association's long-term liabilities depends on its responsibilities as defined by its governing documents. In order to ensure that Anytown has sufficient reserve funds to pay for its long-term liabilities we recommend that the Association have a reserve study completed every three to five years.
For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $336,406.00 (24.63% of the total annual budget) for Reserve Contribution charges which equates to an annual cost of $1,789.39 per unit. In comparison, the average standard condominium association which also has Reserve Contribution charges as a budget category typically budgets $774.89 per unit annually meaning that Anytown is currently budgeting $1,014.50 (130.92%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 95th percentile when compared with similar standard condominium associations. This means that while approximately 95% of comparable standard condominium associations budget less on a per unit basis annually for Reserve Contribution charges than Anytown, 5% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

<u>It is important to note that the average </u>standard condominium<u> in Michigan has an inadequate reserve contribution relative to its projected future reserve expenditures. Therefore, regardless of the Association's percentile ranking it is still possible that its current reserve contribution will not fund its long-term liabilities.</u>

Miscellaneous

Other: This is a very common budgetary expense category for standard condominium associations. In Michigan, approximately 76% of standard condominium associations have other expenses as a budgetary expense category. Items in this category do not fit into any of the above commonly observed budget categories and are relatively unique to Anytown. Because Michigan Reserve Associates does not actively collect data on items in this category we cannot provide specific recommendations or commentary. However, we highly recommend that the Association thoroughly review all items classified as "other" to verify that the Association's resources are being utilized effectively and that all expenses are in alignment with the Association's legal responsibilities.

For the January 1, 2023 to December 31, 2023 fiscal year, Anytown has budgeted $97,825.00 (7.16% of the total annual budget) for other expenses which equates to an annual cost of $520.35 per unit. In comparison, the average standard condominium association which also has other expenses as a budget category typically budgets $438.16 per unit annually meaning that Anytown is currently budgeting $82.19 (18.76%) more on a per unit basis than would typically be expected given its responsibility profile and physical characteristics. On a per unit basis, Anytown ranks in the 76th percentile when compared with similar standard condominium associations. This means that while approximately 76% of comparable standard condominium associations budget less on a per unit basis annually for other expenses than Anytown, 24% budget more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged this budget category as "abnormally high." While spending comparatively more in a category does not necessarily mean that something is wrong, we recommend reviewing Anytown's responsibility profile and physical characteristics in the previous sections in order to verify that there is a plausible explanation for this discrepancy.

BALANCE SHEET ANALYSIS

INTRODUCTION

The balance sheet analysis section of the report compares Anytown's assets, liabilities, and equity with a representative sample of similar standard condominiums in order to gauge its financial health. To do so, we reviewed Anytown's balance sheet dated June 30, 2023 and placed each line item into one of the standardized categories in the table below (please see page 'B" of the addenda section of the report to view an itemized list of how we categorized each line item on the balance sheet). Placing each line item into these standardized categories allows us to make an apples-to-apples comparison with similar association's which may utilize different accounting terminology.

As was done in the budget analysis section above, the balance sheet analysis portion of the report makes comparisons based on a per unit methodology which accounts for differences in the sizes of different communities. The following table summarizes our findings:

	Nominal Amount	Nominal Amount Per Unit	Typical Nominal Amount Per Unit	Percentile Ranking	Per Unit Classification
Assets					
Operating Funds	$149,015.66	$792.64			
Reserve Funds	$420,255.38	$2,235.40			
Other Assets	$52,052.22	$276.87			
Total Assets	$621,323.26	$3,304.91	$2,951.11	57%	Normal
Liabilities					
Short-Term Liabilities	$61,288.73	$326.00			
Long-Term Liabilities	$0.00	$0.00			
Other Liabilities	$0.00	$0.00			
Total Liabilities	$61,288.73	$326.00	$910.45	58%	Normal
Equity					
Owners Equity	$560,034.53	$2,978.91			
Other Equity	$0.00	$0.00			
Total Equity	$560,034.53	$2,978.91	$2,823.11	57%	Normal

In order to determine how Anytown's assets, liabilities and equity as of June 30, 2023 compare on a per unit basis to similar standard condominiums in the Grand Rapids and surrounding area we calculated each category's per unit relative percentile. The percentile for each balance sheet category indicated in the chart above shows how Anytown ranks in terms of assets, liabilities, and equity per unit in comparison with the average standard condominium. As a general rule of thumb, a percentile lower than 50% indicates that Anytown has less of a given category on a per unit basis than the average standard condominium whereas a percentile higher than 50% indicates it has more.

