PILOT POINT

HOMEOWNERS' ASSOCIATION, INC.

LEWES, DELAWARE

REPLACEMENT RESERVE STUDY

2003

MILLER ❖ DODSON ASSOCIATES

CAPITAL RESERVE CONSULTANTS

929 West Street, Suite 310 ❖ Annapolis, Maryland 21401

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MILLER ❖ DODSON ASSOCIATES
CAPITAL RESERVE CONSULTANTS

May 30, 2003

Mr. Bill Kohler
LEGUM & NORMAN
50 Cascade Lane
Rehoboth, DE 19771

Tel: 302-227-8448
Fax: 302-227-5635

RE: **PILOT POINT**
Replacement Reserve Report

Dear Mr. Kohler:

Pursuant to your acceptance of our proposal on April 28, 2003, we have completed our evaluation of the Pilot Point in Lewes, Delaware. The purpose of this evaluation was to obtain data for the preparation of the enclosed Replacement Reserve Study.

The following sections are included in this Report:

- A written narrative which includes a financial summary, additional information describing and clarifying the enclosed *Replacement Reserve Report*, and a summary of conditions found on the site;
- The *Replacement Reserve Analysis* with tables listing the inventory of components, estimated replacement costs, estimated remaining life, and the graphical presentation of the calculated data;
- An *Appendix* describing the standard procedures and definitions.

Please review the narrative and data in this study with your Board of Directors. We will provide further revisions to this document if items have been improperly included or omitted, or if the Board wishes to suggest other modifications to the component inventory herein. We welcome the input and suggestions from your Board on these items. Such review and input always helps to hone the accuracy of the report. Such revisions should be requested in writing by the Board of Directors within ninety (90) days of the date of the original report.

If you have any questions regarding this report, please do not hesitate to contact my office.

Sincerely,
MILLER ❖ DODSON ASSOCIATES, INC

James A. Williams, Jr.
Reserve Analyst

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Enclosures: Replacement Reserve Report

MILLER ❖ DODSON ASSOCIATES
CAPITAL RESERVE CONSULTANTS

Replacement Reserve Report

PILOT POINT
Lewes, Delaware
May 30, 2003

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Replacement Reserve Report
PILOT POINT
Lewes, Delaware
May 30, 2003

The subject property consists of ten, townhouse condominium buildings, containing 61 units. The field work for this study was conducted on May 7, 2003. The weather was clear, and the temperature was approximately 76 degrees Fahrenheit. The survey covered the common elements of the community including roads, parking areas, walks, curbs, snow fences, site lighting, signage, tennis courts, ball courts, boardwalks, building exteriors, roofs, balconies, underground sewer laterals, and buried electrical cable, and community buildings and management office. Interiors of units were not evaluated, nor were they included in any of the analyses, except as noted.

Miller-Dodson Associates has visually inspected the common components in the community in order to ascertain the remaining useful life and the replacement costs of these components.

Miller-Dodson Associates would like to acknowledge the assistance and input of Mr. Darrell Lewis who was helpful by providing time or information. Mr. Lewis has provided very helpful insight into the history of the physical condition of many of the components of the property.

Level of Service: This study has been performed as a Full Service Reserve Study as defined under the National Reserve Study Standards that have been adopted by the Community Associations Institute. As such, a complete component inventory was established based on information regarding commonly owned components provided by the property manager and upon quantities derived from field measurement and/or quantity takeoffs from to-scale engineering drawings that have been made available. The condition of all components was ascertained from a site visit and the visual inspection of each component by the Analyst. The life expectancy and the value of components are provided based in part on these observations and the fund status and funding plan have been derived from analysis of this data.

A. FINANCIAL SUMMARY

Methods of Accounting: *Important Note:* In the enclosed Replacement Reserve Analysis, the recommended annual deposit is calculated by two methods, the *Cash Flow Method* and the *Component Method*. Both methods are presented graphically, pages A-1 through A-5, with tables showing recommended annual deposits, expenditures, and balances projected over the next thirty years. Both methods of calculating Reserves are discussed in more detail below, as well as in the attached *Appendix*. It should be pointed out that most communities adopt the Cash Flow Method due to its lower annual contributions. However, the Board of Directors, in consultation with their management and accounting professionals, must decide which of the two accounting methods is more suitable for use by the Association.

Current Funding: This reserve study has been prepared for Fiscal Year 2003. The *Replacement Reserves Reported to be on Deposit* at the start of the year are reported to be 90,000. The information concerning this balance has been supplied by the Association's representative, and confirmation or audit of the balance is beyond the scope of the study. The planned annual contribution to reserves for the Fiscal Year is $47,500, which is equivalent to an average contribution of $64.89 per unit per month. See Page A-5 for details.

Cash Flow Method: The *Minimum Recommended Annual Deposit* as calculated by the Cash Flow Method is $49,564, which is equivalent to an average contribution of $67.71 per unit per month. This is the uniform amount that must be placed in reserves each year until the critical year is reached in 2013, at which time, the Annual Contribution decreases. This funding level will provide an adequate amount to cover the replacement expenses that have been projected in the study and to maintain a minimum balance Threshold of $42,537, which is equal to 5% of the value of the replacement inventory. It should be recognized, however, that Cash Flow Method calculations should be reviewed annually based on recent contributions and expenditures, and should be updated every three to five years based on a physical evaluation of the conditions of the components.

Component Method: The *Current Funding Objective* calculated by the Component Method is $471,818. With a reserves balance of the Association reserves are funded at 0% of this objective. The recommended *Minimum Recommended Annual Contribution* to the reserves as computed by the Component Method is $96,510 in the first year of the study, declining to $50,931 in the tenth year of the study. Projected annual deposits by the Component Method over the next ten years are shown on page A-4 of the Replacement Reserve Analysis.

The *Minimum Recommended Annual Contribution* in the study year projected by the Component method is higher than the annual deposit if reserves were fully funded. This higher deposit is due in large part to the initial acceleration which results from Component Method mathematical model. However, the high first year contribution may also be dictated by significant anticipated costs to be incurred for replacement of major common elements in the first ten years of the study. Refer to the tables and in the report for more detail.

Interest, Inflation and Taxes on Reserves: This study does not take into account the interest on the reserves on deposit, nor does it account for inflation over the period of the study. We will, however, incorporate interest and inflation figures into the study at the direction of the Board of Directors using figures provided by the Board. The study also assumes that the principal on the Association's Reserves are not subject to tax.

B. REPLACEMENT RESERVE ANALYSIS

Components included: Every effort has been made to identify all items, which should be reasonably considered to be "common elements" for inclusion in this analysis. To that end, this report may have been made overly inclusive. Some of these components could be appropriately deleted from the analysis. Such deletions, however, should be made consciously, with the approval of the Board, recognizing that any future replacement of the deleted components would have to be funded from sources other than the replacement reserves. Components that are candidates for deletion:

1. **Small components:** For ease of administration, it may be preferable to handle replacement of relatively low cost components from the annual operating budget rather than making disbursements from the reserves. Examples might be the entrance signs, streetlights, trash enclosure fence, Manager's Office downspouts, and electric baseboard heater. A commonly used guideline is to use operating funds for replacement of any component with replacement cost less than $1,000. In larger Associations, this limit is often raised to $5,000.

2. **Long lasting components:** The reserve schedule includes components with estimated economic lives equaling or exceeding thirty years, for example, the storm water facilities, asphalt pavement and overlay, wood trim with aluminum wrap, and electrical service cable. While some analysts would omit these components from the schedule entirely on the basis that the economic lives of these components approach that of the property as a whole, it is recommended that they be retained since dropping them might expose the Association to a large unfunded liability should the replacements be needed at some time in the future.

3. **Components incorrectly included:** In an effort to include all components which could reasonably be considered as "common," it is possible that some items have been included which are not the responsibility of the Association.

Components excluded: The following components have been excluded from the Replacement Reserve Analyses. If any of these exclusions have been made in error, we will reinsert the component upon the written request of the Board of Directors:

1. **Long-lived components.** The following components are expected to have a life equal to of the project, if properly maintained.

    a. Building foundations, structure and floor slabs.
    b. Interior wood trim and doors-Manger's office/apartment.
    c. Electrical switchgear and common wiring.
    d. Common waste and supply plumbing systems.

2. **Local Government.** We have assumed the following components will be maintained and replaced by the local government (or responsible utility company):

a. Roads and associated improvements including curb & gutter and sidewalks located within a normal right-of-way of Cape Henlopen Drive.
b. Underground water, sewer and gas mains.
c. Electrical distribution to the meters.

3. **Individual owners.** We have assumed the following components will be maintained and replace by the individual owners:

a. Exterior components of all additions and porch enclosures.
b. Interior components of units.
c. Windows and skylights attributable to a single unit.
d. Wood Stairs, Decks, Porches, and Railings.
e. Utility connections, including water, sewer, and electrical.
f. HVAC systems

4. **Mail boxes.** We have assumed the mailboxes are the responsibility of the U.S. Postal Service.

5. **Small components.** Pursuant to our proposal, we have not included items with a value of less than $500.00. Some of these items are listed below:

a. Replacement of split and damaged cedar shingles.
b. Interior light fixtures and small exterior light fixtures.
c. General signage throughout the community.
d. Trash receptacles.

6. **Unreservable components.** The following items were omitted because they are considered to be non-capital expenses under IRS guidelines.

a. Painting.
b. Landscaping.
c. Future Reserve Studies.

Revisions: Revisions will be made to the Replacement Reserve Analysis in accordance with the written instructions of the Board of Directors. No additional charge is incurred for the first revision if requested in writing within three months of the date of this report.

Updating: It is recommended to review and revise the Replacement Reserve Analysis annually to take into account replacements, which have actually occurred and known changes in replacement costs. Updating the analysis after a major replacement is made usually results in a significant reduction in the annual deposit as calculated by the Component Method. A full analysis based on a physical evaluation of the components should be performed approximately every three to five years.

C. SUMMARY OF CONDITIONS

The subject property appears to be in good overall condition for its age. The general upkeep of the common facilities reflects the conscientiousness of the property manager, the building manager, and staff. The following comments pertain to the larger, more significant components in the Community's inventory and to those items that are unique or deserving of attention because of their condition or the manner in which they have been treated in the analysis.

General Site and Architectural Drawings: The only drawing available was a plat of the site. No architectural drawings or engineering site plans were available showing the site improvements, storm water drainage lines, utility lines and building details and dimensions. We recommend the Association assemble a library of site and building plans of the entire community. Reproducible drawings should be stored and kept in a secure fireproof location. The Association will find these drawings to be a valuable resource in the future.

Asphalt Pavement: Asphalt pavement throughout the community was in good condition. No records of the age of the pavement were available. In that asphalt pavement typically has a life of approximately 20 years, we have assumed that the pavement was replaced around 1990, and that the existing surface is now 10 to 12 years old. In view of its condition we estimate that the pavement can last another 10 years, if seal coating is used to rejuvenate the asphalt and extend its life. The cost of seal coating on a 5-year cycle has been included in the analysis.

In order to maintain the condition of the pavement throughout the community and to insure the longest life of the asphalt, we recommend a systematic and comprehensive maintenance program that includes:

1. Crack Sealing. All cracks should be sealed with an appropriate sealing compound to prevent water infiltration through the asphalt compound into the base. This repair should be done annually. This is an entirely different process from the seal coating discussed below. Crack sealing is normally considered a maintenance activity and is not funded from Reserves. Areas of extensive cracking or deterioration that cannot be made watertight by crack sealing should be cut out and patched.

