REPLACEMENT RESERVE REPORT FY 2011

PILOT POINT

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PILOT POINT

LEWES, DELAWARE

Scope. Pilot Point is a home owners association located in Lewes, Delaware. Pilot Point was constructed from 1970 to 1972. The community consists of nine townhouse buildings with a total of 60 units. The survey examined the common elements of the property, including:

- Asphalt drive and parking.
- Concrete sidewalks and gutter.
- Fencing and railings.
- Tennis courts and beach access boardwalks.
- Building exteriors excluding doors, windows, decks, and all components of all additions and porch enclosures.
- All site utilities.

The manager's office and storage sheds have been excluded from this study.

The study also includes the upgrading of the existing cedar siding to fiber reinforced cementious siding.

Level of Service. This study has been performed as a Level II Update, With Site Visit/On-Site Review as defined under the National Reserve Study Standards that have been adopted by the Community Associations Institute. As such, the component inventory is based on the study that was performed by Miller Dodson Associates and dated July 17, 2003. This information was adjusted to reflect changes to the inventory that were provided by the community manager, and the quantities were adjusted accordingly from field measurement. The condition of all commonly-owned 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. The fund status and funding plan have been derived from analysis of this data.

Purpose. The purpose of this Replacement Reserve Study is to provide Pilot Point (hereinafter called the Association) with an inventory of the common community facilities and infrastructure components that require periodic replacement. The Study includes a general view of the condition of these items and an effective financial plan to fund projected periodic replacements.

- **Inventory of Items Owned by the Association.** Section B Replacement Reserve Inventory lists the Projected Replacements of the commonly owned items that require periodic replacement using funding from Replacement Reserves. The Replacement Reserve Inventory also provides information about excluded items, which are items whose replacements are not scheduled for funding from Replacement Reserves.

- **Condition of Items Owned by the Association.** Section B Replacement Reserve Inventory includes our estimates of the normal economic life and the remaining economic life for the projected replacements. Section C Calendar of Projected Annual Replacements provides a year-by-year listing of the projected replacements. Section D Condition Assessment provides additional detail for items that are unique or deserving of attention because of their condition or the manner in which they have been treated in this Study.

- **Financial Plan.** The Association has a fiduciary responsibility to protect the appearance, value, and safety of the property and it is therefore essential the Association have a financial plan that provides funding for the projected replacements. In conformance with American Institute of Certified Public Accountant guidelines, Section A Replacement Reserve Analysis evaluates the current funding of Replacement Reserves as reported by the Association and recommends annual funding of Replacement Reserves by two generally accepted accounting methods; the Cash Flow Method and the Component Method. Section A Replacement Reserve Analysis includes graphic and tabular presentations of these methods and current Association funding. An Executive Summary of these calculations is provided on Page A1.

Basis. The data contained in this Replacement Reserve Study is based upon the following:

- The Request for Proposal submitted and executed by the Association.

- Our visual evaluation and measurements on September 18, 2010. Miller - Dodson Associates has visually inspected the common elements of the property in order to ascertain the remaining useful life and the replacement costs of these components.

Engineering Drawings. No architectural drawings or engineering site plans were available for review in connection with this study. 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 planning and executing future projects.

Current Funding. This reserve study has been prepared for Fiscal Year 2011 covering the period from January 1, 2011 to December 31, 2011. The Replacement Reserves scheduled to be on deposit as of January 1, 2011 are reported to be $300,000. The planned contribution for the fiscal year is $57,600.

The balance and contribution figures have been supplied by the property management agent and confirmation or audit of these figures is beyond the scope of the study. For the purposes of this study, it is assumed that the annual contribution will be deposited at the end of each month.

Acknowledgement. Miller - Dodson Associates would like to acknowledge the assistance and input of Angela Howell, Ed Kingman, Roger Cambell and Ronald Lee. They provided very helpful insight into the current operations at the property.

Analyst's Credentials. Mr. Gregory S. Gilbert holds a Bachelors Degree in Architecture from the Georgia Institute of Technology and a Master of Architecture from the University of Oklahoma. Mr. Gilbert is a licensed Architect. Mr. Gilbert's experience includes the design of residential homes, fire stations, and most recently educational projects. He has also done over twenty feasibility studies for the U. S. Navy, Boards of Education and retail developers. All of these feasibility studies included performing existing condition surveys to look for maintenance issues, code violations and general conditions of the structure to determine if and how the buildings can be renovated or modified. He is currently a Reserve Analyst for Miller - Dodson Associates.

Respectfully submitted,
MILLER - DODSON ASSOCIATES, INC.

Gregory Gilbert
Reserve Analyst

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EXECUTIVE SUMMARY

The Pilot Point Replacement Reserve Inventory identifies 54 Projected Replacements for funding from Replacement Reserves, with an estimated one-time replacement cost of $1,172,619.

The Replacement Reserve Analysis calculates recommended funding of Replacement Reserves by the two generally accepted methods, the Cash Flow Method and the Component Method. The Analysis also evaluates current funding of Replacement Reserves, as reported by the Association. The calculations and evaluation are summarized below:

$53,494 **CASH FLOW METHOD MINIMUM ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2011.**

$73.08 Per unit (average), minimum monthly funding of Replacement Reserves

The Cash Flow Method (CFM) calculates Minimum Annual Funding of Replacement Reserves that will fund Projected Replacements identified in the Replacement Reserve Inventory from a common pool of Replacement Reserves and prevent Replacement Reserves from dropping below a Minimum Recommended Balance.

CFM - Minimum Annual Funding remains the same between peaks in cumulative expenditures called Peak Years.

The first Peak Year occurs in 2019 and the CFM - Minimum Annual Funding of Replacement Reserves in 2020 declines to $35,590 ($48.62 per unit, per month), after the completion of $722,814 of replacements in 2011 to 2019.

A subsequent Peak Year and decline in the Cash Flow Method, Minimum Annual Funding, occurs in 2039.

$141,219 **COMPONENT METHOD RECOMMENDED ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2011.**

$192.92 Per unit (average), recommended monthly funding of Replacement Reserves

The Component Method is a time tested and very conservative funding model developed by HUD in the early 1980's.

The Component Method treats each projected replacement in the Replacement Reserve Inventory as a separate account. Deposits are made to each individual account, where funds are held for exclusive use by that item.

Based on this funding model, the Association has a Current Funding Objective of $627,541.

The Association reports having $300,000 on deposit, which is 47.8% funded.

$57,600 **CURRENT ANNUAL FUNDING OF REPLACEMENT RESERVES (as reported by the Association).**

$78.69 Per unit (average), reported current monthly funding of Replacement Reserves

The evaluation of Current Funding, as reported by the Association, has calculated that if the Association continues to fund Replacement Reserves at the current level, there will be adequate funds for Projected Replacements throughout the entire 30-year Study Period.

Pages A2 and A3 explain the Study Year, Study Period, Adjustments (interest & inflation), Beginning Balance, and Projected Replacements. Pages A4 to A9 explain in more detail the calculations associated with the Cash Flow Method, Component Method, and Current Funding.

REPLACEMENT RESERVE STATUS AND FUNDING PLAN

Current funding of Replacement Reserves is adequate to fund Projected Replacements.

We recommend the Association adopt a Replacement Reserve Funding Plan based on the Cash Flow Method or the Component Method, to ensure that adequate funding is available throughout the 30-Year Study Period for the $1,434,622 of Projected Replacements listed in the Pilot Point Replacement Reserve Inventory.

The Funding Plan should be professionally evaluated every three to five years or after completion of each major replacement project. The Board of Directors has a fiduciary responsibility to review the Funding Plan annually and should consider annual increases in Replacement Reserve funding at least equal to the Consumer Price Index.

PLEASE NOTE: For inventory items with a Remaining Economic Life greater than 40 years, the replacement projections fall outside this study's limits and are not included in the annual calculations. However, tracking these items over time will bring them within the 40 year window and they will be included in the future.

REPLACEMENT RESERVE ANALYSIS - GENERAL INFORMATION

The Pilot Point Replacement Reserve Analysis calculations of recommended funding of Replacement Reserves by the Cash Flow Method and the Component Method, and the evaluation of the Current Funding, are based upon the same General Information; including the Study Year, Study Period, Adjustments (for interest, inflation, and/or a constant increase in annual funding), Beginning Balance, and Projected Replacements:

STUDY YEAR

The Association reports that their accounting year begins on January 1, and the Study Year, the first year evaluated by the Replacement Reserve Analysis, begins on January 1, 2011.

STUDY PERIOD

The Replacement Reserve Analysis evaluates the funding of Replacement Reserves over a 30-year Study Period that begins on January 1, 2011.