The per unit classification for Anytown's assets, liabilities, and equity is based on its percentile ranking. Michigan Reserve Associates considers a percentile ranking of between 30-70% relatively normal, a percentile ranking of less than 30% abnormally low, and a percentile ranking of greater than 70% as abnormally high. The following discussion elaborates on Anytown's current financial profile:

Assets: As of June 30, 2023 Anytown has assets totaling $621,323.26 which equates to $3,304.91 per dues paying unit. In comparison, the average standard condominium has $2,951.11 of total assets per dues paying unit. This means that Anytown has $353.80 (12%) more total assets per unit than the average standard condominium. On a per unit basis, Anytown ranks in the 57th percentile when compared with similar standard condominiums. This means that while approximately 57% of similar standard condominiums have less total assets per unit than Anytown, 43% have more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged its total assets per unit as "normal." This indicates that Anytown's total assets per unit is within the range we would expect given its physical characteristics and responsibility profile. While having a comparatively normal amount of assets per unit may be viewed as an indication that there is nothing amiss, there are several reasons why this may not be the case. Firstly, it is important to breakdown the Association's assets to verify that they were not acquired through taking on debt (further discussed in the liabilities section below). Secondly, it is worth mentioning that the typical standard condominium in Michigan is underfunded, meaning that while Anytown's assets per unit may be within the range we would expect the Association may nonetheless be underfunded. Therefore, to verify that the Association is indeed well funded we recommend that the Board of Directors conduct regular reserve study updates (typically every 3-5 years) to ensure it is setting aside adequate funds to pay for its long-term obligations.

Liabilities: As of June 30, 2023 Anytown has liabilities totaling $61,288.73 which equates to $326.00 per dues paying unit. In comparison, the average standard condominium has $910.45 of total liabilities per dues paying unit. This means that Anytown has $584.45 (64%) less total liabilities per unit than the average standard condominium. On a per unit basis, Anytown ranks in the 58th percentile when compared with similar standard condominiums. This means that while approximately 58% of similar standard condominiums have less total liabilities per unit than Anytown, 42% have more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged its total liabilities per unit as "normal." This indicates that Anytown's total liabilities per unit is within the range we would typically expect to see given its physical characteristics and responsibility profile. Because an association's total assets are equal to the sum of its total liabilities and total equity, it is important to gauge its financial strength by determining what percentage of its assets are liabilities and what percentage are equity. The following table illustrates these ratios:

Liabilities-to-Assets Rat	=	Total Liabilities / Total Assets	=	$61,288.73 / $621,323.26	=	10%
Equity-to-Assets Ratio	=	Total Equity / Total Assets	=	$560,034.53 / $621,323.26	=	90%

Anytown's liabilities-to-assets ratio is 10%. This means that 10% of Anytown's assets were acquired or financed by taking on debt. In comparison, the average standard condominium in Michigan has a liabilities-to-assets ratio of 31% meaning that Anytown has financed or acquired 21% less of its total assets by taking on debt than the typical standard condominium.

In Michigan, it is typical for most standard condominiums to have prepaid dues as well as small amounts of accounts payable to vendors on their balance sheets which tend to account for the majority of their debt-to-assets ratio. Because these types of liabilities are often nominal and transitory in nature, Michigan Reserve Associates generally does not consider them particularly problematic in terms of assessing the Association's financial strength. However, when an association has large amounts of long-term liabilities, such as debt taken on to complete major projects, it can dramatically increase its debt-to-assets ratio and negatively effects its financial strength by reducing its free cash flow as a result of making debt service payments. Therefore, we recommend that Anytown carefully and regularly assess its long-term financial needs so as to avoid taking on debt moving forward.

Equity: As of June 30, 2023 Anytown has equity totaling $560,034.53 which equates to $2,978.91 per dues paying unit. In comparison, the average standard condominium has $2,823.11 of total equity per dues paying unit. This means that Anytown has $155.80 (6%) more total equity per unit than the average standard condominium. On a per unit basis, Anytown ranks in the 57th percentile when compared with similar standard condominiums. This means that while approximately 57% of similar standard condominiums have less total equity per unit than Anytown, 43% have more.