2. Cleaning. Long-term exposure to oil or gas breaks down asphalt. Because this asphalt pavement is generally not used for long term parking, it is unlikely that frequent cleaning will be necessary. When necessary, spill areas should be cleaned, or if deterioration has penetrated the asphalt, patched. This is a maintenance activity, and we have assumed that it will not be funded from Reserves.

3. Seal Coating. The asphalt should be seal coated every three to five years. For this maintenance activity to be effective in extending the life of the asphalt, the crack sealing and cleaning of the asphalt, discussed above should be done first.

Pricing used in the study is based on a recent contract for a 2-inch overlay and reflects the current local market.

Storm Water System. No engineering drawings were available to accurately determine distances, sizes of lines and materials used for underground components of the system. Accordingly, we have provided an estimate of the approximate replacement cost based on our experience with other communities of similar size and on our inspection of the visible components while on site. Inspection of the underground lines and structures is beyond the scope of work of this study.

Because of the relatively flat terrain, fall in the storm waterlines and the drainage swales outside the community is limited. We understand that storm water commonly backs up into the system at Pilot Point, which leads to siltation of the lines. See Photo 35, which is the discharge point at the entrance to the property. This condition should be brought to the attention of the local authorities.

Concrete Sidewalks, Curbs and Gutters. All concrete components have been well maintained and are in excellent condition. Any problems noted are in the form of minor cracks, spalling and settlement that can be repaired by continued periodic replacement of broken sections.

Because it is highly unlikely that all of the community's concrete components will fail and require replacement in the period of the study, we have programmed funds for the replacement of 30% of the inventory and spread those funds over a 30-year timeframe to reflect the incremental nature of this work.

Boardwalks. The various wood boardwalks that lead to the beach and to the tennis courts consist of sections of differing ages. We have programmed replacement in five equal increments over a 25-year period which provides approximately $14,000 every 5 years for this purpose.

Perimeter Fencing: The perimeter fencing consists of snowdrift fencing and a 300' long section of alternating board fencing along the east boundary behind the Phase 3 units. The alternating board fence has been in place for several years and is in need of minor repair. Numerous boards are warped and need to be re-nailed. We recommend the Association consider the use of alternate materials with greater useful lives and less required maintenance where a substitution may be appropriate. Several of the synthetic fence and railing systems have an unlimited useful life and do not require painting.

Tennis Courts. A fresh color coat was recently applied to the surface of the tennis courts. Because the courts are built on sand the cracks have re-opened in the surface. See Photos 17, 18 and 19. We recommend consideration be given to patching the cracks as an interim repair with a system such as the Armor Crack Repair System. Information on this system can be found at www.armorcrackrepairsystem.com. Cost is approximately $20 per foot of crack. In approximately five years, when the courts are due to be re-surfaced again we recommend on overlay with 1" of #10 screen crush rock and a 2" lift of asphalt. Local installer of this system of bridging cracks include T&A Engineers at tel: 302-846-3350.

Roof Shingles: The service life for standard asphalt-fiberglass shingles is 15 – 20 years. The signs of failing shingles are:

1. An accumulation of surface granules in the gutters
2. Shingles that is easy to break
3. The occurrence of shingles that are being blown off in moderate winds
4. The increase of broken tabs, where the tabs are sheared from the shingles.

The shingles appear to be in good condition, and we estimate that they have 5 to 8 years of life remaining. We did note obvious dips in the surface of the field of the roof on the Phase 2 buildings. We had the opportunity to examine the interior of one of these units, and we believe the dips are the result of deflection of the 2x8 rafters which have a relatively long span with no intermediate support.

Roof Sheathing and Ventilation: The attic of a typical unit was inspected to determine if FRT plywood had been used for roof sheathing and to confirm that the flow of air from the soffit vents to the ridge vents was not obstructed. FRT was not found in this unit, however, it was noted that insulation obstructs the free flow of air over the underside of the sheathing, which will shorten the life of the shingles.

EDPM "rubber" Roofs: EDPM roofing membrane is in service in structures completed in Phases 2 and 3. The condition or the membrane that we examined in Phase 2 was good. Factory seams were fully adhered with no signs of failure in the field of the roof or at the soffit.

Foam Roof on Manager's Office and Apartment. We understand that the main roof on the building that contains the manager's office and apartment is a "foam" roof. Depending on the specific material that has been applied, these roofs can be highly flammable and will produce cyanide gas if they catch fire. We strongly recommend the selection of alternative roofing systems when replacing this roof.

Electrical Service. No drawings were available showing the details of construction. We examined the construction at the electrical distribution stations serving Phases 1 and 2 and the points of entry in the crawl spaces of a sampling of units. It was reported to us that aluminum service lines had been buried directly beneath the crawl spaces, and that these lines were a source of problems. We found all lines buried in conduit at the distribution centers, and we did not find any exposed service in the crawl spaces that we sampled. We recommend a full survey of all crawl spaces to determine which and how many units may have service wiring that is not in conduit.

In Phase 3 the electrical service from the meter to the units is not to code, because of the method grounding at the meter as well as conveyance to the units. As shown in Photos 29 and 30 the service laterals from the transformer to the meter bank have been buried directly and need to be rated for underground use (Typically type USE cable). In the absence of drawings we were unable to determine the type of cable that had been installed. Markings on the cable that was exposed in the excavations by the distribution center were not evident.

The service laterals, since they are not in conduit (see photos), need to be a minimum of 24" below grade (NEC Table 300-5) unless there is some concrete protection above them then they could be 18". Where the services come up from underground into the meters they need to be protected. NEC 300-5 (d) says rigid metal conduit, intermediate metal conduit, schedule 80 PVC, "or equivalent". Schedule 80 is heavy wall PVC. If the installers used something lighter, that could be a code violation unless the local "authority having jurisdiction" approved schedule 40 as "equivalent".

In general, anything on the "street side" of the meter is owned and maintained by the power company. Sometimes a developer or building owner or his contractor will install the secondary cables from the transformer with the installation required to be inspected and approved by the Power Company. While the NEC per 90-2 (b)(5) specifically does not cover "installations under the exclusive control of electric utilities", the NEC does have many provisions specific to installations of service (like service laterals from the transformer to the meter). Most power companies require the installation to meet the requirements of the Code. In this case, the current service has 7 – 9 years of serviceability. It is recommended that service to each unit, in respective buildings, be replaced in that timeframe, bringing electrical dispositions into compliance with local electrical code.

Cedar Shake Siding: The exterior weather surface of the buildings is comprised of cedar shakes. We understand that the shakes have been installed over the original T-111 siding. The Association follows the practice of using the on site maintenance staff to repair and replace split and damaged shingles on an as needed basis. The cost of the shingles and the labor is funded in the operating budget. Accordingly, have excluded replacement of the shingles from the reserve analysis.

D. LIFE EXPECTANCY AND COST ESTIMATES

Estimated Life Left: The "Estimated Life Left in Years" column represents the number of serviceable years left in the item based on its current or repaired condition. It is not a mathematical formula directly related to "Estimated Economic Life in Years." Some items may experience longer lives while others may experience shorter lives depending on many factors such as environment, initial quality of the component, maintenance, etc.

Cyclical Funding: The concrete sidewalks, concrete curb and gutter, storm water facilities, and beach boardwalks are components that are typically replaced in stages rather than all in one time period. For this reason, these items were placed in the cyclic replacement section of the reserve schedule, at full replacement value.

Partial Funding: Several of the replacement items have been funded at less that 100 percent of their full replacement value. This is done in an effort to keep reserve contributions at a reasonable level, on the theory that many of these components will never be replaced in their entirety. Items such as the concrete sidewalks and concrete curb and gutter may be replaced in part over a period of years. However, catastrophic failure is not anticipated, and therefore is not fully funded. The percentage of funding may be adjusted in future years based on historical data and actual experience. All other components were placed in the normal replacement sections at full estimated replacement cost with replacement time estimates based on current conditions and historical data.

E. SURVEY METHODOLOGY

Valuation: The replacement reserve analysis depends upon estimates of total useful life, life remaining and replacement cost. These estimates were obtained from Government standards, published estimating manuals, experience on comparable properties and engineering judgment. We believe that the analysis will provide a useful guide for planning. Actual experience in replacing equipment may differ significantly from the projections in the analysis because of conditions beyond our control, such as maintenance practices, inflation, variations in pricing and market conditions, future technological developments and regulatory actions.

Analyst's Credentials. This study has been performed by Mr. James A. Williams, Jr., who has studied at various Universities and Colleges in Maryland, with a major in Physics & Electrical Engineering, and a minor in Computer Science. Mr. Williams has worked as an engineer in property damage determination studies, feasibility studies, and military projects. He is currently a Reserve Analyst for Miller-Dodson Associates.

End of Report

Respectfully Submitted,
MILLER ❖ DODSON ASSOCIATES, INC

James A. Williams, Jr.
Reserve Analyst

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RSTUDY+

REPLACEMENT RESERVE ANALYSIS

PILOT POINT — **May 7, 2003**

GENERAL INFORMATION:

2003	Study Year
$90,000	Replacement Reserves reported to be on deposit at start of Study Year
$850,733	Estimated value of all Components included in the Replacement Reserve Inventory

The information shown in this Summary does not account for interest earned on Replacement Reserves on deposit, nor does it include adjustments for inflation. For more information see the attached Appendix.

REPORTED CURRENT FUNDING DATA:

$47,500 REPORTED CURRENT ANNUAL CONTRIBUTION TO REPLACEMENT RESERVES

$64.89 Per unit current monthly contribution to Replacement Reserves

CASH FLOW METHOD CALCULATIONS:

$49,564 MINIMUM RECOMMENDED ANNUAL CONTRIBUTION TO REPLACEMENT RESERVES

$67.71	Per unit miniumum recommended monthly contribution to Replacement Reserves
$42,537	Recommended minimum Replacement Reserve Funding Threshold (5.0 percent)
2013	First year Reserves fall to minimum recommended level (Design Year)

COMPONENT METHOD CALCULATIONS:

$84,877 MINIMUM RECOMMENDED ANNUAL CONTRIBUTION TO RESERVES (IN STUDY YEAR)

$115.95	Per unit miniumum recommended monthly contribution to Replacement Reserves
$448,910	Current Funding Objective
20.05%	Funding Percentage
$358,910	One time deposit required to fully fund Replacement Reserves
$35,760	Annual Contribution to Replacement Reserves if Reserves were fully funded.