ADJUSTMENTS

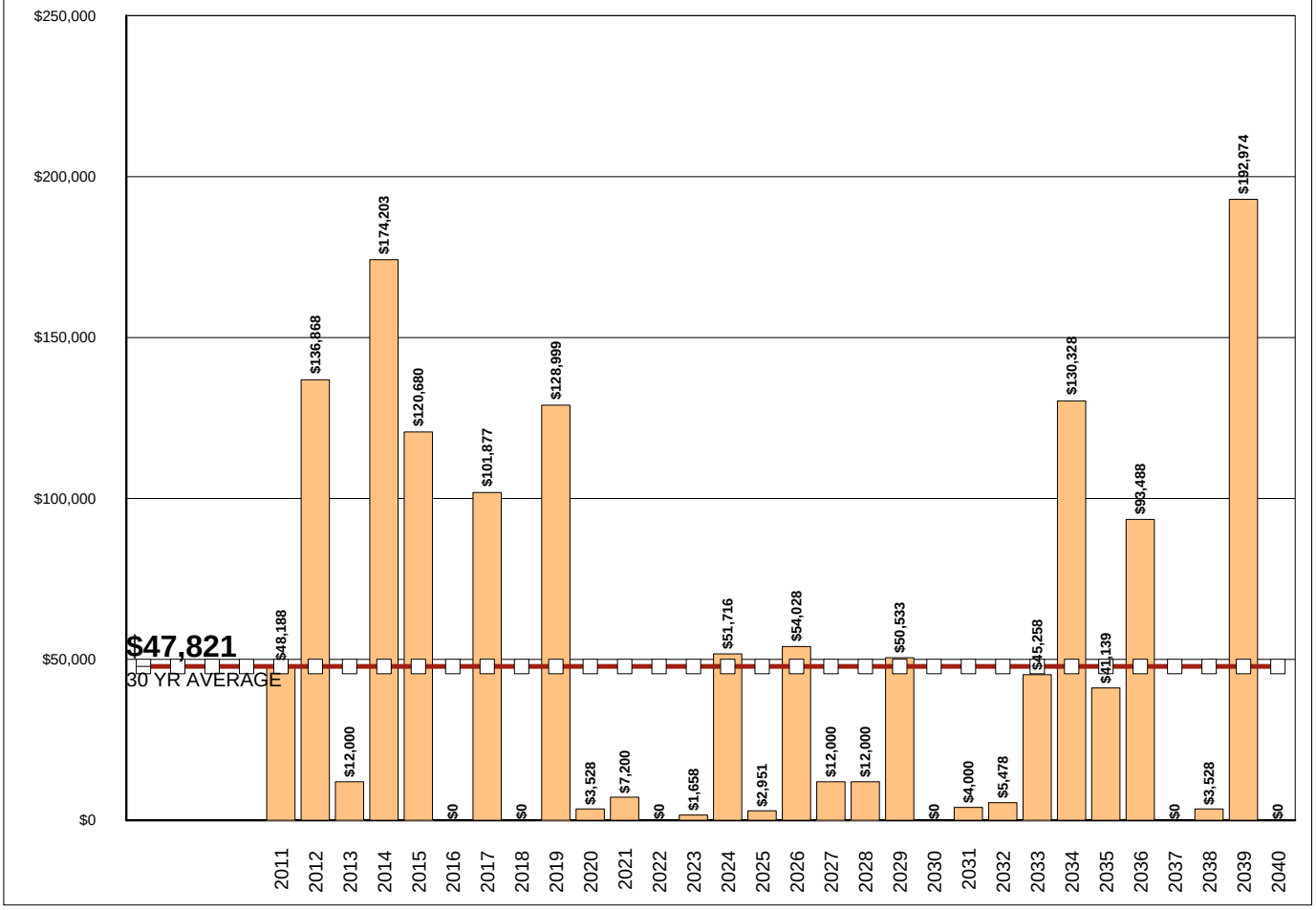
The calculations in this Replacement Reserve Analysis do not account for interest earned on Replacement Reserves, the effects of inflation on the costs of Projected Replacements, or a constant annual increase in Annual Funding of Replacement Reserves. If requested, we will provide a Replacement Reserve Analysis with adjustments for inflation, interest, and/or a constant annual increase in funding, using values provided by the Association.

BEGINNING BALANCE

The Association reports Replacement Reserves on Deposit totaling $300,000 at the start of the Study Year.

Graph #1. Annual Expenditures for Projected Replacements

This bar graph summarizes annual expenditures for the $1,434,622 of Projected Replacements identified in the Replacement Reserve Inventory over the 30-year Study Period. The red line shows the average annual expenditure of $47,821.



PROJECTED REPLACEMENTS

The Pilot Point Replacement Reserve Inventory (Section B) identifies 54 Projected Replacements with a one-time Replacement Cost of $1,172,619 and replacements totaling $1,434,622 over the 30-year Study Period. Projected Replacements are the replacement of commonly-owned items that:

require periodic replacement and
whose replacement is to be funded from Replacement Reserves.

The Replacement Reserve Inventory also identifies 31 Excluded Items. Expenditures for the replacement of these items are NOT scheduled for funding from Replacement Reserves. The accuracy of the calculations made in the Replacement Reserve Analysis is dependent on expenditures NOT being made for Excluded Items. The rationale behind these exclusions is discussed in detail on Page B1.

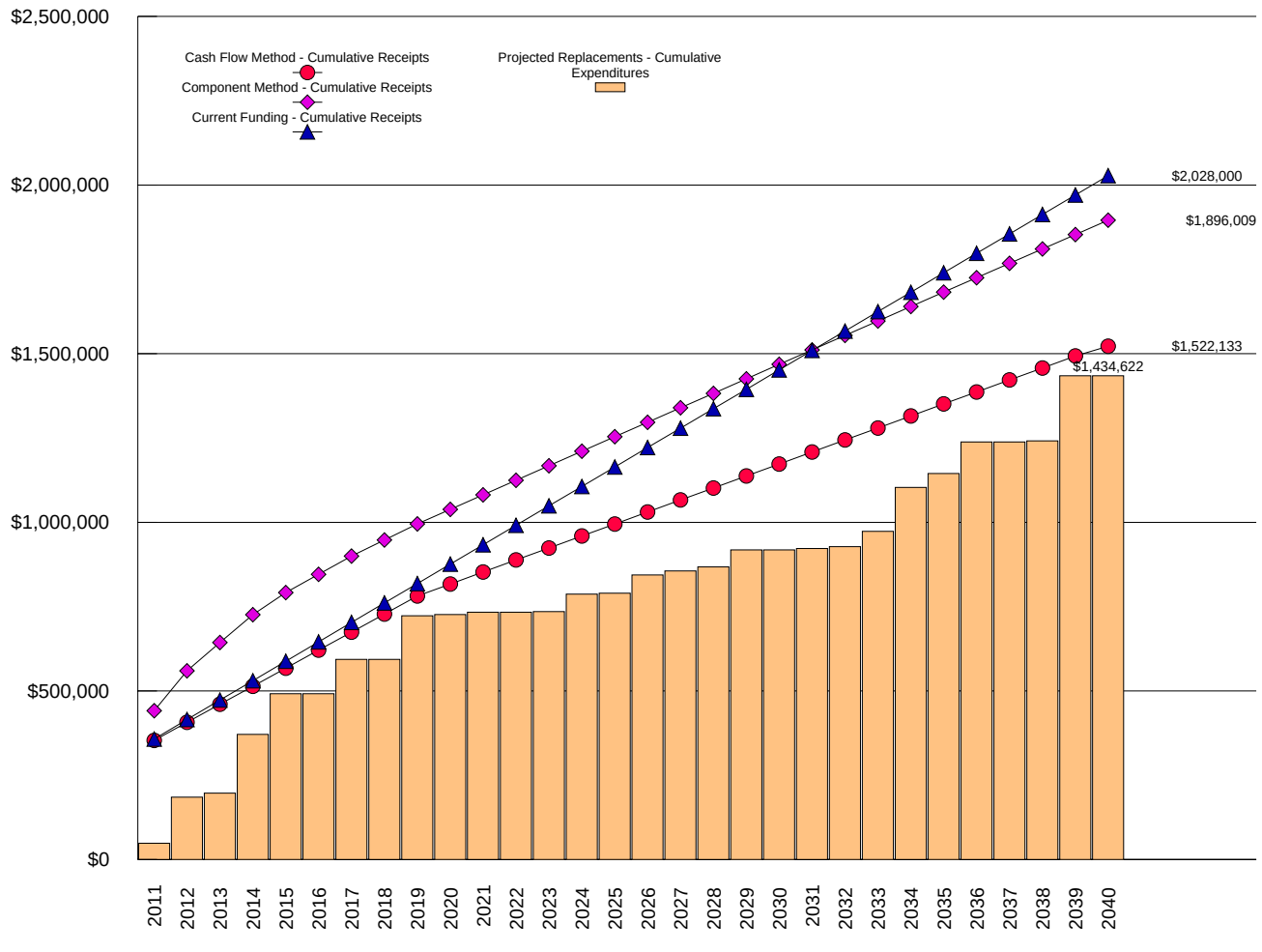
Expenditures from Replacements Reserves should be made only after consultation with an accounting professional.

The Section B - Replacement Reserve Inventory, contains Tables that list each Projected Replacement (and any Excluded Items) broken down into 9 major categories (Pages B3 to B10). Tables are also included that list each Projected Replacement by year for each of the 30 years of the Study Period beginning on Page C1.

The accuracy of this Replacement Reserve Analysis is dependent upon expenditures from Replacement Reserves being made only for the Projected Replacements specifically listed in the Replacement Reserve Inventory.

Graph #2. Comparison of Cumulative Replacement Reserve Funding and Expenditures

The line graph shows Replacement Reserves - Cumulative Receipts over the 30-year Study Period by the Cash Flow Method (red circles), Component Method (purple diamonds), and the Current Funding Plan as reported by the Association (blue triangles). The bar graph shows the Cumulative Expenditures necessary to fund the Project Replacements listed in the Replacement Reserve Inventory (Section B) and summarized in Graph #1.