Based on Anytown's percentile ranking, Michigan Reserve Associates has flagged its total equity per unit as "normal." This indicates that Anytown's total equity per unit is within the range we would typically expect to see given its physical characteristics and responsibility profile. Because an association's total assets are equal to the sum of its total liabilities and total equity, it is important to gauge its financial strength by determining what percentage of its assets are liabilities and what percentage are equity. The following table illustrates these ratios:

Liabilities-to-Assets Rat	=	Total Liabilities / Total Assets	=	$61,288.73 / $621,323.26	=	10%
Equity-to-Assets Ratio	=	Total Equity / Total Assets	=	$560,034.53 / $621,323.26	=	90%

Anytown's equity-to-assets ratio is 90%. This means that 90% of Anytown's assets were acquired or financed internally using association funds collected from co-owners. In comparison, the average standard condominium in Michigan has an equity-to-assets ratio of 96% meaning that Anytown has financed or acquired 6% less of its total assets internally using association funds collected from co-owners than the typical standard condominium.

CONCLUSION

We began our budget development report for Anytown by reviewing its physical characteristics and responsibility profile in order to determine which category of association it most closely resembles so that we could we could conduct a rigorous comparative analysis on an apples-to-apples basis. Our review led us to conclude that Anytown most closely matches the physical characteristics and responsibility profile of a standard condominium.

During our review of Anytown's responsibility profile, physical characteristics, and current financial condition we utilized a data-driven comparative methodology to find and address abnormalities and potential areas of concern.

The analysis contained in this report is intended to provide Anytown's board of directors with useful information to be used for developing the Association's budget. We would like to reiterate that we are not lawyers or accountants and that this report is not to be construed with other services such as an annual audit or governing document review by a professional attorney. We recommend using the information contained in this annual budget development report as a starting point for identifying and tackling the Association's operational challenges and contracting with licensed professionals where necessary to further verify our assertions and find viable solutions. In particular, we highly recommend hiring a professional association attorney to develop a maintenance matrix based on the association's governing documents and conduct regular audits or reviews of the Association's books by hiring a certified public accountant (CPA).

This annual budget development report was issued by Michigan Reserve Associates LLC on October 25, 2023 and should be renewed one year from the date of issuance on **October 24, 2024** in order to ensure it is up to date with the most recent association financials and most importantly comparative datapoints from our proprietary in-house database.

We hope this annual budget development report serves your community well and look forward to working with you again in the future.

Sincerely,

Paul Conahan

Paul K.T. Conahan, MBA, RS
State Certified General Real Estate Appraiser
License No. 1201002454

Kai Conahan

Kai B. Conahan

ADDENDA

BUDGET LINE ITEM CLASSIFICATION CHART

Budget Line Item Classifications		
Original Budget **Line Item Name**	**Assigned General** **Expense Category**	**Annual** **Amount**
Management Fees	Administrative	$41,500.00
Water/Sewer	Water and Sewer	$93,527.00
Electric	Electricity	$13,220.00
Natural Gas	Gas	$3,368.00
Telephone & cable	Internet and Phone	$75.00
Waste Removal	Garbage Removal	$20,451.00
Miscellaneous Maintenance	General Maintenance	$17.00
Outdoor Electric Repairs	Electrical Repair	$1,204.00
Office Expense	Administrative	$2,273.00
Pest Control	Pest Control	$4,182.00
Property & Liability Insurance	Insurance	$40,274.00
Financial Services	Administrative	$11,000.00
Tax Preparation Fees	Administrative	$893.00
Legal Fees	Administrative	$10,000.00
Real Estate Taxes	Administrative	$26.00
Misc. Finance & Admin	Administrative	$1,454.00
Landscaping Contract	Lawn and Garden	$218,492.00
Landscaping Personnel	Lawn and Garden	$11,550.00
Trees and Shrubs	Tree Trimming	$15,000.00
Landscaping Boards	Lawn and Garden	$1,000.00
Tree Inspection - Fertilizer	Fertilization	$10,640.00
John Deere Cart	Lawn and Garden	$1,400.00
Misc. Landscaping	Lawn and Garden	$315.00
Decks	General Maintenance	$20,000.00
Structure Repairs	Structural Repair	$75,000.00
Paint & Stain	Exterior Painting	$85,050.00
Deck Cleaning and Staining	Exterior Painting	$65,000.00
Roof Repairs	Roof Maintenance and Repair	$4,095.00
Windows & Doors	Window Repairs	$26,346.00
Garage Door Repairs	General Maintenance	$5,287.00
Gutter Repairs & Cleaning	Gutter Cleaning	$16,664.00
Misc. Structures	Structural Repair	$788.00
Irrigation & Sprinkler System	Irrigation Repairs	$44,102.00
Roadways & Storm Drains	Asphalt Road Repairs and Maintenance	$8,000.00
Driveways (Only)	Asphalt Road Repairs and Maintenance	$10,000.00
Concrete Walkways & Lifting	Concrete Repair and Replacement	$8,000.00
Drainage Repairs	Drainage Remediation	$13,006.00
Retaining Walls - Rep. & Maint.	General Maintenance	$2,163.00
Misc. Streets & Grounds	Asphalt Road Repairs and Maintenance	$3,019.00
Pool and Clubhouse Supplies	Pool Maintenance	$19,159.00
Pool and Clubhouse Personnel	Pool Maintenance	$3,920.00
Pool and Clubhouse Maintenance	Pool Maintenance	$13,650.00
Social Events	Administrative	$6,215.00
Misc. Social	Administrative	$315.00
Reserve Expenses	Reserve Contribution	$336,406.00