PROJECT INFORMATION:

PROPERTY MANAGED BY:
Legum & Norman
Mr. Bill Kohler
50 Cascade Lane
Rehoboth, DE 19771
302 - 227-8448

MAJOR COMPONENTS IN ANALYSIS:
Roads, Parking, Concrete Curbs and Walks, Boardwalks, Fences, Tennis Courts, Building Roofs, Siding, Electrical Service

PROPERTY LOCATION:
Lewes, Delaware

TYPE OF PROPERTY:
Townhouse Condo

 # OF UNITS:
61

YEAR BUILT:
1970 - 1972

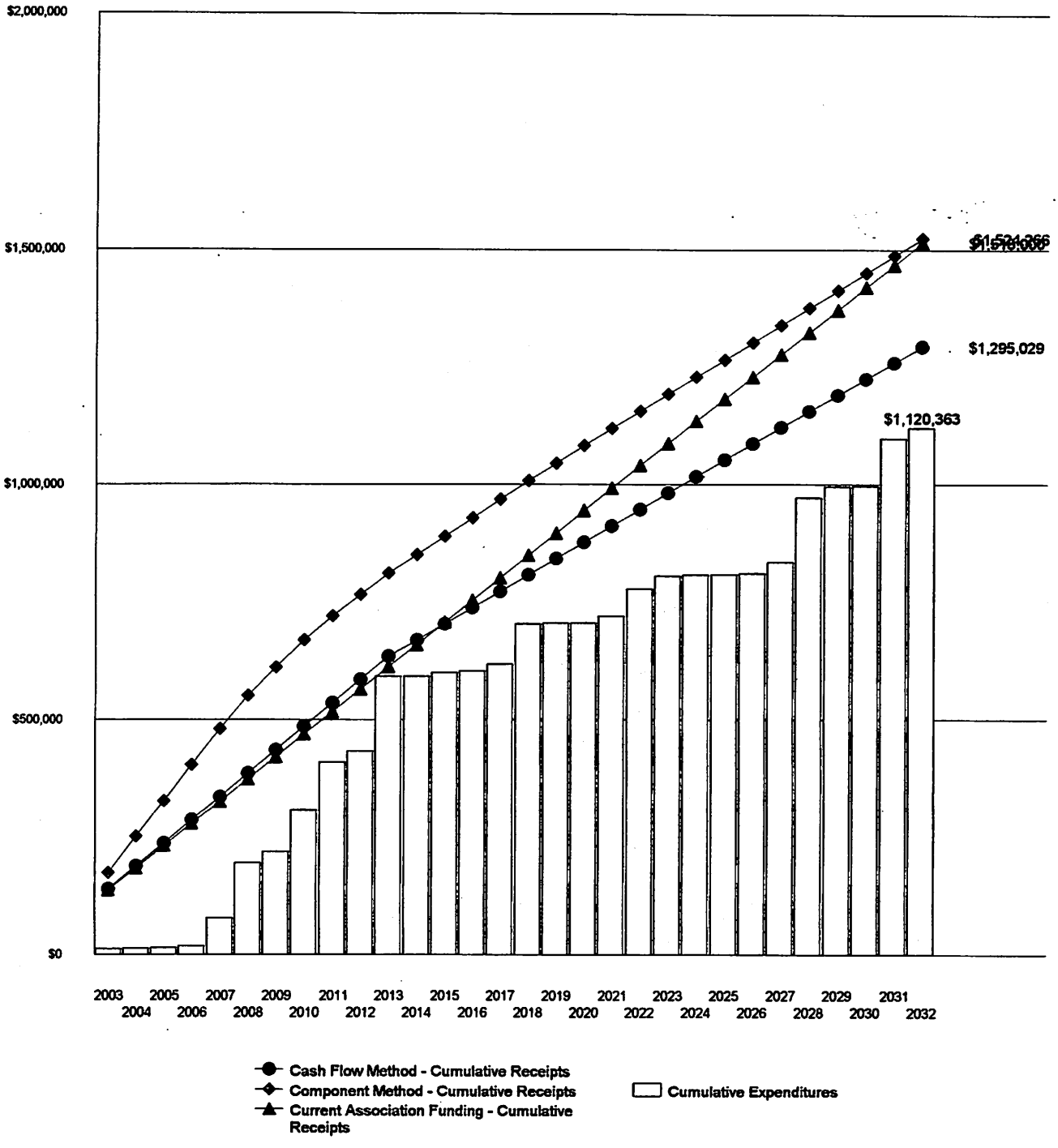
NOTES:

1. This Analysis conforms to the 1998 National Reserve Study Standards of the Community Associations Institute.
2. This Association uses a fiscal year the covers the period of January 1 through December 31.

REPLACEMENT RESERVE ANALYSIS

PILOT POINT — **May 7, 2003**

Funding Methods Comparison Graph - Cumulative Receipts and Expenditures



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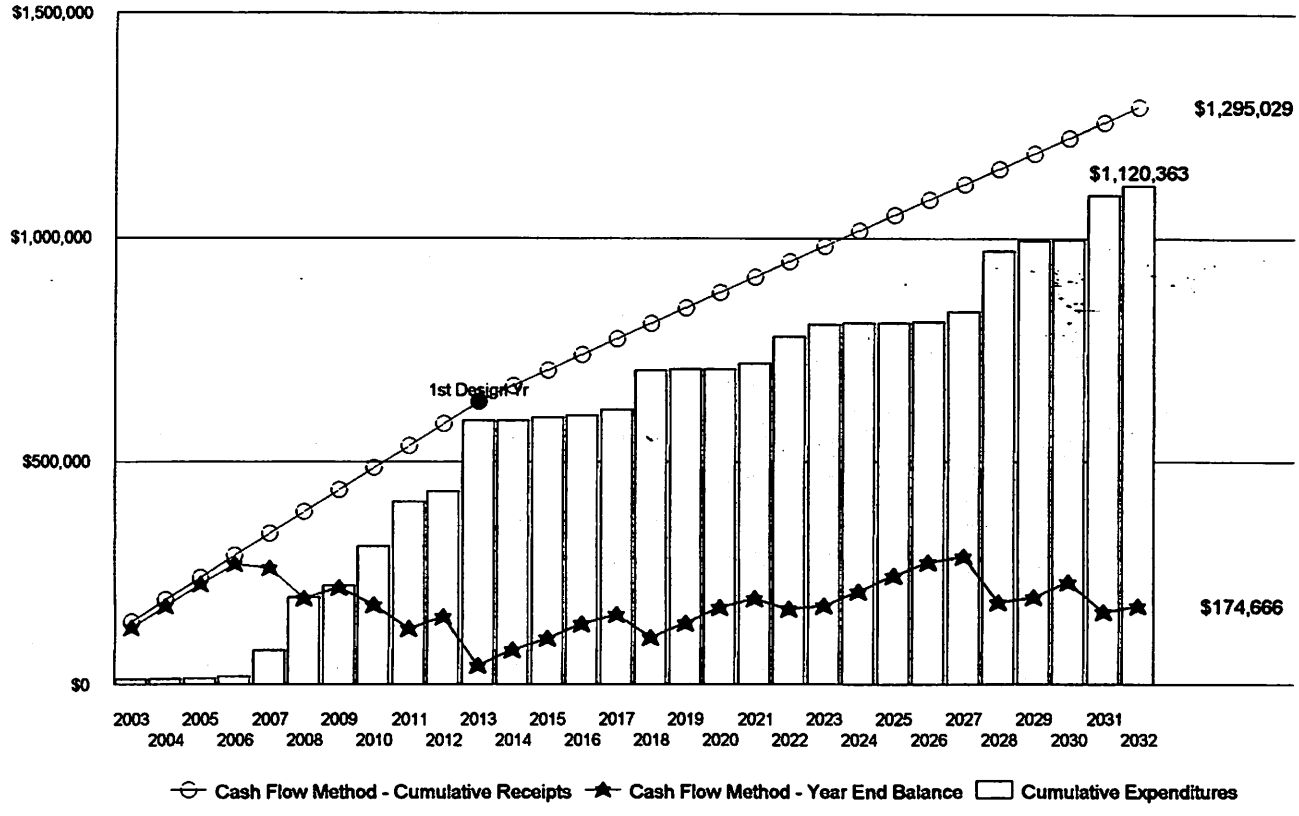
REPLACEMENT RESERVE ANALYSIS

PILOT POINT — **May 7, 2003**

Cash Flow Method - Cumulative Receipts and Expenditures Graph



Cash Flow Method Data - Years 1 through 30

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TEN YEAR SUMMARIES
Starting balance	$90,000										
Annual deposit	$49,564	$49,564	$49,564	$49,564	$49,564	$49,564	$49,564	$49,564	$49,564	$49,564	Expenditures:
Expenditures	$12,656	$1,319	$903	$4,344	$58,884	$117,146	$25,090	$88,851	$101,650	$23,148	$433,992
Year end balance	$126,908	$175,152	$223,813	$269,033	$259,713	$192,130	$216,604	$177,317	$125,230	$151,646	Receipts:
Minimum rec. funding M.	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$585,638
Cumulative expenditures	$12,656	$13,975	$14,879	$19,223	$78,106	$195,253	$220,343	$309,194	$410,844	$433,992	
Cumulative receipts	$139,564	$189,128	$238,691	$288,255	$337,819	$387,383	$436,947	$488,511	$536,074	$585,638	

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Annual deposit	$49,564	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	Expenditures: $345,656
Expenditures	$158,673	$0	$8,052	$3,096	$14,400	$86,019	$2,381	$0	$14,152	$58,884	Receipts: $364,126
Year end balance	$42,537	$77,264	$103,940	$135,572	$155,899	$104,608	$136,955	$171,683	$192,259	$168,103	
Minimum rec. funding M.	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	
Cumulative expenditures	$592,665	$592,665	$600,717	$603,813	$618,213	$704,232	$706,613	$706,613	$720,765	$779,649	
Cumulative receipts	$635,202	$669,930	$704,658	$739,385	$774,113	$808,841	$843,568	$878,296	$913,024	$947,751	
	1st Design Yr										

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
Annual deposit	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	$34,728	Expenditures: $340,714
Expenditures	$27,211	-$2,567	$570	$3,096	$22,452	$138,880	$23,138	$1,248	$101,650	$21,900	Receipts: $349,300
Year end balance	$175,619	$207,780	$241,937	$273,569	$285,845	$183,692	$195,281	$228,761	$161,838	$174,666	
Minimum rec. funding M.	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	$42,537	
Cumulative expenditures	$806,860	$809,427	$809,997	$813,093	$835,545	$972,426	$995,564	$996,812	$1,098,463	$1,120,363	
Cumulative receipts	$982,479	$1,017,207	$1,051,935	$1,086,662	$1,121,390	$1,156,118	$1,190,845	$1,225,573	$1,260,301	$1,295,029	