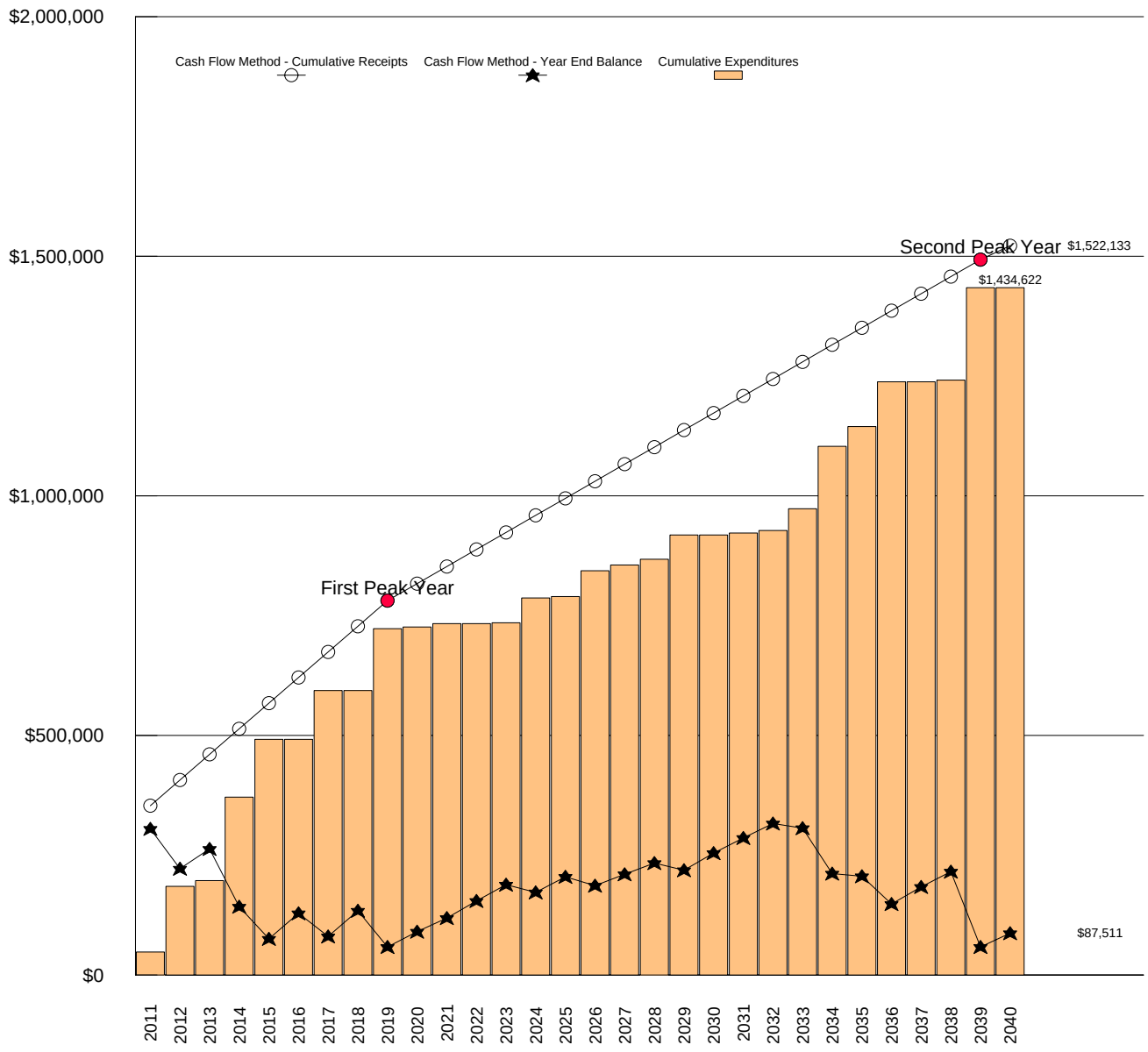
CASH FLOW METHOD

$53,494 **CASH FLOW METHOD MINIMUM ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2011.**
$73.08 Per unit (average), minimum monthly funding of Replacement Reserves

General. The Cash Flow Method is founded on the concept that the Replacement Reserve Account is solvent if cumulative receipts always exceed cumulative expenses. The Cash Flow Method calculates a MINIMUM annual deposit to Replacement Reserves that will:

- Fund all Projected Replacements listed in the Replacement Reserve Inventory (see Section B)
- Prevent Replacement Reserves from dropping below the Minimum Recommended Balance (see Page A-5)
- Allow a constant annual funding level between peaks in cumulative expenditures

Graph #3. Cash Flow Method - Cumulative Receipts and Expenditures Graph



CASH FLOW METHOD (cont'd)

- Replacement Reserves - Minimum Recommended Balance. The Minimum Recommended Balance is $58,631, which is 5.0 percent of the one-time replacement cost of the Projected Replacements listed in the Replacement Reserve Inventory. Unless otherwise noted in the Comments on Page A-9, the Minimum Recommended Balance has been established by the Analyst based upon an evaluation of the types of items included in the Replacement Reserve Inventory.
- Peak Years. The Cash Flow Method calculates a constant annual funding of Replacement Reserves between peaks in cumulative expenditures called Peak Years. In Peak Years, Replacement Reserves on Deposit decline to the Replacement Reserves - Minimum Recommended Balance discussed in the paragraph above.

  First Peak Year. The First Peak Year occurs in 2019, after the completion of $722,814 of replacements in 2011 to 2019. The Cash Flow Method - Minimum Annual Funding of Replacement Reserves declines from $53,494 in 2019 to $35,590 in 2020.

  Subsequent Peak Year. A subsequent Peak Year and decline in the Cash Flow Method - Minimum Annual Funding, occurs in: 2039.
- Study Period. The Cash Flow Method calculates the recommended contributions to Replacement Reserves over the 30-year Study Period. These calculations are based upon a 40-year projection of expenditures for Projected Replacements to avoid the Replacement Reserve balance dropping to the Minimum Recommended Balance in the final year of the Study Period.
- Failure to Fund. The Cash Flow Method calculates a MINIMUM annual funding of Replacement Reserves. Failure to fund Replacement Reserves at the minimum level calculated by the Cash Flow Method will result in Replacement Reserves not being available for the Projected Replacements listed in the Replacement Reserve Inventory and/or Replacement Reserves dropping below the Minimum Recommended Balance.
- Adjustment to the Cash Flow Method for interest and inflation. The calculations in this Replacement Reserve Analysis do not account for interest earned on Replacement Reserves, the effects of inflation of the cost of Projected Replacements, or a constant annual increase in Annual Funding of Replacement Reserves.
- Comparison of Cash Flow Funding and Average Annual Expenditure. The Average Annual Expenditure for Projected Replacements listed in the Reserve Inventory over the 30-year Study Period is $47,821 (see Graph #1). The Cash Flow Method - Minimum Annual Funding of Replacement Reserves in the Study Year is $53,494. This is 111.9 percent of the Average Annual Expenditure, indicating that the Association is building Replacement Reserves in advance of the first Peak Year in 2019.

Table #1. Cash Flow Method Data - Years 1 through 30

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning balance	$300,000									
Minimum annual funding	$53,494	$53,494	$53,494	$53,494	$53,494	$53,494	$53,494	$53,494	$53,494	$35,590
Expenditures	$48,188	$136,868	$12,000	$174,203	$120,680		$101,877		$128,999	$3,528
Year end balance	$305,306	$221,932	$263,426	$142,718	$75,531	$129,025	$80,642	$134,136	$58,631	$90,693
Minimum recommended balance	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631
Cumulative expenditures	$48,188	$185,056	$197,056	$371,258	$491,938	$491,938	$593,815	$593,815	$722,814	$726,342
Cumulative receipts	$353,494	$406,988	$460,482	$513,976	$567,469	$620,963	$674,457	$727,951	$781,445	$817,035
									First Peak Year	

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Minimum annual funding	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590
Expenditures	$7,200		$1,658	$51,716	$2,951	$54,028	$12,000	$12,000	$50,533	
Year end balance	$119,084	$154,674	$188,607	$172,482	$205,121	$186,683	$210,273	$233,864	$218,921	$254,511
Minimum recommended balance	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631
Cumulative expenditures	$733,542	$733,542	$735,200	$786,915	$789,867	$843,895	$855,895	$867,895	$918,428	$918,428
Cumulative receipts	$852,626	$888,216	$923,807	$959,397	$994,987	$1,030,578	$1,066,168	$1,101,759	$1,137,349	$1,172,939

Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Minimum annual funding	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$35,590	$28,880
Expenditures	$4,000	$5,478	$45,258	$130,328	$41,139	$93,488		$3,528	$192,974	
Year end balance	$286,102	$316,214	$306,546	$211,808	$206,260	$148,362	$183,953	$216,015	$58,631	$87,511
Minimum recommended balance	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631	$58,631
Cumulative expenditures	$922,428	$927,906	$973,164	$1,103,492	$1,144,631	$1,238,119	$1,238,119	$1,241,647	$1,434,622	$1,434,622
Cumulative receipts	$1,208,530	$1,244,120	$1,279,710	$1,315,301	$1,350,891	$1,386,482	$1,422,072	$1,457,662	$1,493,253	$1,522,133
									Second Peak Year	