BALANCE SHEET LINE ITEM CLASSIFICATION CHART

Balance Sheet Inputs		
Balance Sheet Original Line Item Name	**Balance Sheet Line Item Classification Assignment**	**Nominal Amount**
Operating - Fifth Third	Assets: Operating	$149,015.66
Reserve Account - Fifth Third	Assets: Reserve	$218,469.18
Huntington Bank - Reserve	Assets: Reserve	$85,168.17
Huntington Bank - CD	Assets: Reserve	$116,618.03
Accounts Receivable	Assets: Other	$1,896.00
Comcast Receivable	Assets: Other	$2,221.50
Misc Receivable	Assets: Other	$404.80
Prepaid Operating Expenses	Assets: Other	$6,865.40
Prepaid Insurance	Assets: Other	$37,200.00
Equipment	Assets: Other	$10,721.68
Accumulated Depreciation	Assets: Other	-$7,257.16
Accounts Payable	Liabilities: Short Term	$1,270.92
Accrued Expense	Liabilities: Short Term	$7,752.71
Prepaids	Liabilities: Short Term	$34,106.00
Defered Comcast Fee	Liabilities: Short Term	$18,159.10
Operating Equity	Equity: Owner's Equity	-$8,072.47
Reserve Equity	Equity: Owner's Equity	$166,691.17
Retained Earnings	Equity: Owner's Equity	$27,146.90
Restricted Fund Balance - Jazz Fund	Equity: Owner's Equity	$1,350.00
Calculated Retained Earnings	Equity: Owner's Equity	$139,145.67
Calculated Prior Years Retained Earnings	Equity: Owner's Equity	$233,773.26

CERTIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

Certifications

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined outcome that favors the cause of the client, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions are developed, and this report has been prepared, in conformity with the relevant sections of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics of the Appraisal Institute.
- In Michigan, appraisers are required to be licensed/certified and are regulated by the Michigan Department of Consumer and Industry Services, Licensing Division, P.O. Box 30018, Lansing, Michigan 48909.

Paul Conahan

Paul K.T. Conahan, MBA, RS
State Certified General Real Estate Appraiser
License No. 1201002454

Kai Conahan

Kai B. Conahan

Assumptions and Limiting Conditions

Assumptions

- Information furnished by representatives of the Association regarding financial, physical, quantity, or historical issues were assumed reliable. However, no warranty is given for the accuracy of this information. The conclusions, assertions, and narrative contained in this budget development report is based upon information provided but was not audited. Client's receipt of the final budget development report will serve as verification that the client has reviewed the budget development report and confirmed that all information provided by the Association has been accurately represented in the final budget development report.

- It is assumed that there are no hidden or unapparent conditions on the property, subsoil or structure. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

- Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the authors of this report. The author has no knowledge of the existence of such materials on or in the property. The author, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, lead-based paint, or other potentially hazardous materials may adversely affect the property and require remediation. We assumed that there are no such materials on the property. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws, and all other applicable laws and regulations.

- It is assumed that all required licenses, certificates of occupancy, consents or other legislative or administrative authority from any local, state or national government or private entity or organization have been obtained.