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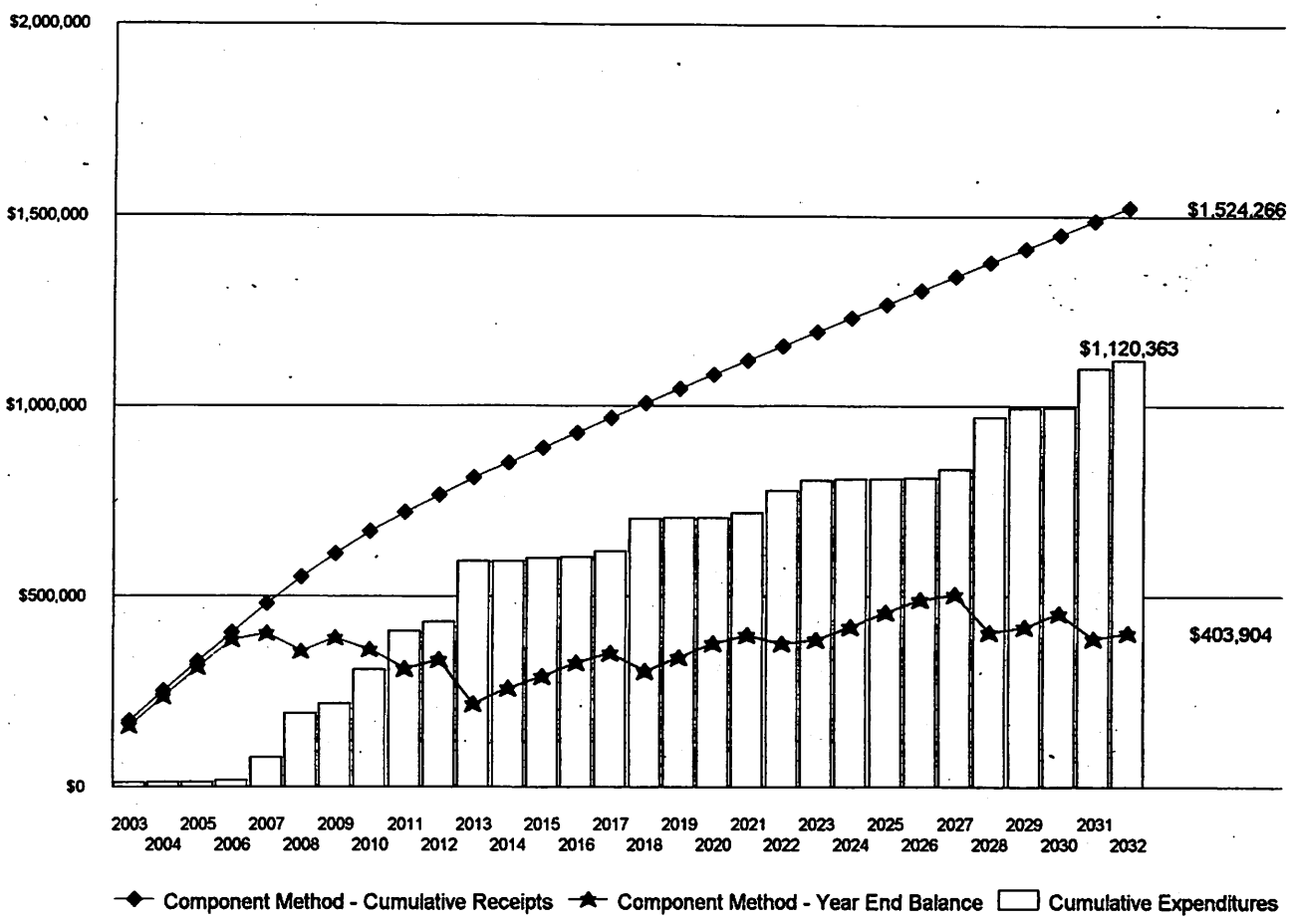
REPLACEMENT RESERVE ANALYSIS

PILOT POINT — **May 7, 2003**

Component Method - Cumulative Receipts and Expenditures Graph



Component Method Data - Years 1 through 30

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Starting balance	$90,000									
Annual deposit	$84,877	$77,289	$76,814	$76,605	$76,018	$69,434	$60,456	$58,581	$51,122	$46,155
Expenditures	$12,656	$1,319	$903	$4,344	$58,884	$117,146	$25,090	$88,851	$101,650	$23,148
Year end balance	$162,221	$238,190	$314,101	$386,363	$403,497	$355,785	$391,150	$360,880	$310,351	$333,359
Cumulative Expenditures	$12,656	$13,975	$14,879	$19,223	$78,106	$195,253	$220,343	$309,194	$410,844	$433,992
Cumulative Receipts	$174,877	$252,166	$328,980	$405,586	$481,603	$551,037	$611,493	$670,074	$721,196	$767,351

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual deposit	$45,098	$39,298	$39,298	$39,017	$39,017	$38,710	$37,257	$37,257	$37,257	$36,998
Expenditures	$158,673	$0	$8,052	$3,096	$14,400	$86,019	$2,381	$0	$14,152	$58,884
Year end balance	$219,784	$259,082	$290,328	$326,249	$350,867	$303,558	$338,434	$375,691	$398,796	$376,910
Cumulative Expenditures	$592,665	$592,665	$600,717	$603,813	$618,213	$704,232	$706,613	$706,613	$720,765	$779,649
Cumulative Receipts	$812,449	$851,747	$891,045	$930,063	$969,080	$1,007,791	$1,045,047	$1,082,304	$1,119,561	$1,156,559

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual deposit	$36,883	$36,813	$36,801	$36,801	$36,801	$36,758	$36,758	$36,699	$36,697	$36,697
Expenditures	$27,211	$2,567	$570	$3,096	$22,452	$136,880	$23,138	$1,248	$101,650	$21,900
Year end balance	$386,562	$420,827	$457,058	$490,763	$505,112	$404,989	$418,609	$454,060	$389,107	$403,904
Cumulative Expenditures	$806,860	$809,427	$809,997	$813,093	$835,545	$972,426	$995,564	$996,812	$1,098,463	$1,120,363
Cumulative Receipts	$1,193,442	$1,230,255	$1,267,055	$1,303,856	$1,340,657	$1,377,415	$1,414,173	$1,450,872	$1,487,569	$1,524,266

TEN YEAR SUMMARIES

Expenditures: $433,992
Receipts: $767,351

Expenditures: $345,656
Receipts: $391,221

Expenditures: $340,714
Receipts: $369,730

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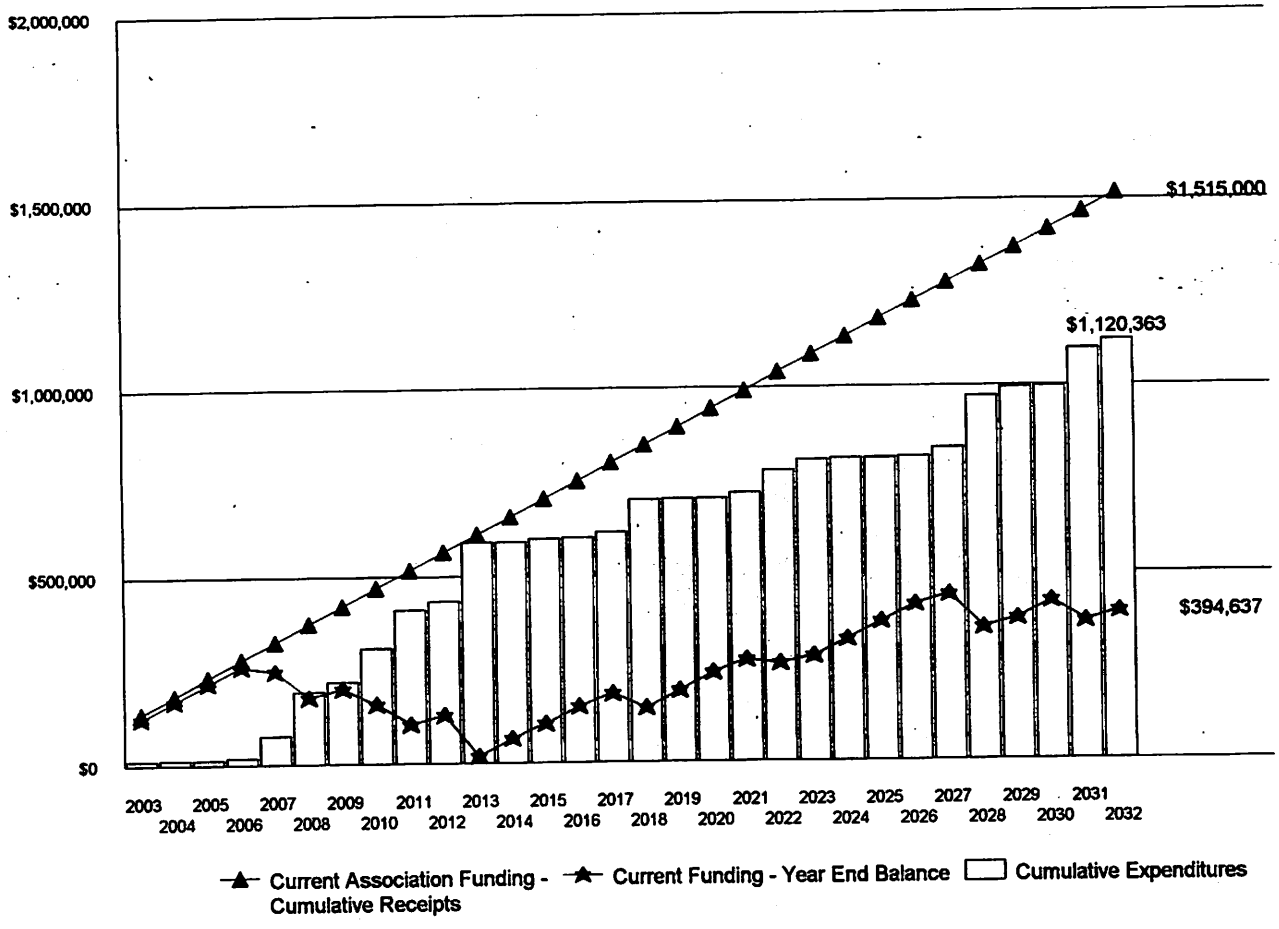
REPLACEMENT RESERVE ANALYSIS

PILOT POINT — **May 7, 2003**

Current Association Funding - Cumulative Receipts and Expenditures Graph



Current Funding Data - Years 1 through 30

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Starting balance	$90,000									
Annual deposit	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500
Expenditures	$12,656	$1,319	$903	$4,344	$58,884	$117,146	$25,090	$88,851	$101,650	$23,148
Year end balance	$124,844	$171,025	$217,621	$260,777	$249,394	$179,747	$202,157	$160,806	$106,656	$131,008
Cumulative Expenditures	$12,656	$13,975	$14,879	$19,223	$78,106	$195,253	$220,343	$309,194	$410,844	$433,992
Cumulative Receipts	$137,500	$185,000	$232,500	$280,000	$327,500	$375,000	$422,500	$470,000	$517,500	$565,000

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual deposit	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500
Expenditures	$158,673	$0	$8,052	$3,096	$14,400	$66,019	$2,381	$0	$14,152	$58,884
Year end balance	$19,835	$67,335	$106,783	$151,187	$184,287	$145,768	$190,887	$238,387	$271,735	$260,351
Cumulative expenditures	$592,665	$592,665	$600,717	$603,813	$618,213	$704,232	$706,613	$706,613	$720,765	$779,649
Cumulative receipts	$612,500	$660,000	$707,500	$755,000	$802,500	$850,000	$897,500	$945,000	$992,500	$1,040,000

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual deposit	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500	$47,500
Expenditures	$27,211	$2,567	$570	$3,096	$22,452	$136,880	$23,138	$1,248	$101,650	$21,900
Year end balance	$280,640	$325,573	$372,503	$416,907	$441,955	$352,574	$376,936	$423,188	$369,037	$394,637
Cumulative Expenditures	$806,860	$809,427	$809,997	$813,093	$835,545	$972,426	$995,564	$996,812	$1,098,463	$1,120,363
Cumulative Receipts	$1,087,500	$1,135,000	$1,182,500	$1,230,000	$1,277,500	$1,325,000	$1,372,500	$1,420,000	$1,467,500	$1,515,000