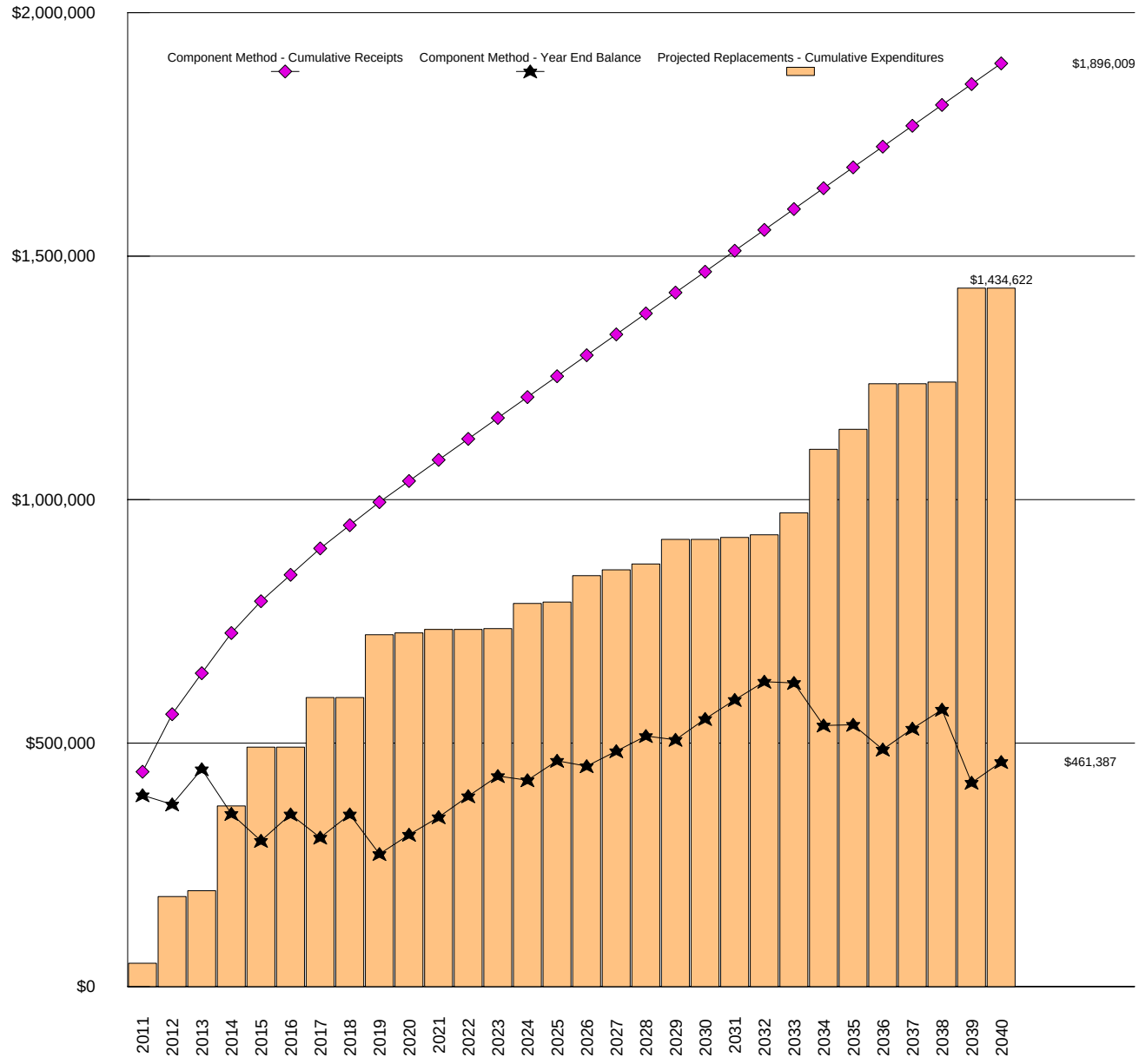
COMPONENT METHOD

$141,219 **COMPONENT METHOD RECOMMENDED ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2011.**

$192.92 Per unit (average), recommended monthly funding of Replacement Reserves

General. The Component Method is a time tested and very conservative mathematical model developed by HUD in the early 1980s. Each of the 54 Projected Replacements listed in the Replacement Reserve Inventory is treated as a separate account. The Beginning Balance is allocated to each of these individual accounts, as is all subsequent funding of Replacement Reserves. These funds are "locked" in these individual accounts and are not available to fund other Projected Replacements. The calculation of the Recommended Annual Funding of Replacement Reserves is a multi-step process outlined in more detail on Page A7.

Graph #4. Component Method - Cumulative Receipts and Expenditures Graph



COMPONENT METHOD (cont'd)

- Current Funding Objective. A Current Funding Objective is calculated for each of the Projected Replacements listed in the Replacement Reserve Inventory. Replacement Cost is divided by the Normal Economic Life to determine the nominal annual contribution. The Remaining Economic Life is then subtracted from the Normal Economic Life to calculate the number of years that the nominal annual contribution should have been made. The two values are then multiplied to determine the Current Funding Objective. This is repeated for each of the 54 Projected Replacements. The total, $627,541, is the Current Funding Objective.

  For an example, consider a very simple Replacement Reserve Inventory with one Projected Replacement, a fence with a $1,000 Replacement Cost, a Normal Economic Life of 10 years, and a Remaining Economic Life of 2 years. A contribution to Replacement Reserves of $100 ($1,000 + 10 years) should have been made in each of the previous 8 years (10 years - 2 years). The result is a Current Funding Objective of $800 (8 years x $100 per year).

- Funding Percentage. The Funding Percentage is calculated by dividing the Beginning Balance ($300,000) by the Current Funding Objective ($627,541). At Pilot Point the Funding Percentage is 47.8%

- Allocation of the Beginning Balance. The Beginning Balance is divided among the 54 Projected Replacements in the Replacement Reserve Inventory. The Current Funding Objective for each Projected Replacement is multiplied by the Funding Percentage and these funds are then "locked" into the account of each item.

  If we relate this calculation back to our fence example, it means that the Association has not accumulated $800 in Reserves (the Funding Objective), but rather at 47.8 percent funded, there is $382 in the account for the fence.

- Annual Funding. The Recommended Annual Funding of Replacement Reserves is then calculated for each Projected Replacement. The funds allocated to the account of the Projected Replacement are subtracted from the Replacement Cost. The result is then divided by the number of years until replacement, and the result is the annual funding for each of the Projected Replacements. The sum of these is $141,219, the Component Method Recommended Annual Funding of Replacement Reserves in the Study Year (2011).

  In our fence example, the $382 in the account is subtracted from the $1,000 Total Replacement Cost and divided by the 2 years that remain before replacement, resulting in an annual deposit of $309. Next year, the deposit remains $309, but in the third year, the fence is replaced and the annual funding adjusts to $100.

- Adjustment to the Component Method for interest and inflation. The calculations in the Replacement Reserve Analysis do not account for interest earned on Replacement Reserves, the effects of inflation of the cost of Projected Replacements, or a constant annual increase in Annual Funding of Replacement Reserves.

Table #2. Component Method Data - Years 1 through 30

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning balance	$300,000									
Recommended annual funding	$141,219	$118,223	$84,225	$82,555	$65,362	$54,147	$54,147	$47,622	$47,622	$43,333
Expenditures	$48,188	$136,868	$12,000	$174,203	$120,680		$101,877		$128,999	$3,528
Year end balance	$393,031	$374,386	$446,612	$354,964	$299,646	$353,793	$306,064	$353,686	$272,310	$312,114
Cumulative Expenditures	$48,188	$185,056	$197,056	$371,258	$491,938	$491,938	$593,815	$593,815	$722,814	$726,342
Cumulative Receipts	$441,219	$559,442	$643,667	$726,222	$791,584	$845,731	$899,879	$947,501	$995,124	$1,038,457

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Recommended annual funding	$43,179	$43,088	$43,088	$43,036	$42,859	$42,859	$42,943	$42,943	$42,943	$42,912
Expenditures	$7,200		$1,658	$51,716	$2,951	$54,028	$12,000	$12,000	$50,533	
Year end balance	$348,094	$391,182	$432,613	$423,933	$463,841	$452,672	$483,615	$514,559	$506,969	$549,881
Cumulative Expenditures	$733,542	$733,542	$735,200	$786,915	$789,867	$843,895	$855,895	$867,895	$918,428	$918,428
Cumulative Receipts	$1,081,636	$1,124,724	$1,167,813	$1,210,849	$1,253,708	$1,296,567	$1,339,510	$1,382,454	$1,425,397	$1,468,309

Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Recommended annual funding	$42,912	$42,922	$42,859	$42,777	$42,697	$42,677	$42,754	$42,754	$42,719	$42,630
Expenditures	$4,000	$5,478	$45,258	$130,328	$41,139	$93,488		$3,528	$192,974	
Year end balance	$588,793	$626,237	$623,838	$536,287	$537,846	$487,035	$529,788	$569,014	$418,758	$461,387
Cumulative Expenditures	$922,428	$927,906	$973,164	$1,103,492	$1,144,631	$1,238,119	$1,238,119	$1,241,647	$1,434,622	$1,434,622
Cumulative Receipts	$1,511,222	$1,554,143	$1,597,003	$1,639,780	$1,682,477	$1,725,154	$1,767,908	$1,810,661	$1,853,380	$1,896,009

CURRENT FUNDING

$57,600 **CURRENT ANNUAL FUNDING OF REPLACEMENT RESERVES (as reported by the Association).**

$78.69 Per unit (average), reported current monthly funding of Replacement Reserves

General. Our evaluation of the Current Association Funding assumes that the Association will continue to fund Replacement Reserves at the current level of $57,600 per year in each of the 30 years of the Study Period.