- The current work is reliant on the validity of prior budget development reports (for update reports only).

Limiting Conditions

- Any dispute arising under this agreement will be settled using binding arbitration under the rules of the American Arbitration Association. Arbitration shall be held in the City of Ann Arbor, Michigan, and one arbitrator will be appointed. Any arbitration award may be entered by any court of competent jurisdiction. The Client understands that absent these provisions, the Client would have the right to sue in court and have a jury trial.

- Unless the time frame is shorter under applicable law, any legal action or claim relating to the budget development report or budget development report provider shall be filed in the applicable arbitration tribunal, within two years from the date of delivery to Client of the budget development report to which the claims or causes of action relate or, in the case of acts or conduct after delivery of the report, two years from the date of the alleged acts or conduct.

The time frame stated in this section shall not be extended by any delay in the discovery or accrual of the underlying claims, causes of action or damages. The time frame stated shall apply to all non-criminal claims or causes of action of any type.

- By its nature, a budget development report attempts to highlight aspects of the Association's legal responsibilities, physical characteristics, and operating practices which may either positively or negatively impact its current and future financial obligations. Michigan Reserve Associates LLC cannot be held responsible for unforeseeable events that dramatically alter future or current costs from those which may be directly or indirectly referenced in this budget development report.

- Information provided about the Association's current physical condition will be considered reliable. Any on-site inspection should not be considered a project audit or quality inspection.

- This study is to be used by the intended user for the purpose of identifying and remediating abnormal or unusual aspects of its operational characteristics. The scope of work included in this study is unique to the intended use and intended user, and this report may not be utilized for any other use or user. Such other uses include, but are not limited to, performing an audit, quality/forensic analysis, or background checks of historical records. The client and its representatives may not transmit this budget development report in any fashion to persons or entities that perform similar budget development reports.

- Client agreed to furnish Michigan Reserve Associates LLC with a complete and up-to-date set of governing documents. Michigan Reserve Associates LLC cannot be held responsible for incomplete or incorrect documents. Client agrees to review the budget development report for accuracy during the review process, and seek legal counsel when necessary.

- The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have not made a specific compliance survey and analysis of the subject property to determine whether or not it is in conformity with the various requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more requirements of the ADA. If so, this fact could have a negative impact on the property and trigger compliance costs. We did not consider noncompliance with the ADA requirements for this assignment.

- We are not financial advisors, and we recommend that the client consult with its accountant and/or professional investment advisor(s) to further verify any claims or assertions rendered in this report and to develop appropriate remedial action plans if deemed necessary.

- We are not attorneys, and we recommend that the client consult with its attorney regarding financial and legal requirements and any other interpretations of relevant law, such as, but not limited to, the Michigan Condominium Act, complementary legislation such as the Nonprofit Corporation Act, and Administrative Rulings.

- Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of Michigan Reserve Associates LLC, and in any event only with properly written qualifications and only in its entirety.

- Any illustrative material in this report is included only to assist the reader in visualizing the property and/or provide graphical support to the narrative text.

- We are not by reason of this report, required to give further in-person consultation, testimony or be in attendance in court with reference to the property in question unless prior arrangements have been made.

- Liability due to negligence is limited to the actual cost paid by the client for this engagement.

- Michigan Reserve Associates LLC reserves the right to include your Association's name in our client list.

QUALIFICATIONS – PAUL K.T. CONAHAN, MBA, RS

CONTACT INFORMATION

Mail: 424 Little Lake Drive, Suite 23, Ann Arbor, Michigan 48103

Phone: Office: (734) 661-1259 Direct: (734) 417-4736

E-mail: paul@MichiganReserveAssociates.com

Web: www.MichiganReserveAssocaites.com

EMPLOYMENT RECORD

Principal, Michigan Reserve Associates LLC, Ann Arbor, Michigan, 2005-Present

Principal, Davis M. Somers Commercial Appraisal Company, Ann Arbor, Michigan, 2018 to the present

Principal, Davis M. Somers Company, Ann Arbor, Michigan, 1991-2018

REALTOR® Associate, Fee Simple Realty, Honolulu, Hawaii, 1985-1987

ADDITIONAL EXPERIENCE

Qualified as Expert Witness, Washtenaw County Circuit Court

Michigan Department of Transportation Approved Level II Appraiser

Approved Fee Appraiser for the United States Veterans Administration

EDUCATION AND DESIGNATIONS

Bachelor of Arts (BA), Biopsychology, Vassar College, Poughkeepsie, New York, Graduated in 1991