TEN YEAR SUMMARIES

Expenditures: $433,992
Receipts: $565,000

Expenditures: $345,656
Receipts: $475,000

Expenditures: $340,714
Receipts: $475,000

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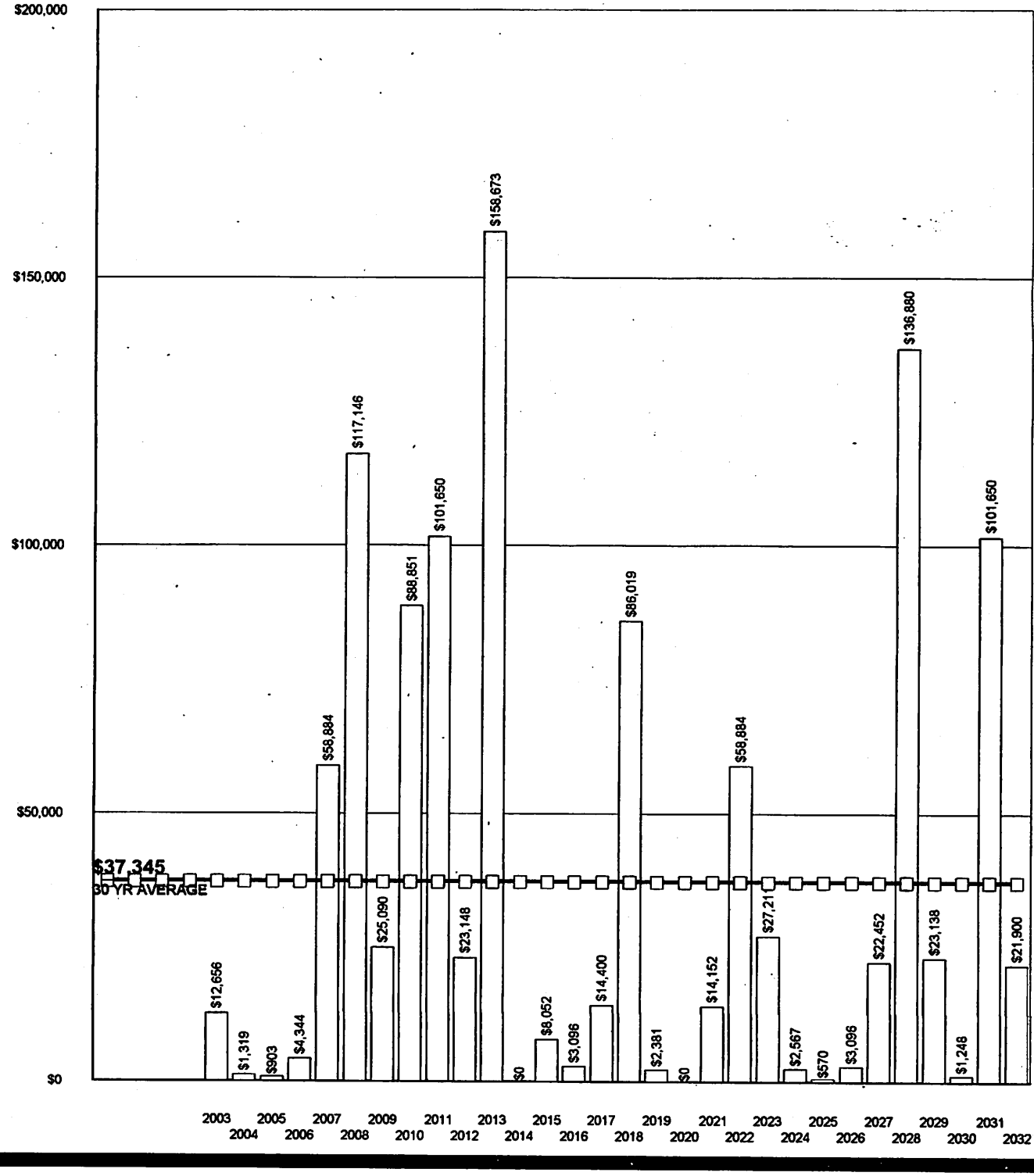
REPLACEMENT RESERVE ANALYSIS

PILOT POINT **May 7, 2003**

Graph of Annual Replacement Expenditures



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REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

INVENTORY OF COMPONENTS - INTERVAL REPLACEMENT

ITEM #	COMPONENT		UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	COMPLETE CYCLE (YRS)	INITIAL REPLACEMENT (YRS)	TOTAL REPLACEMENT COST ($)
1	Concrete sidewalk @ 30%		sf	975	$6.40	30	3	$6,240
	195 units to be replaced in	2006						$1,248
	195 units to be replaced in	2012						$1,248
	195 units to be replaced in	2018						$1,248
	195 units to be replaced in	2024						$1,248
	195 units to be replaced in	2030						$1,248
2	Concrete curb and gutter @ 30%		lf	1830	$22.00	30	6	$40,260
	366 units to be replaced in	2009						$8,052
	366 units to be replaced in	2015						$8,052
	366 units to be replaced in	2021						$8,052
	366 units to be replaced in	2027						$8,052
	366 units to be replaced in	2033						$8,052
3	Storm water facilities		ls	30500	$1.00	40	10	$30,500
	6100 units to be replaced in	2013						$6,100
	6100 units to be replaced in	2021						$6,100
	6100 units to be replaced in	2029						$6,100
	6100 units to be replaced in	2037						$6,100
	6100 units to be replaced in	2045						$6,100
4	Beach boardwalks		lf	12000	$6.00	25	4	$72,000
	2400 units to be replaced in	2007						$14,400
	2400 units to be replaced in	2012						$14,400
	2400 units to be replaced in	2017						$14,400
	2400 units to be replaced in	2022						$14,400
	2400 units to be replaced in	2027						$14,400

COMMENTS:

The interval components listed on this page are programmed to be replaced in 5 projects spaced at equal intervals after the initial replacement.

Item #1 Sidewalks are being funded over 35 years. Actual quantity is 3,250 sf.
Item #2 Curbs and gutter are also funded over 35 years. Actual is 6,100 lf.
Item #3 Storm water facilities includes pipe and structures.
Item #4 Beach boardwalks require constant attention. A complete replacement is staged over 20 years.

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REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

INVENTORY OF COMPONENTS - NORMAL REPLACEMENT

ITEM #		UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	TOTAL REPLACEMENT COST ($)
	SITE IMPROVEMENTS						
5	Asphalt pavement - Overlay	sf	105,466	$0.70	40	10	$73,826
6	Asphalt pavement - Mill and Overlay	sf	105,466	$1.10	40	30	$116,013
7	Asphalt pavement - Sealcoat	sf	105,466	$0.12	5	none	$12,656
8	Entrance signs 6'x4'	ea	2	$104.40	20	1	$209
9	Street lights	ea	1	$860.74	30	15	$861
10	Trash enclosure fence	lf	24	$24.00	20	15	$576
11	Snow fence	lf	3,000	$2.00	15	4	$6,000
12	Alternating board wood fence - 6'	lf	300	$25.00	20	9	$7,500
13	Storage shed 12x12	ea	1	$2,400.00	30	20	$2,400
14	Storage shed 10X18	ea	1	$3,700.00	30	20	$3,700
15	Tennis court - asphalt	sf	14,400	$2.00	20	5	$28,800
16	Tennis court - color coat	sf	14,400	$0.50	5	5	$7,200
17	Tennis court - fence	lf	660	$24.43	20	15	$16,126
18	Tennis court - board walk	sf	720	$27.77	25	5	$19,994

COMMENTS:

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REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

INVENTORY OF COMPONENTS - NORMAL REPLACEMENT

ITEM #		UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	TOTAL REPLACEMENT COST ($)
	BLDG EXTERIORS, PHASE 1 (P1)						
19	P1 Shingle roofs	sf	41,322	$2.02	20	8	$83,470
20	P1 Gutters and downspouts	lf	2,688	$5.94	20	5	$15,967
21	P1 Wood trim w alum wrap	lf	2,600	$9.22	35	15	$23,968
	BLDG EXTERIORS, PHASE 2 (P2)						
22	P2 Shingle roofs	sf	7,000	$2.02	20	5	$14,140
23	P2 Rubber (EPDM) roofs	sf	3,150	$12.22	15	10	$38,484
24	P2 Rubber (EPDM) roofs	sf	3,150	$12.22	15	4	$38,484
25	P2 Gutters and downspouts	lf	1,456	$5.94	20	5	$8,649
26	P2 Wood trim w alum wrap	lf	1,400	$9.22	35	15	$12,906
	BLDG EXTERIORS, PHASE 3 (P3)						
27	P3 Shingle roofs	sf	9,000	$2.02	20	8	$18,180
28	P3 Gutters and downspouts	lf	1,176	$5.94	20	5	$6,985
29	P3 Wood trim w alum wrap	lf	974	$9.22	35	15	$8,979
30	Electrical service cable	lf	10,000	$8.89	50	7	$88,851

COMMENTS:

Phase 1 - Buildings 1 - 32
Phase 2 - Buildings 33 - 46
Phase 3 - Buildings 47 - 60

REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

INVENTORY OF COMPONENTS - NORMAL REPLACEMENT

ITEM #		UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	TOTAL REPLACEMENT COST ($)
	MANAGERS OFFICE/APARTMENT (MO)						
31	MO Shingle roof	sf	1,400	$2.02	20	6	$2,828
32	MO Foam roof	sf	883	$2.50	20	6	$2,208
33	MO Downspouts	lf	96	$5.94	20	2	$570
34	MO Cedar shingle siding	sf	1,080	$6.66	30	10	$7,197
35	MO Windows	sf	228	$31.59	30	10	$7,203
36	MO Doors	ea	4	$516.45	25	10	$2,066
37	MO Wood deck	sf	1,028	$9.36	20	6	$9,622
38	MO Wood railings	lf	170	$14.01	10	6	$2,381
39	MO Carpet	sf	800	$3.87	10	3	$3,096
40	MO Kitchen Cabinets	lf	7	$206.00	20	10	$1,442
41	MO Kitchen appliances	ls	5	$500.00	15	10	$2,500
42	MO Washer/Dryer	ea	1	$1,500.00	15	15	$1,500
43	MO Bathroom renovation	ls	1	$1,500.00	20	5	$1,500
44	MO Hot water heater	ea	1	$1,110.64	20	1	$1,111
45	MO Window Air Conditioning	ea	1	$1,255.02	15	5	$1,255
46	MO Heater, Electric Baseboard	lf	10	$33.32	30	2	$333

COMMENTS:

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REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

SCHEDULE OF REPLACEMENTS - YEARS ONE TO FIFTEEN

2003

Asphalt pavement - Sealcoat	$12,656
Total Scheduled Replacements	$12,656

2004

MO Hot water heater	$1,111
Entrance signs 6'x4'	$209
Total Scheduled Replacements	$1,319

2005

MO Downspouts	$570
MO Heater, Electric Baseboard	$333
Total Scheduled Replacements	$903

2006

MO Carpet	$3,096
Concrete sidewalk @ 30%	$1,248
Total Scheduled Replacements	$4,344

2007

P2 Rubber (EPDM) roofs	$38,484
Beach boardwalks	$14,400
Snow fence	$6,000
Total Scheduled Replacements	$58,884

2008

Tennis court - asphalt	$28,800
Tennis court - board walk	$19,994
P1 Gutters and downspouts	$15,967
P2 Shingle roofs	$14,140
Asphalt pavement - Sealcoat	$12,656
P2 Gutters and downspouts	$8,649
Tennis court - color coat	$7,200
P3 Gutters and downspouts	$6,985
Other Replacements	$2,755
Total Scheduled Replacements	$117,146

2009

MO Wood deck	$9,622
Concrete curb and gutter @ 30%	$8,052
MO Shingle roof	$2,828
MO Wood railings	$2,381
MO Foam roof	$2,208
Total Scheduled Replacements	$25,090

2010

Electrical service cable	$88,851
Total Scheduled Replacements	$88,851

2011

P1 Shingle roofs	$83,470
P3 Shingle roofs	$18,180
Total Scheduled Replacements	$101,650

2012

Beach boardwalks	$14,400
Alternating board wood fence - 6'	$7,500
Concrete sidewalk @ 30%	$1,248
Total Scheduled Replacements	$23,148

2013

Asphalt pavement - Overlay	$73,826
P2 Rubber (EPDM) roofs	$38,484
Asphalt pavement - Sealcoat	$12,656
MO Windows	$7,203
Tennis court - color coat	$7,200
MO Cedar shingle siding	$7,197
Storm water facilities	$6,100
MO Kitchen appliances	$2,500
Other Replacements	$3,508
Total Scheduled Replacements	$158,673