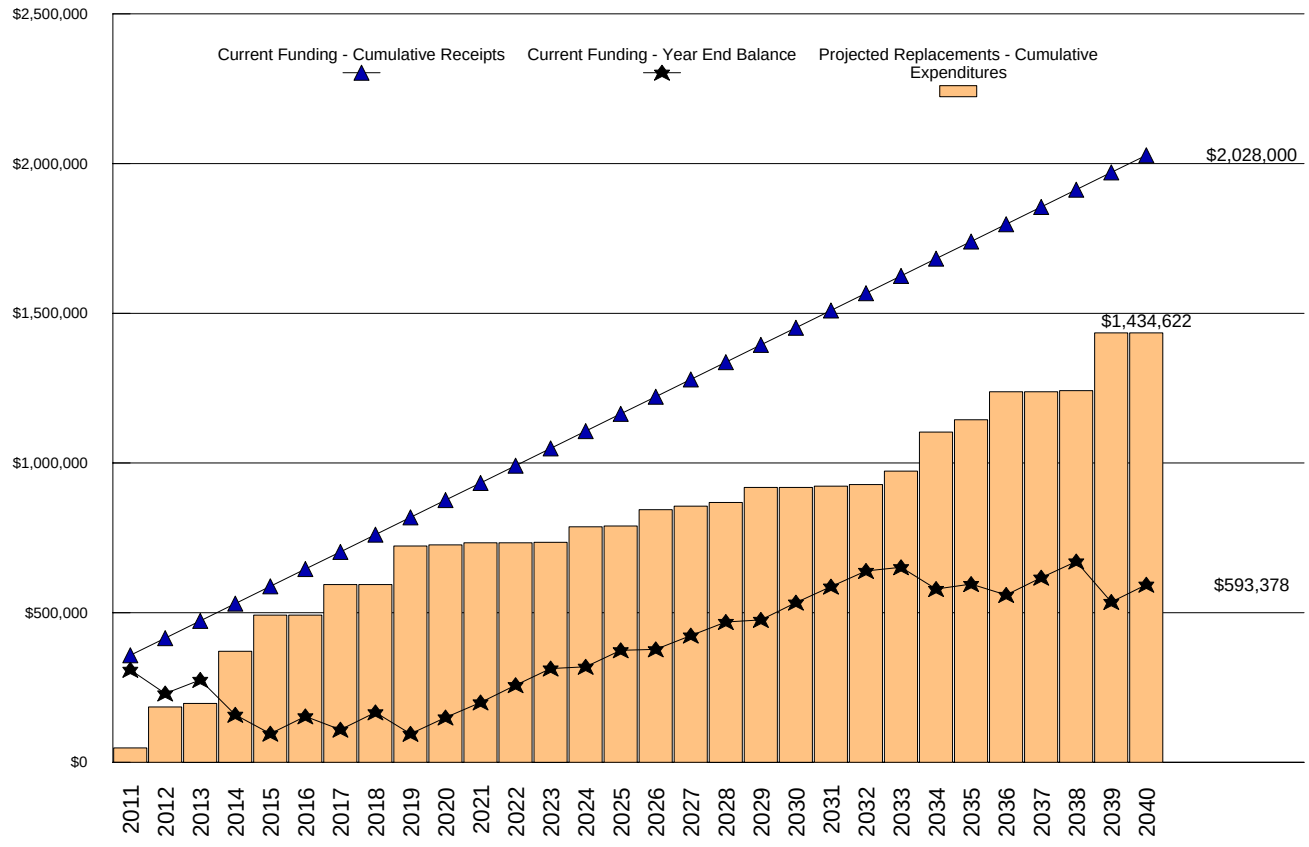
Our evaluation is based upon this Replacement Reserve Funding Level, a $300,000 Beginning Balance, the Projected Annual Replacement Expenditures shown in Graph #1 and listed in the Replacement Reserve Inventory, and any interest, inflation rate, or constant annual increase in annual contribution adjustments discussed below.

- Evaluation. Our calculations have determined that Current Annual Funding of Replacement Reserves, as reported by the Association, is adequate to fund Projected Replacements throughout the 30-year Study Period.

- Adjustment to the Current Association Funding for interest and inflation. The Calculations in the Replacement Reserve Analysis do not account for interest earned on Replacement Reserves, the effects of inflation of the cost of Projected Replacements, or a constant annual increase in Annual Funding of Replacement Reserves.

- Comparison of Current Association Funding and Average Annual Expenditure. The average annual expenditure for Projected Replacements listed in the Reserve Inventory over the 30-year Study Period is $47,821 (see Graph #1). Current Association annual funding of Replacement Reserves is $57,600, or approximately 120 percent of the Average Annual Expenditure.

Graph #5. Current Association Funding - Cumulative Receipts and Expenditures Graph



CURRENT FUNDING (cont'd)

Table #3. Current Funding Data - Years 1 through 30

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning balance	$300,000									
Annual deposit	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600
Expenditures	$48,188	$136,868	$12,000	$174,203	$120,680		$101,877		$128,999	$3,528
Year end balance	$309,413	$230,145	$275,745	$159,142	$96,062	$153,662	$109,385	$166,985	$95,586	$149,658
Cumulative Expenditures	$48,188	$185,056	$197,056	$371,258	$491,938	$491,938	$593,815	$593,815	$722,814	$726,342
Cumulative Receipts	$357,600	$415,200	$472,800	$530,400	$588,000	$645,600	$703,200	$760,800	$818,400	$876,000

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Annual deposit	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600
Expenditures	$7,200		$1,658	$51,716	$2,951	$54,028	$12,000	$12,000	$50,533	
Year end balance	$200,058	$257,658	$313,600	$319,485	$374,133	$377,705	$423,305	$468,905	$475,972	$533,572
Cumulative expenditures	$733,542	$733,542	$735,200	$786,915	$789,867	$843,895	$855,895	$867,895	$918,428	$918,428
Cumulative receipts	$933,600	$991,200	$1,048,800	$1,106,400	$1,164,000	$1,221,600	$1,279,200	$1,336,800	$1,394,400	$1,452,000

Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Annual deposit	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600	$57,600
Expenditures	$4,000	$5,478	$45,258	$130,328	$41,139	$93,488		$3,528	$192,974	
Year end balance	$587,172	$639,294	$651,636	$578,908	$595,369	$559,481	$617,081	$671,153	$535,778	$593,378
Cumulative Expenditures	$922,428	$927,906	$973,164	$1,103,492	$1,144,631	$1,238,119	$1,238,119	$1,241,647	$1,434,622	$1,434,622
Cumulative Receipts	$1,509,600	$1,567,200	$1,624,800	$1,682,400	$1,740,000	$1,797,600	$1,855,200	$1,912,800	$1,970,400	$2,028,000

COMMENTS ON THE REPLACEMENT RESERVE ANALYSIS

- This Replacement Reserve Study has been developed in compliance with the Community Associations Institute, National Reserve Study Standards, for a Level Two - Update (with site visit and on-site review).
- Pilot Point has 61 units. The type of property is a condominium association.
- Our calculations assume that Replacement Reserves are not subject to tax.

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REPLACEMENT RESERVE INVENTORY
GENERAL INFORMATION

Pilot Point - Replacement Reserve Inventory identifies 85 items. Two types of items are identified, Projected Replacements and Excluded Items:

- PROJECTED REPLACEMENTS. 54 of the items are Projected Replacements and the periodic replacements of these items are scheduled for funding from Replacement Reserves. The Projected Replacements have an estimated one-time replacement cost of $1,172,619. Replacements totaling $1,434,622 are scheduled in the Replacement Reserve Inventory over the 30-year Study Period.

  Projected Replacements are the replacement of commonly owned physical assets that require periodic replacement and whose replacement is to be funded from Replacement Reserves.

- EXCLUDED ITEMS. 31 of the items are Excluded Items, and expenditures for these items are NOT scheduled for funding from Replacement Reserves. The accuracy of the calculations made in the Replacement Reserve Analysis is dependent on expenditures NOT being made for Excluded Items. The Excluded Items are listed in the Replacement Reserve Inventory to identify specific items and categories of items that are not to be funded from Replacement Reserves. There are multiple categories of items that are typically excluded from funding by Replacement Reserves, including but not limited to:

  Tax Code. The United States Tax Code grants very favorable tax status to Replacement Reserves, conditioned on expenditures being made within certain guidelines. These guidelines typically exclude maintenance activities, partial replacements, repairs, capital improvements, and one-time only replacements.

  Value. Items with a replacement cost of less that $1,000 are typically excluded from funding from Replacement Reserves. This exclusion is made to accurately reflect how Replacement Reserves are administered. If the Association has selected an alternative level, it will be noted in the Replacement Reserve Inventory - General Comments on Page B2.

  Long-lived Items. Items that when properly maintained, can be assumed to have a life equal to the property as a whole, are typically excluded from the Replacement Reserve Inventory.

  Unit improvements. Items located on property owned by a single unit and where the items serve a single unit are generally assumed to be the responsibility of that unit, not the Association.

  Other non-common improvements. Items owned by the local government, public and private utility companies, the United States Postal Service, Master Associations, state and local highway authorities, etc., may be installed on property that is owned by the Association. These types of items are generally not the responsibility of the Association and are excluded from the Replacement Reserve Inventory.

  The rationale for the exclusion of an item from funding by Replacement Reserves is discussed in more detail in the 'Comments' section of it's page of the Replacement Reserve Inventory.

- CATEGORIES. The 85 items included in the Pilot Point Replacement Reserve Inventory are divided into 9 major categories. Each category is printed on a separate page, Pages B3 to B10.

- LEVEL OF SERVICE. This Replacement Reserve Inventory has been developed in compliance with the standards established for a Level Two - Update (with site visit and on-site review), as defined by the National Reserve Study Standards, established in 1998 by Community Associations Institute, which states:

  Level II Studies are based entirely on the component inventory from a prior study. This information is adjusted to reflect changes to the inventory that are provided by the property manager, and the quantities are adjusted accordingly from field measurement and/or quantity takeoffs from to-scale drawings that are made available to us. The condition of all components is 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 are derived from analysis of this data.

REPLACEMENT RESERVE INVENTORY - GENERAL INFORMATION (cont'd)

- INVENTORY DATA. Each of the 54 Projected Replacements listed in the Replacement Reserve Inventory includes the following data:

  Item Number. The Item Number is assigned sequentially and is intended for identification purposes only.