Master of Business Administration (MBA) With an Emphasis in Real Estate and Finance, Stephen M. Ross School of Business, University of Michigan, Graduated in 1999

Reserve Specialist (RS), Community Associations Institute, Alexandria, Virginia, Awarded in 2010

APPRAISAL EDUCATION (MOST RECENT SHOWN FIRST)

Residential Property Inspection for Appraisers, McKissock, January 2021

Residential Construction and the Appraiser, McKissock, January 2021

2020-2021 7-Hour National USPAP Update Course, McKissock, February 2020

Michigan Law, McKissock, February 2020

Essential Elements of Disclosures and Disclaimers, February 2020

Residential Construction for Appraisers, McKissock, February 2019

Essential Elements of Disclosures and Disclaimers, McKissock, February 2019

Understanding Residential Construction, McKissock, February 2018

2018-2019 7-Hour National USPAP Update Course, McKissock, February 2018

Michigan Law, McKissock, February 2018

Green Building Construction, McKissock, January 2017

Essential Elements of Disclosures and Disclaimers, McKissock, January 2017

2016-17 7-Hour National USPAP Update Course, McKissock, February 2016

Contemporary Michigan Property Tax Issues, Appraisal Institute, February 2016

Fundamental Concepts of Analysis, McKissock, January 2015

Appraising Fast Food Properties, McKissock, January 2015

Environmental Issues for Appraisers, McKissock, February 2014

Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets (Course 833), Appraisal Institute, Instructor James Vernor, Ph.D., MAI, April 2012

Essential Elements of Disclosures and Disclaimers, McKissock, December 2011

Appraising Convenience Stores, Appraisal Institute, January 2011

GIS, The Executive Overview, Appraisal Institute, January 2011

Commercial/Residential Construction Inspection, Appraisal Institute, April 2009

Appraising from Blueprints and Specifications, Appraisal Institute, April 2009

Valuation of Detrimental Conditions, Appraisal Institute, Novi, December 2007

What Clients Would Like Their Appraisers to Know, Southfield, December 2006

Effective Appraisal Writing, Appraisal Institute, Ypsilanti, Michigan, October 2006

Appraising Local Retail Properties, Appraisal Institute, Southfield, Michigan, June 2004

Appraising the Tough Ones, Appraisal Institute, Ypsilanti, Michigan, December 2003

Highest & Best Use and Market Analysis (Course 520), Appraisal Institute, Troy, Michigan, April/May 2001

Other Relevant Courses Taken:

Advanced Applications (Course 550), Appraisal Institute
Report Writing and Valuation Analysis (Course 540), Appraisal Institute
Advanced Income Capitalization (Course 510), Appraisal Institute
Challenged and passed Appraisal Procedures (Course 120), Appraisal Institute
Capitalization Theory and Techniques Part A, Appraisal Institute
The Appraiser as an Expert Witness, Appraisal Institute

LICENSES

Certified General Real Estate Appraiser Number 1201002454, State of Michigan, Obtained in 1993

Active Real Estate Associate Broker License Number 6502139365, State of Michigan, Obtained in 2002 (Michigan Real Estate Salesperson License obtained in 1992)

Inactive Real Estate Sales License Number RS-36782, State of Hawaii, Obtained in 1985

ASSOCIATIONS

Member, Community Associations Institute, Since 2005

Member, United Condominium Owners of Michigan, Since 2005

Member, International Right of Way Association, Gardena, California, Since 1996

REGULATORY NOTES

In Michigan, appraisers are required to be licensed/certified and are regulated by the Michigan Department of Labor and Economic Growth, Licensing Division, P.O. Box 30018, Lansing, Michigan 48909.