2014

No Scheduled Replacements

2015

Concrete curb and gutter @ 30%	$8,052
Total Scheduled Replacements	$8,052

2016

MO Carpet	$3,096
Total Scheduled Replacements	$3,096

2017

Beach boardwalks	$14,400
Total Scheduled Replacements	$14,400

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REPLACEMENT RESERVE INVENTORY

PILOT POINT — **May 7, 2003**

SCHEDULE OF REPLACEMENTS - YEARS SIXTEEN TO THIRTY

2018

P1 Wood trim w alum wrap	$23,968
Tennis court - fence	$16,126
P2 Wood trim w alum wrap	$12,906
Asphalt pavement - Sealcoat	$12,656
P3 Wood trim w alum wrap	$8,979
Tennis court - color coat	$7,200
MO Washer/Dryer	$1,500
Concrete sidewalk @ 30%	$1,248
Other Replacements	$1,437
Total Scheduled Replacements	$86,019

2019

MO Wood railings	$2,381
Total Scheduled Replacements	$2,381

2020

No Scheduled Replacements

2021

Concrete curb and gutter @ 30%	$8,052
Storm water facilities	$6,100
Total Scheduled Replacements	$14,152

2022

P2 Rubber (EPDM) roofs	$38,484
Beach boardwalks	$14,400
Snow fence	$6,000
Total Scheduled Replacements	$58,884

2023

Asphalt pavement - Sealcoat	$12,656
Tennis court - color coat	$7,200
Storage shed 10X18	$3,700
Storage shed 12x12	$2,400
MO Window Air Conditioning	$1,255
Total Scheduled Replacements	$27,211

2024

Concrete sidewalk @ 30%	$1,248
MO Hot water heater	$1,111
Entrance signs 6'x4'	$209
Total Scheduled Replacements	$2,567

2025

MO Downspouts	$570
Total Scheduled Replacements	$570

2026

MO Carpet	$3,096
Total Scheduled Replacements	$3,096

2027

Beach boardwalks	$14,400
Concrete curb and gutter @ 30%	$8,052
Total Scheduled Replacements	$22,452

2028

P2 Rubber (EPDM) roofs	$38,484
Tennis court - asphalt	$28,800
P1 Gutters and downspouts	$15,967
P2 Shingle roofs	$14,140
Asphalt pavement - Sealcoat	$12,656
P2 Gutters and downspouts	$8,649
Tennis court - color coat	$7,200
P3 Gutters and downspouts	$6,985
Other Replacements	$4,000
Total Scheduled Replacements	$136,880

2029

MO Wood deck	$9,622
Storm water facilities	$6,100
MO Shingle roof	$2,828
MO Wood railings	$2,381
MO Foam roof	$2,208
Total Scheduled Replacements	$23,138

2030

Concrete sidewalk @ 30%	$1,248
Total Scheduled Replacements	$1,248

2031

P1 Shingle roofs	$83,470
P3 Shingle roofs	$18,180
Total Scheduled Replacements	$101,650

2032

Beach boardwalks	$14,400
Alternating board wood fence - 6'	$7,500
Total Scheduled Replacements	$21,900

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REPLACEMENT RESERVE ALLOCATION

PILOT POINT

May 7, 2003

CASH FLOW METHOD - THREE YEAR ALLOCATION OF REPLACEMENT RESERVES

Item #	Component	Estimated Replacement Cost	Allocation of Reserves on Deposit	2003 Deposits	2003 Expenses	2003 Year End Balance	2004 Deposits	2004 Expenses	2004 Year End Balance	2005 Deposits	2005 Expenses	2005 Year End Balance
	INTERVAL COMPONENTS											
1	Concrete sidewalk @ 30%	6,240	1,248			1,248			1,248			1,248
2	Concrete curb and gutter @ 30%	40,260								8,052		8,052
3	Storm water facilities	30,500										
4	Beach boardwalks	72,000	14,400			14,400			14,400			14,400
	NORMAL COMPONENTS											
	SITE IMPROVEMENTS											
5	Asphalt pavement - Overlay	73,826										
6	Asphalt pavement - Mill and Ove	116,013										
7	Asphalt pavement - Sealcoat	12,656	13,941	5,355	(12,656)	6,640	5,355		11,994	662		12,656
8	Entrance signs 6'x4'	209	209			209		(209)				
9	Street lights	861										
10	Trash enclosure fence	576										
11	Snow fence	6,000	6,000			6,000			6,000			6,000
12	Alternating board wood fence - 6	7,500										
13	Storage shed 12x12	2,400										
14	Storage shed 10X18	3,700										
15	Tennis court - asphalt	28,800	2,924	12,185		15,109	12,185		27,294	1,506		28,800
16	Tennis court - color coat	7,200	731	3,046		3,777	3,046		6,824	376		7,200
17	Tennis court - fence	16,126										
18	Tennis court - board walk	19,994	2,030	8,460		10,489	8,460		18,949	1,045		19,994
	BLDG EXTERIORS, PHASE 1 (											
19	P1 Shingle roofs	83,470										
20	P1 Gutters and downspouts	15,967	1,621	6,755		8,376	6,755		15,132	835		15,967
21	P1 Wood trim w alum wrap	23,968										
22	P2 Shingle roofs	14,140	1,436	5,983		7,418	5,983		13,401	739		14,140
23	P2 Rubber (EPDM) roofs	38,484										
24	P2 Rubber (EPDM) roofs	38,484	38,484			38,484			38,484			38,484
25	P2 Gutters and downspouts	8,649	878	3,659		4,537	3,659		8,196	452		8,649
26	P2 Wood trim w alum wrap	12,906										
27	P3 Shingle roofs	18,180										
28	P3 Gutters and downspouts	6,985	709	2,955		3,665	2,955		6,620	365		6,985
29	P3 Wood trim w alum wrap	8,979										
30	Electrical service cable	88,851								18,348		18,348
	MANAGERS OFFICE/APARTM											
31	MO Shingle roof	2,828								2,828		2,828
32	MO Foam roof	2,208								2,208		2,208
33	MO Downspouts	570	570			570			570		(570)	
34	MO Cedar shingle siding	7,197										
35	MO Windows	7,203										
36	MO Doors	2,066										
37	MO Wood deck	9,622								9,622		9,622
38	MO Wood railings	2,381								2,381		2,381
39	MO Carpet	3,096	3,096			3,096			3,096			3,096
40	MO Kitchen Cabinets	1,442										
41	MO Kitchen appliances	2,500										
42	MO Washer/Dryer	1,500										
43	MO Bathroom renovation	1,500	152	635		787	635		1,422	78		1,500
44	MO Hot water heater	1,111	1,111			1,111		(1,111)				
45	MO Window Air Conditioning	1,255	127	531		658	531		1,189	66		1,255
46	MO Heater, Electric Baseboard	333	333			333			333		(333)	

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REPLACEMENT RESERVE ALLOCATION

PILOT POINT — **May 7, 2003**

COMPONENT METHOD - THREE YEAR ALLOCATION OF REPLACEMENT RESERVES

Item #	Component	Estimated Replacement Cost	Allocation of Reserves on Deposit	2003 Deposits	2003 Expenses	2003 Year End Balance	2004 Deposits	2004 Expenses	2004 Year End Balance	2005 Deposits	2005 Expenses	2005 Year End Balance
	INTERVAL COMPONENTS											
1	Concrete sidewalk @ 30%	6,240	584	534		1,118	534		1,652	534		2,187
2	Concrete curb and gutter @ 30%	40,260	3,013	2,486		5,500	2,486		7,986	2,486		10,472
3	Storm water facilities	30,500	2,079	1,284		3,363	1,284		4,647	1,284		5,932
4	Beach boardwalks	72,000	5,774	5,835		11,609	5,835		17,444	5,835		23,279
	NORMAL COMPONENTS											
	SITE IMPROVEMENTS											
5	Asphalt pavement - Overlay	73,826	10,731	5,736		16,467	5,736		22,203	5,736		27,939
6	Asphalt pavement - Mill and Ove	116,013	5,233	3,574		8,807	3,574		12,380	3,574		15,954
7	Asphalt pavement - Sealcoat	12,656	2,537	10,119	(12,656)		2,531		2,531	2,531		5,062
8	Entrance signs 6'x4'	209	38	86		123	86	(209)		10		10
9	Street lights	861	81	49		129	49		178	49		227
10	Trash enclosure fence	576	23	35		58	35		92	35		127
11	Snow fence	6,000	802	1,040		1,842	1,040		2,881	1,040		3,921
12	Alternating board wood fence - 6	7,500	752	675		1,427	675		2,101	675		2,776
13	Storage shed 12x12	2,400	144	107		252	107		359	107		467
14	Storage shed 10X18	3,700	223	166		388	166		554	166		719
15	Tennis court - asphalt	28,800	4,042	4,126		8,168	4,126		12,295	4,126		16,421
16	Tennis court - color coat	7,200		1,200		1,200	1,200		2,400	1,200		3,600
17	Tennis court - fence	16,126	647	967		1,614	967		2,582	967		3,549
18	Tennis court - board walk	19,994	3,047	2,825		5,871	2,825		8,696	2,825		11,520
	BLDG EXTERIORS, PHASE 1											
19	P1 Shingle roofs	83,470	9,204	8,252		17,456	8,252		25,708	8,252		33,960
20	P1 Gutters and downspouts	15,967	2,241	2,288		4,528	2,288		6,816	2,288		9,104
21	P1 Wood trim w alum wrap	23,968	2,609	1,335		3,943	1,335		5,278	1,335		6,613
22	P2 Shingle roofs	14,140	1,984	2,026		4,010	2,026		6,036	2,026		8,062
23	P2 Rubber (EPDM) roofs	38,484	2,057	3,311		5,369	3,311		8,680	3,311		11,992
24	P2 Rubber (EPDM) roofs	38,484	5,144	6,668		11,812	6,668		18,480	6,668		25,148
25	P2 Gutters and downspouts	8,649	1,214	1,239		2,453	1,239		3,692	1,239		4,931
26	P2 Wood trim w alum wrap	12,906	1,405	719		2,123	719		2,842	719		3,561
27	P3 Shingle roofs	18,180	2,005	1,797		3,802	1,797		5,599	1,797		7,396
28	P3 Gutters and downspouts	6,985	980	1,001		1,981	1,001		2,982	1,001		3,983
29	P3 Wood trim w alum wrap	8,979	977	500		1,477	500		1,977	500		2,477
30	Electrical service cable	88,851	14,963	9,236		24,199	9,236		33,435	9,236		42,671
	MANAGERS OFFICE/APARTM											
31	MO Shingle roof	2,828	369	351		720	351		1,071	351		1,423
32	MO Foam roof	2,208	288	274		562	274		836	274		1,110
33	MO Downspouts	570	97	158		255	158		413	158	(570)	
34	MO Cedar shingle siding	7,197	914	571		1,485	571		2,056	571		2,627
35	MO Windows	7,203	915	572		1,486	572		2,058	572		2,629
36	MO Doors	2,066	232	167		399	167		565	167		732
37	MO Wood deck	9,622	1,254	1,195		2,449	1,195		3,645	1,195		4,840
38	MO Wood railings	2,381	143	320		463	320		783	320		1,102
39	MO Carpet	3,096	372	681		1,053	681		1,734	681		2,415
40	MO Kitchen Cabinets	1,442	130	119		249	119		369	119		488
41	MO Kitchen appliances	2,500	134	215		349	215		564	215		779
42	MO Washer/Dryer	1,500		94		94	94		188	94		281
43	MO Bathroom renovation	1,500	211	215		425	215		640	215		855
44	MO Hot water heater	1,111	200	455		656	455	(1,111)		56		56
45	MO Window Air Conditioning	1,255	151	184		335	184		519	184		703
46	MO Heater, Electric Baseboard	333	60	91		151	91		242	91	(333)	