  Item Description. We have named each item included in the Inventory. Where the name of the item and the category are not sufficient to specifically identify the item, we have included additional information in the Comments section at the bottom of the page.

  Units. We have used standard abbreviations to identify the number of units including SF-square feet, FT-feet, SY-square yard, LS-lump sum, EA-each, and PR-pair. Nonstandard abbreviations are noted in the Comments section on the page on which the abbreviation is used.

  Number of Units. The methods used to develop the quantities are discussed in "Level of Service" above.

  Unit Replacement Cost. We use three sources to develop the unit cost data shown in the Inventory; actual replacement cost data provided by the client, industry standard estimating manuals, and a cost database that we have developed based upon our detailed interviews with contractors and service providers who are specialists in their respective lines of work. In addition, trends in the Producers Price Index (PPI), labor rates, and transportation costs are monitored and considered. This cost database is reviewed and updated regularly by Miller Dodson and biannually by an independent professional cost estimating firm.

  Normal Economic Life (Yrs). The number of years that a new and properly installed item should be expected to remain in service.

  Economic Life Remaining (Yrs). The estimated number of years before an item will need to be replaced. In "normal" conditions, this could be calculated by subtracting the age of the item from the Normal Economic Life of the item, but only rarely do physical assets age "normally". Some items may have longer or shorter lives depending on many factors such as environment, initial quality of the item, maintenance, etc.

  Total Replacement Cost. This is calculated by multiplying the Unit Replacement Cost by the Number of Units.

  Each of the 31 Excluded Items includes the Item Description, Units, and Number of Units. Many of the Excluded Items are listed as a 'Lump Sum' with a quantity of 1. For the Excluded Items, this indicates that all of the items identified by the 'Item Description' are excluded from funding by Replacement Reserves.

- REVIEW OF EXPENDITURES. All expenditures from Replacement Reserves should be made only after consultation with an accounting professional.

- PARTIAL FUNDING. Items may have been included in the Replacement Reserve Inventory at less than 100 percent of their full quantity and/or replacement cost. This is done on items that will never be replaced in their entirety, but which may require periodic replacements over an extended period of time. The assumptions that provide the basis for any partial funding are noted on in the Comments section.

SITE COMPONENT
PROJECTED REPLACEMENTS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
1	Asphalt pavement, seal coat	sf	105,879	$0.20	5	3	$21,176
2	Asphalt pavement, overlay	sf	105,879	$1.40	30	28	$148,231
3	Wood walkway to beach - 1 of 5	ls	1	$10,000.00	15	15	$10,000
4	Wood walkway to beach - 1 of 5	ls	1	$10,000.00	15	none	$10,000
5	Wood walkway to beach - 1 of 5	ls	1	$12,000.00	15	1	$12,000
6	Wood walkway to beach - 1 of 5	ls	1	$12,000.00	15	2	$12,000
7	Wood walkway to beach - 1 of 5	ls	1	$13,000.00	15	3	$13,000
8	Wood walkway - tennis court, decking	sf	720	$10.00	15	10	$7,200
9	Trash corral surround, 8' wood	ft	24	$32.00	20	8	$768
10	Board fence (wood)	ft	300	$27.00	20	8	$8,100
11	Site light head (standard)	ea	1	$450.00	15	6	$450
12	Site light pole (standard)	ea	1	$1,500.00	30	21	$1,500
13	Entry monument sign, carved	sf	2	$2,000.00	20	20	$4,000
14	Electrical service cable (two units)	ft	332	$8.89	10	4	$2,951
15	Stormwater mgmt (10%)	ls	1	$30,500.00	15	15	$30,500
						SITE COMPONENT - Replacement Costs - Subtotal	$281,876

SITE COMPONENT
COMMENTS

- We have assumed that the Association will replace the asphalt pavement by the installation of a 2 inch thick overlay. The pavement will need to be milled prior to the installation of the overlay. Milling and the cost of minor repairs (5 to 10 percent of the total area) to the base materials and bearing soils beneath the pavement are included in the cost shown above.

SITE COMPONENT (cont.)

PROJECTED REPLACEMENTS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
16	Concrete sidewalk (6%)	sf	195	$8.50	60	none	$1,658
17	Concrete sidewalk (6%)	sf	195	$8.50	60	6	$1,658
18	Concrete sidewalk (6%)	sf	195	$8.50	60	12	$1,658
19	Concrete sidewalk (6%)	sf	195	$8.50	60	18	$1,658
20	Concrete sidewalk (6%)	sf	195	$8.50	60	24	$1,658
21	Concrete sidewalk (6%)	sf	195	$8.50	60	30	$1,658
22	Concrete sidewalk (6%)	sf	195	$8.50	60	36	$1,658
23	Concrete sidewalk (6%)	sf	195	$8.50	60	42	$1,658
24	Concrete sidewalk (6%)	sf	195	$8.50	60	48	$1,658
25	Concrete sidewalk (6%)	sf	195	$8.50	60	54	$1,658
26	Concrete curb and gutter (3%)	ft	147	$34.00	60	3	$4,998
27	Concrete curb and gutter (3%)	ft	147	$24.00	60	9	$3,528
28	Concrete curb and gutter (3%)	ft	147	$24.00	60	15	$3,528
29	Concrete curb and gutter (3%)	ft	147	$24.00	60	21	$3,528
30	Concrete curb and gutter (3%)	ft	147	$24.00	60	27	$3,528
31	Concrete curb and gutter (3%)	ft	147	$24.00	60	33	$3,528
32	Concrete curb and gutter (3%)	ft	147	$24.00	60	39	$3,528
33	Concrete curb and gutter (3%)	ft	147	$24.00	60	45	$3,528
34	Concrete curb and gutter (3%)	ft	147	$24.00	60	51	$3,528
35	Concrete curb and gutter (3%)	ft	147	$24.00	60	57	$3,528

SITE COMPONENT (cont.) - Replacement Costs - Subtotal $53,325

SITE COMPONENT (cont.)

COMMENTS

BUILDING EXTERIOR (T1, T2, T3, T4)

PROJECTED REPLACEMENTS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
36	T1 - Shingle asphalt/fiberglass	sf	10,320	$4.00	25	22	$41,280
37	T1 - EDPM roof	sf	612	$6.50	25	22	$3,978
38	T1 - Siding & trim, cementitious	sf	13,144	$9.50	50	1	$124,868
39	T2 - Shingle asphalt/fiberglass	sf	19,926	$4.00	25	23	$79,704
40	T2 - EDPM roof	sf	1,869	$6.50	25	23	$12,149
41	T2 - Siding & trim, cementitious	sf	12,393	$9.50	50	3	$117,729
42	T2 - Siding & trim, cementitious	sf	12,393	$9.50	50	4	$117,729
43	T3 - Shingle asphalt/fiberglass	sf	5,720	$4.00	25	24	$22,880
44	T3 - Shingle asphalt/fiberglass	sf	5,720	$4.00	25	none	$22,880
45	T3 - EDPM roof	sf	2,100	$6.50	25	24	$13,650
46	T3 - EDPM roof	sf	2,100	$6.50	25	none	$13,650
47	T3 - Siding & trim, cementitious	sf	10,502	$9.50	50	6	$99,769
48	T4 - Shingle asphalt/fiberglass	sf	7,116	$4.00	25	25	$28,464
49	T4 - EDPM roof	sf	3,276	$6.50	25	25	$21,294
50	T4 - Siding & trim, cementitious	sf	8,869	$9.50	50	8	$84,256

BUILDING EXTERIOR (T1, T2, T3, T4) - Replacement Costs - Subtotal $804,279

BUILDING EXTERIOR (T1, T2, T3, T4)

COMMENTS

- Type 1 - Units 1-11 - Two Buildings; Type 2 - Units 12-32 - Three Buildings; Type 3 - Units 33-46 - Two Buildings; Type 4 - Units 47-60 - Two Buildings

- Study includes replacment of the existing cedar siding with cementitious siding

COURTS
PROJECTED REPLACEMENTS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
51	Tennis court, color coat w/ repair	ea	1	$14,000.00	5	3	$14,000
52	Tennis court, post & footings	ea	1	$2,600.00	20	3	$2,600
53	Tennis court, net	ea	1	$700.00	5	3	$700
54	Tennis court, fence	ft	660	$24.00	20	13	$15,840

COURTS - Replacement Costs - Subtotal $33,140

COURTS
COMMENTS

VALUATION EXCLUSIONS
EXCLUDED ITEMS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
	Downspout and gutters	ls	1				EXCLUDED
	Property identification signage	ls	1				EXCLUDED
	Miscellaneous signage	ls	1				EXCLUDED
	Snowdrift fencing	ls	1				EXCLUDED

VALUATION EXCLUSIONS
COMMENTS

- Valuation Exclusions. For ease of administration of the Replacement Reserves and to reflect accurately how Replacement Reserves are administered, items with a dollar value less than $1,000.00 have not been scheduled for funding from Replacement Reserves. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.

- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

LONG-LIFE EXCLUSIONS
EXCLUDED ITEMS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
	Building foundation(s)	ls	1				EXCLUDED
	Wall, floor, & roof structure	ls	1				EXCLUDED

LONG-LIFE EXCLUSIONS
COMMENTS

- Long Life Exclusions. Components that when properly maintained, can be assumed to have a life equal to the property as a whole, are normally excluded from the Replacement Reserve Inventory. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.

- Exterior masonry is generally assumed to have an unlimited economic life but periodic repointing is required and we have included this for funding in the Replacement Reserve Inventory.

- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

UNIT IMPROVEMENTS EXCLUSIONS

EXCLUDED ITEMS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
	Domestic water pipes serving one unit	ls	1				EXCLUDED
	Sanitary sewers serving one unit	ls	1				EXCLUDED
	Cable TV service serving one unit	ls	1				EXCLUDED
	Telephone service serving one unit	ls	1				EXCLUDED
	Walkways on an individual lot	ls	1				EXCLUDED
	Stairs on an individual lot	ls	1				EXCLUDED
	Retaining wall on an individual lot	ls	1				EXCLUDED
	Fence on an individual lot	ls	1				EXCLUDED
	Stairs on an individual lot	ls	1				EXCLUDED
	Unit deck, patio, and/or balcony	ls	1				EXCLUDED
	Unit interior	ls	1				EXCLUDED
	Unit HVAC system	ls	1				EXCLUDED
	Unit exteriors on expansions	ls	1				EXCLUDED

UNIT IMPROVEMENTS EXCLUSIONS

COMMENTS

- Unit improvement Exclusions. We understand that the elements of the project that relate to a single unit are the responsibility of that unit owner. Examples of items excluded from funding by Replacement Reserves by this standard are listed above.

- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

MAINTENANCE AND REPAIR EXCLUSIONS

EXCLUDED ITEMS

ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST ($)	NORMAL ECONOMIC LIFE (YRS)	REMAINING ECONOMIC LIFE (YRS)	REPLACEMENT COST ($)
	Cleaning of asphalt pavement	ls	1				EXCLUDED
	Crack sealing of asphalt pavement	ls	1				EXCLUDED
	Painting of curbs	ls	1				EXCLUDED
	Striping of parking spaces	ls	1				EXCLUDED
	Numbering of parking spaces	ls	1				EXCLUDED
	Landscaping and site grading	ls	1				EXCLUDED
	Exterior painting	ls	1				EXCLUDED
	Interior painting	ls	1				EXCLUDED
	Janitorial service	ls	1				EXCLUDED
	Repair services	ls	1				EXCLUDED
	Partial replacements	ls	1				EXCLUDED
	Capital improvements	ls	1				EXCLUDED

MAINTENANCE AND REPAIR EXCLUSIONS

COMMENTS

- Maintenance activities, one-time-only repairs, and capital improvements. These activities are NOT appropriately funded from Replacement Reserves. The inclusion of such component in the Replacement Reserve Inventory could jeopardize the special tax status of ALL Replacement Reserves, exposing the Association to significant tax liabilities. We recommend that the Board of Directors discuss these exclusions and Revenue Ruling 75-370 with a Certified Public Accountant.
- Examples of items excluded from funding by Replacement Reserves by this standard are listed above.
- The list above exemplifies exclusions by the cited standard(s) and is not intended to be comprehensive.

PROJECTED ANNUAL REPLACEMENTS
GENERAL INFORMATION

CALENDAR OF ANNUAL REPLACEMENTS. The 54 Projected Replacements in the Pilot Point Replacement Reserve Inventory whose replacement is scheduled to be funded from Replacement Reserves are broken down on a year-by-year basis, beginning on Page C2.

REPLACEMENT RESERVE ANALYSIS AND INVENTORY
POLICIES, PROCEDURES, AND ADMINISTRATION

- REVISIONS. Revisions will be made to the Replacement Reserve Analysis and Replacement Reserve Inventory 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 the Replacement Reserve Study. It is our policy to provide revisions in electronic (Adobe PDF) format only.
- TAX CODE. The United States Tax Code grants favorable tax status to a common interest development (CID) meeting certain guidelines for their Replacement Reserve. If a CID files their taxes as a 'Corporation' on Form 1020 (IRC Section 277), these guidelines typically require maintenance activities, partial replacements, minor replacements, capital improvements, and one-time only replacements to be excluded from Reserves. A CID cannot commingle planning for maintenance activities with capital replacement activities in the Reserves (Revenue Ruling 75-370). Funds for maintenance activities and capital replacements activities must be held in separate accounts. If a CID files taxes as an "Exempt Homeowners Association" using Form 1020H (IRC Section 528), the CID does not have to segregate these activities. However, because the CID may elect to change their method of filing from year to year within the Study Period, we advise using the more restrictive approach. We further recommend that the CID consult with their Accountant and consider creating separate and independent accounts and reserves for large maintenance items, such as painting.
- CONFLICT OF INTEREST. Neither Miller - Dodson Associates nor the Reserve Analyst has any prior or existing relationship with this Association which would represent a real or perceived conflict of interest.
- RELIANCE ON DATA PROVIDED BY THE CLIENT. Information provided by an official representative of the Association regarding financial, physical conditions, quality, or historical issues is deemed reliable.
- INTENT. This Replacement Reserve Study is a reflection of the information provided by the Association and the visual evaluations of the Analyst. It has been prepared for the sole use of the Association and is not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.
- PREVIOUS REPLACEMENTS. Information provided to Miller - Dodson Associates regarding prior replacements is considered to be accurate and reliable. Our visual evaluation is not a project audit or quality inspection.
- UPDATING. In the first two or possibly three years after the completion of a Level One Replacement Reserve Study, we recommend the Association review and revise the Replacement Reserve Analysis and Inventory annually to take into account replacements which have occurred and known changes in replacement costs. This can frequently be handled as a Level Two or Level Three Study (as defined by the Community Associations Institute), unless the Association has completed major replacement projects. A full analysis (Level One) based on a comprehensive visual evaluation of the site should be accomplished every three to five years or after each major replacement project.
- EXPERIENCE WITH FUTURE REPLACEMENTS. The Calendar of Annual Projected Replacements, lists replacements we have projected to occur over the next thirty years, begins on Page C2. Actual experience in replacing the items may differ significantly from the cost estimates and time frames shown because of conditions beyond our control. These differences may be caused by maintenance practices, inflation, variations in pricing and market conditions, future technological developments, regulatory actions, acts of God, and luck. Some items may function normally during our visual evaluation and then fail without notice.
- REVIEW OF THE REPLACEMENT RESERVE STUDY. For this study to be effective, it should be reviewed by the Pilot Point Board of Directors, those responsible for the management of the items included in the Replacement Reserve Inventory, and the accounting professionals employed by the Association.

PROJECTED REPLACEMENTS - YEARS ONE TO FIFTEEN

Item	2011	$
4	Wood walkway to beach - 1	$10,000
16	Concrete sidewalk (6%)	$1,658
44	T3 - Shingle asphalt/fibergla	$22,880
46	T3 - EDPM roof	$13,650
	Total Scheduled Replacements	$48,188

Item	2012	$
5	Wood walkway to beach - 1	$12,000
38	T1 - Siding & trim, cementitic	$124,868
	Total Scheduled Replacements	$136,868

Item	2013	$
6	Wood walkway to beach - 1	$12,000
	Total Scheduled Replacements	$12,000

Item	2014	$
1	Asphalt pavement, seal coat	$21,176
7	Wood walkway to beach - 1	$13,000
26	Concrete curb and gutter (3	$4,998
41	T2 - Siding & trim, cementitic	$117,729
51	Tennis court, color coat w/ re	$14,000
52	Tennis court, post & footings	$2,600
53	Tennis court, net	$700
	Total Scheduled Replacements	$174,203

Item	2015	$
14	Electrical service cable (two	$2,951
42	T2 - Siding & trim, cementitic	$117,729
	Total Scheduled Replacements	$120,680

Item	2016	$
	No Scheduled Replacements	

Item	2017	$
11	Site light head (standard)	$450
17	Concrete sidewalk (6%)	$1,658
47	T3 - Siding & trim, cementitic	$99,769
	Total Scheduled Replacements	$101,877

Item	2018	$
	No Scheduled Replacements	

Item	2019	$
1	Asphalt pavement, seal coat	$21,176
9	Trash corral surround, 8' wo	$768
10	Board fence (wood)	$8,100
50	T4 - Siding & trim, cementitic	$84,256
51	Tennis court, color coat w/ re	$14,000
53	Tennis court, net	$700
	Total Scheduled Replacements	$128,999

Item	2020	$
27	Concrete curb and gutter (3	$3,528
	Total Scheduled Replacements	$3,528

Item	2021	$
8	Wood walkway - tennis cour	$7,200
	Total Scheduled Replacements	$7,200

Item	2022	$
	No Scheduled Replacements	

Item	2023	$
18	Concrete sidewalk (6%)	$1,658
	Total Scheduled Replacements	$1,658

Item	2024	$
1	Asphalt pavement, seal coat	$21,176
51	Tennis court, color coat w/ re	$14,000
53	Tennis court, net	$700
54	Tennis court, fence	$15,840
	Total Scheduled Replacements	$51,716

Item	2025	$
14	Electrical service cable (two	$2,951
	Total Scheduled Replacements	$2,951

PROJECTED REPLACEMENTS - YEARS SIXTEEN TO THIRTY

Item	2026	$
3	Wood walkway to beach - 1	$10,000
4	Wood walkway to beach - 1	$10,000
15	Stormwater mgmt (10%)	$30,500
28	Concrete curb and gutter (3	$3,528
	Total Scheduled Replacements	$54,028

Item	2027	$
5	Wood walkway to beach - 1	$12,000
	Total Scheduled Replacements	$12,000

Item	2028	$
6	Wood walkway to beach - 1	$12,000
	Total Scheduled Replacements	$12,000

Item	2029	$
1	Asphalt pavement, seal coat	$21,176
7	Wood walkway to beach - 1	$13,000
19	Concrete sidewalk (6%)	$1,658
51	Tennis court, color coat w/ re	$14,000
53	Tennis court, net	$700
	Total Scheduled Replacements	$50,533

Item	2030	$
	No Scheduled Replacements	

Item	2031	$
13	Entry monument sign, carve	$4,000
	Total Scheduled Replacements	$4,000