PARTIAL LIST OF CLIENTS (INCLUDING BOTH CLIENTS WE HAVE PERFORMED RESERVE STUDIES AND THOSE WE HAVE PERFORMED BUDGET DEVELOPMENT REPORTS FOR)

Condominium/Homeowners Associations

1001 Covington Association (Detroit)

297 Condominium Owners Association (Muskegon)

Aberdeen at Hartford Association (Macomb)

Autumn Woods Condominium Association (Ypsilanti)

Bay Cliff Estates Association (Suttons Bay)

Bellefontaine Meadows Homeowners Association (Dayton, Ohio)

Benstein Crossing Condominium Association (Commerce Township)

Birch Grove II Condominium Association (Chesterfield)

Black Bear Farms Co-Owners' Association (Traverse City)

Breaker Cove (Bay City)

Brentwood Park Condominium Association (East Lansing)

Bridgewater Place Condominium Association (Bridgewater)

Byron Forest Condominium Association (Byron Center)

Cedar Creek Commons Association (Traverse City)

Centennial Farm Phase I, Inc. (South Lyon)

Centennial Farm Phase II, Inc. (South Lyon)

Chateau Vert Association (Ypsilanti)

Chapel Hill Condominium Association (Ann Arbor)

Chelsea Square Condominium Association (Canton)

Colony Farms Condominium Association (Plymouth)

Cornerstone Village Homeowners Association (Macomb)

Cottage Glens Owners Association (Williamsburg)

Creekwood Estates Association (Bay City)

Crossings at Irving Avenue Condominium Association (Royal Oak)

Crystal Village Manor (Marysville)

Douglas Harbor Village Condominium Association (Douglas)

Eaglecrest Condominium Association (Grand Rapids)

East Lansing City Center Condominium Association (East Lansing)

Echo Valley Condominium Association (Farmington Hills)

Fairlane Woods Association (Dearborn)

Fairways at Oak Pointe Condominium Association (Brighton)

Fieldstone Village Condominium Association (Chelsea)

Forest at Orchard Lake Association (Farmington Hills)

Fox Pointe Association (Ann Arbor)

Gallery Park Homeowners Association (Ann Arbor)

Glen Arbor Condominium Association (Grand Blanc)

Great Oak Cohousing Association (Ann Arbor)

Grosse Pointe Gardens Association (Harper Woods)

Hamilton House Condominium Association (Okemos)

Hampton Ridge North HOA (Canton)

Harbour Towne Condominium Association (Muskegon)

Haven Condominium Association (South Haven)

Heatherwood Condominium Association (Ann Arbor)

Highland Park Condominium Association (Cleveland, Ohio)

Heritage Falls Condominium Association (Ann Arbor)

Hidden Creek of Oceola Condominium Association (Howell)

Hidden Glen Condominium Association (Canton)

Hidden Lake Community Association (South Lyon)

Hometown Village of Marion Association (Howell)

Hometown Village at Waterstone Association (Oxford)

Indian Village Condominium Association (Grand Rapids)

Island Lake of Novi Community Association (Novi)

Island Lake South Harbor Association (Novi)

Island Lake Woods Association (Novi)

Kirkway Homeowners Association (Canton)

Knightsbridge Gate Association (Novi)

Lake Ridge Condominium Association (Traverse City)

Lakeside Village Association (Haslett)

Lakeside Village North Association (Haslett)

Lake Village II (Walled Lake)

Legacy Park Condominium Association (Dearborn Heights)

Liberty Lofts Condominium Association (Ann Arbor)

Links of Pheasant Run Condominium Association (Canton)

Locklin Pines Cluster Condominium Association (West Bloomfield)

Lost Creek Condominium Association (East Lansing)

LVP Property Owners Association (Findlay, Ohio)

Marquette Village Condominium Association (Westland)

Meadowview Common Condominium Association (Elk Rapids)

Newberry Place Cohousing Condominium Association (Grand Rapids)

Northridge Estates Homeowners Association (Northville)

Northridge Villas Association (Northville)

Northville Hills Golf Club Homeowners Association (Northville)

Northville Hollow Condominium Association (Northville)

Oakhurst Owners' Association (Clarkston)

Oakley Meadow Condominiums Association (Tiffin, Ohio)

Okemos Preserve Condominium Association (East Lansing)

Oxford Park Condominium Association (Canton)

Parkview Manor Association (Flint)

Parkway Condominium Association (Livonia)

Perry Farm Village Association (Harbor Springs)

Pheasant Run Condominium Association (Portage)

Pine Creek Condominiums of Haslett Association (Haslett)

Pinehurst Condominium Association (Trenton)

Pittsfield Village Condominium Association (Ann Arbor)

Plymouth Corners Condominium Association (Plymouth)

Plymouth Landing Association (Canton)

Pointe Park Homeowners Association (Grosse Point Park)

Providence Tower Association (Southfield)

Quail Run of South Lyon Condominium Association (South Lyon)