Photo #1

Community Entrance
Momument (1 of 2)

Photo #2

Entrance Sign - Typical

Photo #3

General View of
Community

Photo #4

General View of
Community

Photo #5

Phase 1 Unit – Front and Side Elevations

Photo #6

Phase 1 Units – Rear Elevation

Photo #7

Phase 2 Units – Front Elevation

Photo #8

Phase 2 Units – Rear Elevations

Photo #9

Phase 3 Unit – Front Elevation

Photo #10

Phase 3 Unit – Side and Rear Elevation

Photo #11

Phase 3 Unit – Shingle Roof

Photo #12

Phase 2 Unit – Shingle Roof

Photo #13

Phase 2 Unit – Rubber Roofs

Photo #14

Phase 2 Units – Shed Roofs

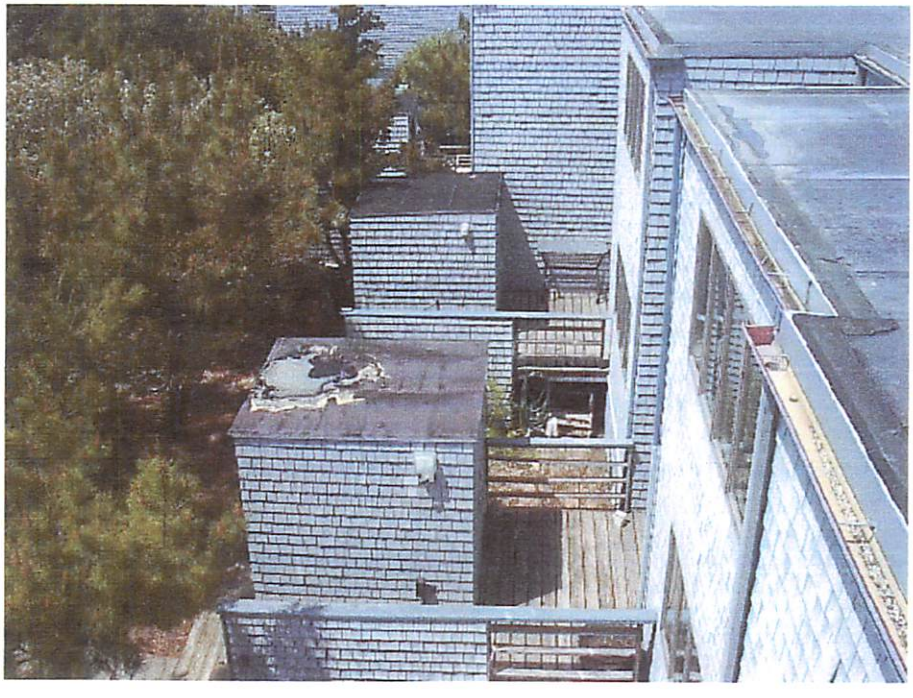


Photo #15

Boardwalk to Tennis Court

Photo #16

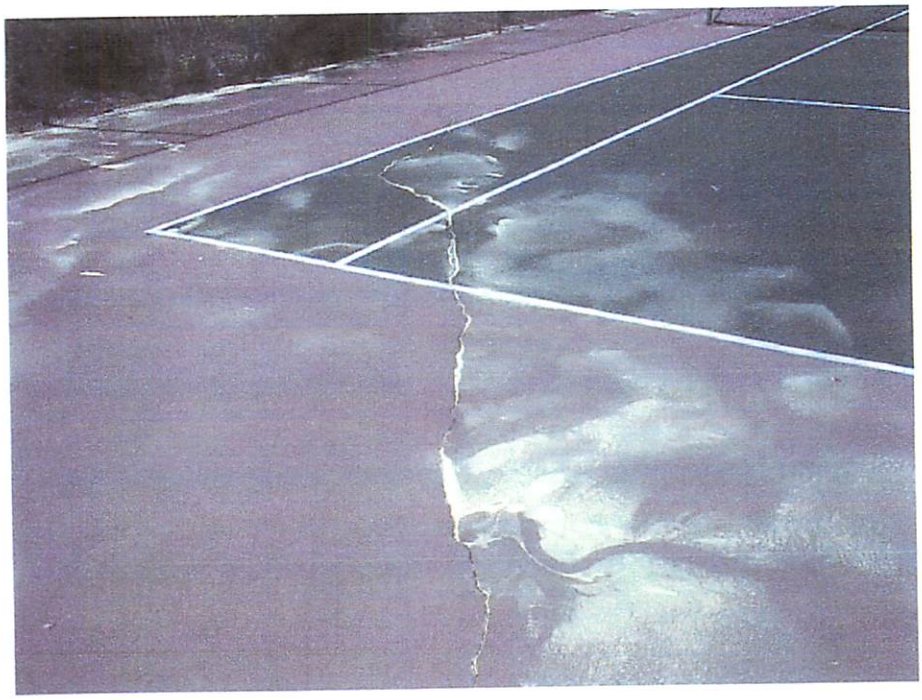
General View of Tennios Court

Photo #17

Severe Cracks in Tennis Court Surface

Photo #18

Severe Cracks in Tennis Court Surface



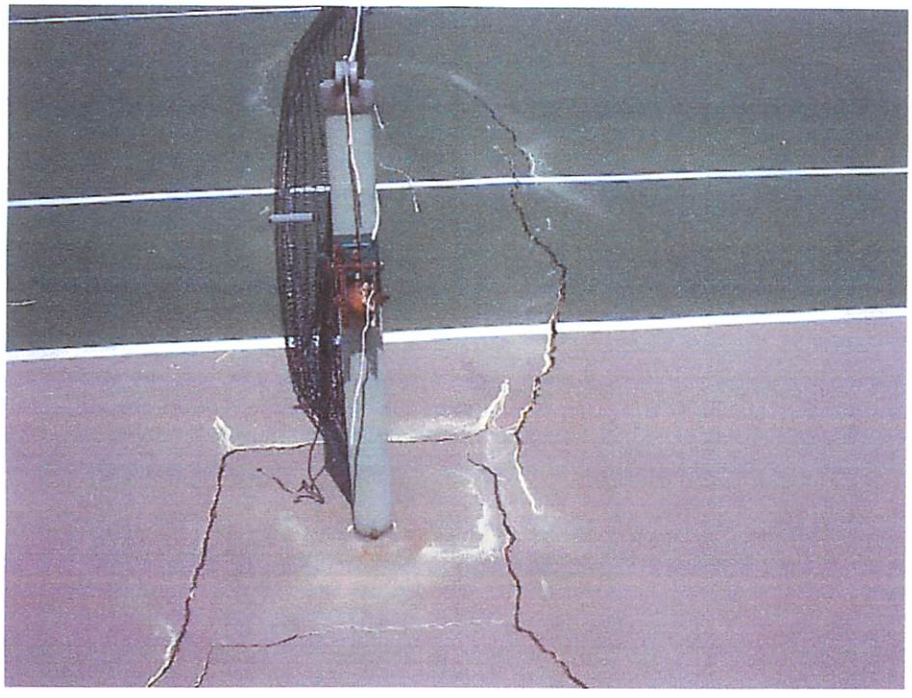
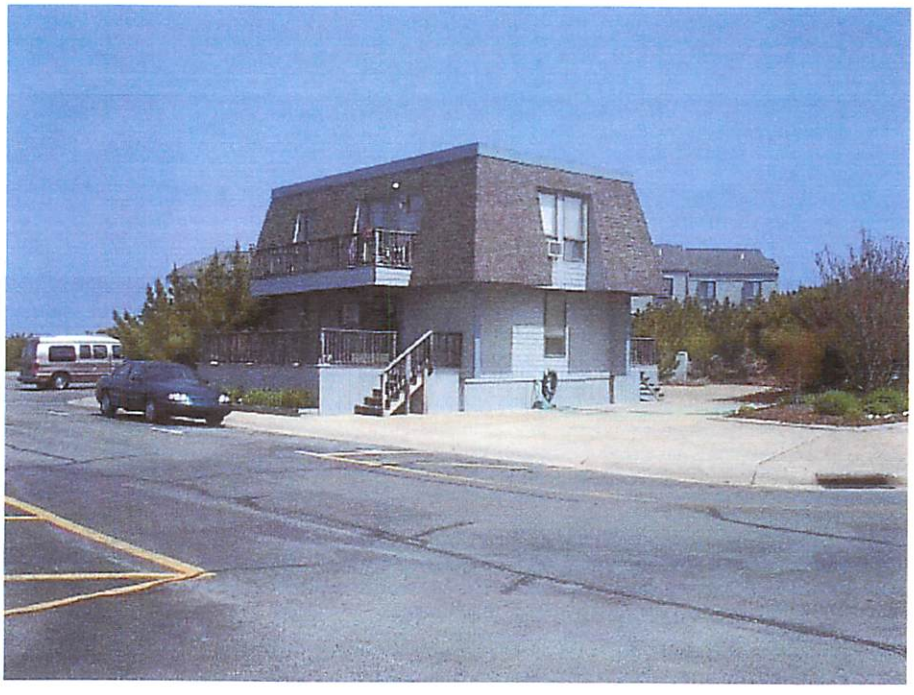


Photo #19

Severe Cracks in Tennis Court Surface

Photo #20

Community Manager's Office and Apartment



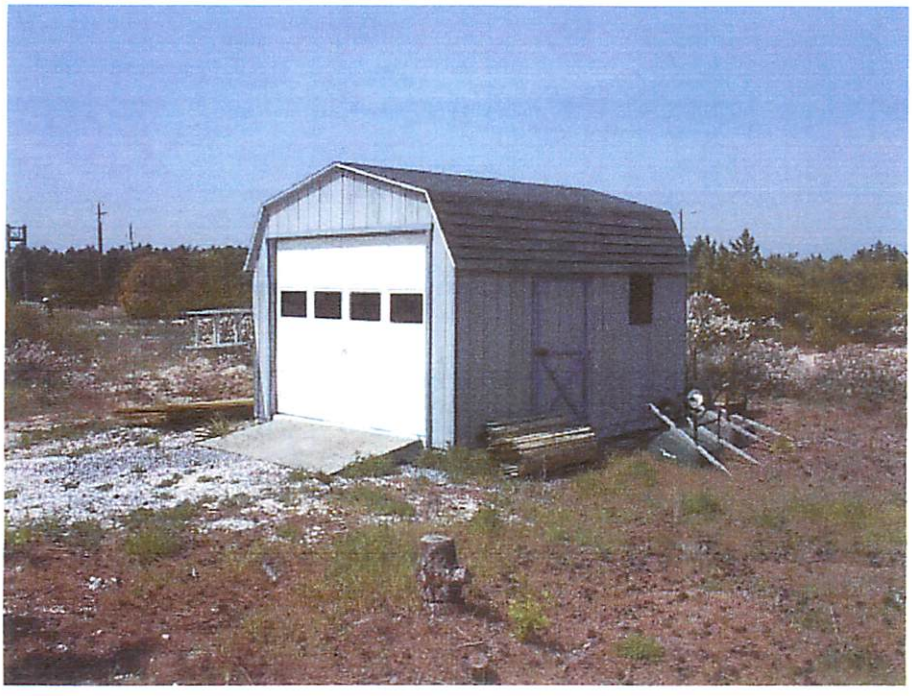


Photo #21

Storage Shed

Photo #22

Storage Shed

Photo #23

Boardwalk to beach - Typical

Photo #24

Snow Fencing at West Boundary of the Property

Photo #25

Snow Fencing at the East Boundarty of the Property

Photo #26

Alternating Board Fence at East Boundaary of the Property

Photo #27

Electrical Distribution Center - Typical

Photo #28

Electrical Distribution Center - Typical

Photo #29

Underground Wiring at Phase 3 Distribution Center

Photo #30

Underground Wiring at Phase 3 Distribution Center

Photo #31

Cedar Shingle Siding - Typical

Photo #32

Split structural member

Photo #35

Storm Drainage Outlet –
Note siltation.