Raintree Condominiums of Chesterfield Association (Chesterfield)

Reserve at Tull Lake Condominium Association (White Lake)

River House Co-Op (Detroit)

River Park Estates Condominium Association (Lansing)

River's Edge at Cherry Hill Village I Homeowners Association (Canton)

Riverside Glen Homeowners Association (Macomb)

Riverside Park Place Condominium Association (Ann Arbor)

River South Homeowners Association (Fairview Park, Ohio)

Rochester Park II Association (Rochester)

Saddlebrook Condominium Homeowners Association (Plymouth)

Saddle Creek Association (South Lyon)

Sand Piper Condominium Association (Glen Arbor)

St. Lawrence Estates Condominium Association (Northville)

Scio Village Condominium Association (Ann Arbor)

Spruce Manor Condominium Association (Royal Oak)

Steeple Chase of Northville Owners Association (Northville)

Steeple Ridge Condominium Association (Clarkston)

Stone Lake Condominium Association (East Lansing)

Stonewater Homeowners Association (Northville)

Stratford Townhouses Consumer Housing Cooperative (Grand Rapids)

Sunset Torch Association (Bellaire)

The Atrium Inn Condominium Association (Boyne City)

The Courtyards at Little Bear Condominium Association (Lewis Center, Ohio)

The Landings at Rayner Ponds Condominium Association (Mason)

The Links of Northville Hills Golf Club Condominium Association (Northville)

The Lodge at East Bay Co-Owners Association (Elk Rapids)

The Maples of Novi, Maple Pointe Association (Novi)

The Mountain Grand Owners' Association (Boyne Falls)

The Ponds Cooperative Homes (Okemos)

The Preserve at Maple Lake Association (Milford)

The Ravines of Northville Homeowners Association (Northville)

The Reserve at the Fairways Condominium Phase 1 Association, Inc. (Huber Heights, Ohio)

The Residences at TPC Association (Dearborn)

The Village Condominium Association (Grosse Pointe)

The Willits Condominium Association (Birmingham)

Thornberry Condominium Association (Midland)

Thornton Farms Condominium Association (Dexter)

Tollgate Woods Homeowners Association (Novi)

Touchstone Cohousing Association (Ann Arbor)

Traditions at Cambridge Association (Canton)

University Commons Condominium Association (Ann Arbor)

Valley Wood Condominium Association (Livonia)

Vantage Pointe Condominium Association (Glen Arbor)

Venn Manor (Detroit)

Verndale Lakes Condominium Association (Lansing)

Versailles Place Condominium Association (Farmington Hills)

Village Oaks Common Areas Association (Novi)

Villa Capri Condominium Association (Warren)

Villas at Northville Hills Condominium Association (Northville)

Villas at Stonehenge Condominium Association (Kalamazoo)

Vistas of Central Park Condominium Association (Canton)

Walden Hills II Condominium Association (Ann Arbor)

Walnut Woods Condominium Association (West Bloomfield)

Walton Pond Condominium Association (Pontiac)

Waters Edge Condominium Association (Clarkston)

Waterside Homeowners Association (Maumee, Ohio)

Wedgewood Village Association (Plymouth)

Whetherstone Condominium Association (White Lake)

Whitney Court of West Bloomfield (West Bloomfield)

Windward Court Condominium Association (Detroit)

Woodfield Square Association (Brighton)

Woodland Creek Condominium Association (Kentwood)

Woodland Ridge of Commerce Association (Commerce Township)

Woodland Trails Condominium Association (Okemos)

Woodlore Condominium Owners Association (Livonia)

Woods of Northville (Plymouth)

Woodside Meadows Condominium Association (Ann Arbor)

Woodward Place Association (Birmingham)

Woodward Place at Brush Park I Association (Detroit)

Woodwind Glen Condominium Association (South Lyon)

Educational/Institutional/Non-Residential Organizations

Anthroposophical Society in America (Ann Arbor)

Chelsea District Library (Chelsea)

Gateway Center Association (Office Condominiums; Saline)

Grace Lutheran Church (La Grange, Illinois)

Michigan Friends Center (Chelsea)

Oak Grove AME Church (Detroit)

Rudolph Steiner School of Ann Arbor (Ann Arbor)

St. Joseph River Yacht Club (St. Joseph)

The Waterfront Marina of St. Joseph (St. Joseph)

Ward Evangelical Presbyterian Church (Northville)