Photo #33

Wood Stairs – Phase 1 Units

Photo #34

Community Sign – Repair needed.

APPENDIX
Section A

PROCEDURES AND DEFINITIONS USED IN THE REPLACEMENT RESERVE SCHEDULE

A. Replacement Reserve Analysis

- **Analysis methods**. The Replacement Reserve industry generally recognizes two different methods of accounting for Replacement Reserve Analysis. Due to the difference in accounting methodologies, these methods lead to different calculated values for the *Minimum Annual Contribution* to the Reserves. The results of both methods are presented in this report. The Association should obtain the advice of its accounting professional as to which method is more appropriate for this Condominium. The two methods are:

    1. **Component Method**. This method is a time tested mathematical model developed by HUD in the early 1980's. It treats each item in the replacement schedule as an individual line item budget. Generally, the *Minimum Annual Contribution* to Reserves is higher when calculated by the Component Method. The mathematical model for this method works as follows:

    First, the total *Current Objective* is calculated, which is the reserve amount that would have accumulated had all of the items on the schedule been funded from initial construction at their current replacement costs. Next, the *Reserve Currently on Deposit* (as reported by the Association) are distributed to the components in the schedule in proportion to the *Current Objective*. The *Minimum Annual Deposit* for each component is equal to the Estimated Replacement Cost, minus the Reserves on Hand, divided by the years of life remaining.

    2. **Cash Flow Method**. The Cash Flow Method is sometimes referred to as the "Pooling Method." It calculates the minimum constant annual contribution to reserves (*Minimum Annual Deposit*) required to meet projected expenditures, without allowing TOTAL reserves on hand to fall below the specified minimum level in any year. This method usually results in a calculated requirement for annual contribution somewhat less than that arrived at by the Component Method of analysis.

    First, the *Minimum Recommended Reserve Level to be Held on Account* is determined based on the age, condition, and replacement cost of the individual components. The mathematical model then allocates the estimated replacement costs to the future years in which they are projected to occur. Based on these expenditures, it then calculates the minimum constant yearly contribution (*Minimum Annual Deposit*) to the reserves necessary to keep the reserve balance at the end of each year above the *Minimum Recommended Reserve Level to be Held on Account*. The Cash Flow Analysis assumes that the Association will have authority to use all of the reserves on hand for replacements as the need occurs. This method usually results in a *Minimum Annual Deposit* which is less than that arrived at by the Component Analysis.

- **Adjusted Cash Flow Analysis**. This program has the ability to modify the Cash Flow Method to take into account forecasted inflation and interest rates, thereby producing an *Adjusted Cash Flow Analysis*. Attempting to forecast future inflation and interest rates and the impact of changing technology is highly tenuous. Therefore, in most cases it is preferable to make a new schedule periodically rather than attempt to project far into the future. We will provide more information on this type of analysis upon request.

- **Unit costs**. Unit costs are developed using nationally published standards and estimating guides, and are adjusted by state or region. In some instances, recent data received in the course of our work is used to modify these figures.

Contractor proposals or actual cost experience may be available as part of the Association records. This is useful information which should be incorporated into your report. Please bring any such available data to our attention, preferably before the report is commenced.

- **Replacement vs. repair and maintenance**. A Replacement Reserve Study addresses the required funding for Capital Replacement Expenditures. This should not be confused with operational costs or cost of repairs or maintenance.

B. Definitions

- **Adjusted Cash Flow Analysis**. Cash flow analysis adjusted to take into account annual cost increases due to inflation, and interest earned on invested reserves. In this method, the annual contribution is assumed to grow annually at the inflation rate.

- **Annual Deposit if Reserves Were Fully Funded.** Shown on the Summary Sheet, "A" in the Component Method summary, this would be the amount of the Annual Deposit needed if the *Reserves Currently on Deposit* were equal to the *Total Current Objective*.

- **Cash Flow Analysis**. See *Cash Flow Method*, above.

- **Component Analysis**. See *Component Method*, above.

- **Contingency**. An allowance for unexpected requirements. Roughly the same as the *Minimum Recommended Reserve Level to be Held on Account* used in the *Cash Flow Method* of analysis.

- **Critical Year**. In the *Cash Flow Analysis*, a year in which the reserves on hand are projected to fall to the established minimum level. See *Minimum Recommended Reserve Level to be Held on Account*

- **Current Objective**. *This* is the reserve amount that would have accumulated had the item been funded from initial construction at its current replacement costs. It is equal to the *estimated replacement cost* divided by the estimated economic life, times the number of years expended (the difference between the *Estimated Economic Life* and the *Estimated Life Left*). The *Total Current Objective* can be thought of as the amount of reserves the Association should now have on hand based on the sum of all of the Current Objectives.

- **Cyclic Replacement Item**. A component item that typically begins to fail after an initial period *(Estimated Initial Replacement)*, but which will be replaced in increments over a number of years (the *Estimated Replacement Cycle*). The Reserve Analysis program divides the number of years in the *Estimated Replacement Cycle* into five equal increments. It then allocates the *Estimated Replacement Cost* equally over those five increments. (As distinguished from *Normal Replacement Items*, see below)

- **Normal Replacement Schedules.** A component item that typically begins to fail after an initial period *(Estimated Initial Replacement)*, but which will be replaced in increments over a number of years (the *Estimated Replacement Cycle*).

- **Estimated Economic Life**. Used in the *Normal Replacement Schedules*. This represents the industry average number of years that a new item should be expected to last until it has to be replaced. This figure is sometimes modified by climate, region, or original construction conditions.

- **Estimated Economic Life Left**. Used in the *Normal Replacement Schedules*. Number of years until the item is expected to need replacement. Normally, this number would be considered to be the difference between the *Estimated Economic Life* and the age of the item. However, this number must be modified to reflect maintenance practice, climate, original construction and quality, or other conditions. For the purpose of this report, this number is determined by the Reserve Analyst based on the present condition of the item relative to the actual age.

- **Estimated Initial Replacement**. For a *Cyclic Replacement Item* (see above), the number of years until the replacement cycle is expected to begin.

- **Estimated Replacement Cycle**. For a *Cyclic Replacement Item*, the number of years over which the remainder of the component's replacement occurs.

- **Minimum Annual Deposit**. Shown on the Summary Sheet, "A-1." The calculated requirement for annual contribution to reserves as calculated by the *Cash Flow Method* (see above).

- **Minimum Deposit in the Study Year**. Shown on the Summary Sheet, "A-1." The calculated requirement for contribution to reserves in the study year as calculated by the Component Method (see above).

- **Minimum Recommended Reserve Level to be Held on Account**. Shown on the Summary Sheet, "A" this number is used in the Cash Flow Method only, this is the prescribed level below which the reserves will not be allowed to fall in any year. This amount is determined based on the age, condition, and replacement cost of the individual components. This number is normally given as a percentage of the <u>total</u> *Estimated Replacement Cost* of all reserve components.

- **Normal Replacement Item**. A component of the property that, after an expected economic life, is replaced in its entirety. (As distinguished from *Cyclic Replacement Items*, see above.)

- **Normal Replacement Schedules.** The list of Normal Replacement Items by category or location. These items appear on pages designated.

- **Number of Years of the Study**. The number of years into the future for which expenditures are projected and reserve levels calculated. This number should be large enough to include the projected replacement of every item on the schedule, at least once. This study covers a 40-year period.

- **One Time Deposit Required to Fully Fund Reserves.** Shown on the Summary Sheet, "A-1" in the Component Method summary, this is the difference between the *Total Current Objective* and the *Reserves Currently* on Deposit.

- **Reserves Currently on Deposit**. Shown on the Summary Sheet, "A-1", this is the amount of accumulated reserves as reported by the Association in the current year.

- **Reserves on Hand**. Shown in the *Cyclic Replacement* and *Normal Replacement Schedules*, this is the amount of reserves allocated to each component item in the *Cyclic* or *Normal Replacement* schedules. This figure is based on the ratio of *Reserves Currently on Deposit* divided by the total *Current Objective*.

- **Replacement Reserve Study**. An analysis of all of the components of the common property of the Association for which a need for replacement should be anticipated within the economic life of the property as a whole. The analysis involves estimation for each component of its estimated Replacement Cost, Estimated Economic Life, and Estimated Life Left. The objective of the study is to calculate a recommended annual contribution to the Association's Replacement Reserve Fund.

- **Total Replacement Cost**. Shown on the Summary Sheet, "A-1", this is total of the Estimated Replacement Costs for all items on the schedule if they were to be replaced once.

- **Unit Replacement Cost**. Estimated replacement cost for a single unit of a given item on the schedule.

- **Unit (of Measure)**. The following abbreviations are used in this report:
  EA: each **FT**: feet **LS**: lump sum **SF**: square feet

List of Recommended Repairs

The following is a list of recommended repairs based on conditions observed during the site evaluation phase of the Replacement Reserve Study. The items included herein reflect conditions that fall into one or more of the following categories:

1. Items which present a potential safety hazard;
2. Items which have reached the end of their useful life;
3. Items for which deterioration will accelerate if not repaired;
4. Items which adversely affect other components if not repaired.

It is assumed that these repairs will be completed during the twelve months immediately proceeding the study. If these replacements or repairs are to be funded from the reserves currently on deposit, the amount reflected in the reserve analysis should be adjusted accordingly.

Repair Item	**Range of Probable Costs**
A. Safety Issues	
1. Tripping Hazards	
a. Unit 1215 sf	$ 100 - $ 125
b. Unit 29/31 15 sf	$ 100 - $ 125
2. Hazards	
a. Install railing at edge of pool lot	$ 800 - $1,000
C. Specific Repairs	
1. Entrance Sign – Reattach Trim See Photo 34	in house labor
2. Cracked Sidewalk – Unit 1, 15sf	$ 100 - $ 125
3. Cracked Sidewalk – Unit 18, 15sf	$ 100 - $ 125
4. Cracked Curb &Gutter - Unit 43	$ 100 - $ 125
5. Cracked Sidewalk – Office, 45 sf	$ 300 - $ 375
6. Add concrete drive at trash enclosure	$1,200 - $1,500
7. Trash Enclosure Fence – Leaning	In house labor
8. Secure party walls on rear stairs of Phase 1 units	$2,400 - $2,800
9. Repair floor at entrance to Manager's apt (2nd floor)	$ 300 - $ 400

Replacement Reserve Report
PILOT POINT

Repair Item	Range of Probable Costs
10. Vent Bathroom of Manager's apt to the exterior	$ 200 - $ 250
11. Re-Nail warped and loose boards on perimeter fencing	In house labor
12. Repair cracks in tennis court surface 200lf	$3,600 - $4,200
13. Structural repairs – 3 Units- See Photo 2	$1,500 - $2,100
Total	$10,800- $13,250