Item	2032	$
11	Site light head (standard)	$450
12	Site light pole (standard)	$1,500
29	Concrete curb and gutter (3	$3,528
	Total Scheduled Replacements	$5,478

Item	2033	$
36	T1 - Shingle asphalt/fibergla	$41,280
37	T1 - EDPM roof	$3,978
	Total Scheduled Replacements	$45,258

Item	2034	$
1	Asphalt pavement, seal coat	$21,176
39	T2 - Shingle asphalt/fibergla	$79,704
40	T2 - EDPM roof	$12,149
51	Tennis court, color coat w/ re	$14,000
52	Tennis court, post & footings	$2,600
53	Tennis court, net	$700
	Total Scheduled Replacements	$130,328

Item	2035	$
14	Electrical service cable (two	$2,951
20	Concrete sidewalk (6%)	$1,658
43	T3 - Shingle asphalt/fibergla	$22,880
45	T3 - EDPM roof	$13,650
	Total Scheduled Replacements	$41,139

Item	2036	$
8	Wood walkway - tennis cour	$7,200
44	T3 - Shingle asphalt/fibergla	$22,880
46	T3 - EDPM roof	$13,650
48	T4 - Shingle asphalt/fibergla	$28,464
49	T4 - EDPM roof	$21,294
	Total Scheduled Replacements	$93,488

Item	2037	$
	No Scheduled Replacements	

Item	2038	$
30	Concrete curb and gutter (3	$3,528
	Total Scheduled Replacements	$3,528

Item	2039	$
1	Asphalt pavement, seal coat	$21,176
2	Asphalt pavement, overlay	$148,231
9	Trash corral surround, 8' wo	$768
10	Board fence (wood)	$8,100
51	Tennis court, color coat w/ re	$14,000
53	Tennis court, net	$700
	Total Scheduled Replacements	$192,974

Item	2040	$
	No Scheduled Replacements	

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CONDITION ASSESSMENT

General Comments. Miller - Dodson Associates conducted a Reserve Study at Pilot Point in September 2010. Pilot Point is in average condition for a community constructed in 1970. A review of the Replacement Reserve Inventory will show that we are anticipating most of the components achieving their normal economic lives.

The following comments pertain to the larger, more significant components in the Replacement Reserve 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 Replacement Reserve Analysis or Inventory.

SITE IMPROVEMENTS

Asphalt Pavement. The site includes asphalt pavement for vehicle access and parking. In general, the asphalt pavement is in fair condition with multiple areas of defects. The Association maintains an inventory of asphalt pavement parking areas:

Asphalt Parking Area

The defects noted include the following:

- Open Cracks. There are multiple locations where open cracks are allowing water to penetrate to the asphalt base and the bearing soils beneath the pavement. This water will erode the base accelerating the deterioration of the asphalt pavement. If the cracks have allowed the deterioration of the base materials and the bearing soil, the damaged areas should be removed and replaced. All other cracks should be cleaned and filled.

- Alligatoring. There are multiple locations where the asphalt has developed a pattern of cracking known as alligatoring. Alligatoring is the result of an unstable base under the asphalt. Shifting in the base causes the asphalt to crack and shift, forming the cracks that resemble the skin of an alligator. Once these cracks extend through the asphalt, they will allow water to penetrate to the base, accelerating the rate of deterioration. The only solution is to remove the defective asphalt and compact the base before new asphalt is installed.

As a rule of thumb, asphalt should be overlayed when approximately five percent of the surface area has become cracked or has failed. The normal service life of asphalt pavement is typically 18 to 20 years.

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

- 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.

- 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.

- 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 as discussed above should be completed first.

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

Asphalt Seal Coat. The asphalt pavement was reported is estimated to have been seal coated within the past two years. The seal coating is in good condition overall. We recommend following a crack filling and recoating cycle of five years for asphalt surfaces.

Concrete Flatwork. The concrete flatwork includes the community sidewalks. The Association maintains an inventory of concrete flatwork. The overall condition of the concrete flatwork is good.

The standards we used for recommending replacement are as follows:

1. Trip hazard, 0.5 inch height difference.
2. Severe cracking.
3. Severe spalling
4. Uneven riser heights on steps.
5. Steps with risers in excess of 8.25 inches.

Concrete Sidewalk

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 60% of the inventory and spread those funds over a 60-year timeframe to reflect the incremental nature of this work. This approach assumes a failure rate of 1% per year.

Gutter. The Association maintains an inventory of concrete gutter. All components have been well maintained and are in excellent condition. Any problems noted are in the form of minor cracks, spalling or settlement that can be repaired by continued periodic replacement of broken sections.

Because it is highly unlikely that all of the community's concrete curb and gutter sections will fail and require replacement in the period of the study, we have programmed funds for the replacement of 30 percent of the inventory and spread those funds over a 60-year timeframe to reflect the incremental nature of this work. This approach assumes a failure rate of .5% per year.

Concrete Gutter

Wood Boardwalks. The community maintains five wood boardwalks to the beach. The condition of the wood walkways ranges from fair to poor. Most areas have moderate to extensive cracking and splitting. We have assumed that when these components are replaced, they will be replaced with similar materials. The wood boardwalks to the individual units are the responsibility of the unit owners.

Beach Access Boardwalk

The Association will be replacing one of the boardwalks in 2010 and plans to replace one a year for the next four years.

When it becomes necessary to replace the surface boards in the boardwalks, the community may wish to consider using one of the engineered wood products instead of pressure treated lumber. While the initial cost of the engineered wood product is higher, it offers one and one-half to two times the service life of pressure treated lumber.

Storm Water System. We have included the catch basins and underground piping portions of the storm water system in the Reserve Analysis. 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.

Site Lighting. The Association is responsible for the operation of the community's light. The lighting system was not on at the time of our site visit. We understand that the lighting system is in good operating condition.

Wood Board Fencing. Wood board fencing is installed along the property perimeter in several locations in the community. The Association maintains an inventory of 300 linear feet of wood board fencing. The condition of the fencing varies from good to poor. The defects noted include the following:

Wood Fencing

- Loose boards. Numerous boards are currently loose and need to be renailed.
- Missing boards. Numerous sections of the fencing have missing boards.
- Warped boards. Numerous sections of the fencing have boards that are badly warped. Warped boards should be replaced to maintain the integrity of the fencing.
- Loose/Leaning Fence Posts. A number of the wood fence posts are not properly supported by the ground. As a result, they are loose and can be easily moved. Additional posts are leaning.

BUILDING EXTERIORS

Asphalt Shingle Roofing. All of the buildings (except for one scheduled for next year) have had the asphalt shingle roofs replaced. We have estimated the remaining useful life of the roofs based on the conditions seen at the site as well as the age of the roofs. We have assumed that when the roofs eventually will require replacement, all roofs will be replaced with 30-year roofs. Due to the harsh conditions of the shore line, these shingles have an expected life expectancy of 20 years.

Due to the large inventory, we have divided the roof inventory into 4 components and spread their replacement over a 4 year period.

Building Elevation - Typ

Single-Ply Roofing. The roof appears to be in good condition with no obvious signs of disrepair or ponding at this time. Although the membrane has a long life expectancy, these roofs will typically fail at the seams in the panels and around vents and other roof details. Because the rubber oxidizes over time the resealing of failed seams and joints has historically proven to be difficult, in that the oxidation inhibits the rebonding of the failed seams.

Cedar Shingle Siding. The painted cedar shingle siding on the buildings is in fair to poor overall condition. The defects we noted include the following:

Cedar Siding

- Loose Shingles. We found a number of areas with loose shingles. Loose shingles typically are the result of a failure of the fasteners; an indication that the siding is approaching the end of its service life. Loose shingles can easily be torn from the building by even moderate winds.

- Broken and Split Shingles. It is recommended that all shingles be replaced once the number of broken and split shingles passes fifteen percent of the inventory.

- Warped Shingles. There are a large number of shingles that have warped as the result of moisture or improper installation. Once warped, these shingles may allow water to penetrate additional shingles, accelerating their deterioration.

The Association has been replacing damaged and missing shingles as part of the repainting program. This process maintains the water tightness of the system, however it has created sections of wall made up of the newest and the oldest shingles side by side. This situation plus the fact that the shingles have been painted numerous times has made these walls look " old and tired".

Fiber Cement Siding. The Association is planning to replace the cedar siding with fiber cement siding. Fiber cement siding is a low-maintenance item that typically has a service life of 40 years or more. We recommend that once a year the siding be inspected for proper attachment and sealing.

Hardie Plank Siding

RECREATIONAL FACILITIES

Tennis Courts - Asphalt. The community maintains two tennis courts. The overall condition of these courts is fair to poor. Listed below are the major components of the tennis court facilities:

Tennis Courts

- Asphalt Pavement. The asphalt pavement for the tennis court is in poor condition with cracks and splits that extend into the playing surface.
- Color Coat. The color coat on the tennis courts is in good condition with some major defects in its finish.
- Fencing. The fencing installed around the tennis courts is chain link and in good condition. There were no noted defects. We have assumed that the fencing will be replaced when the asphalt pavement is replaced.
- Net Posts. The net posts are in good condition. We have assumed that the new posts will be replaced when the asphalt pavement is replaced.

The Association has had several tennis court companies review the existing facilities. It is reported that because the courts are constructed on a sand base, that the courts will always crack and that no guarantees will be made about any work done. For this reason the study includes major patch and repair along with a color coat every five years.

This Condition Assessment is based upon our visual survey of the property. The sole purpose of the visual survey was an evaluation of the common elements of the property to ascertain the remaining useful life and the replacement costs of these common elements. Our evaluation assumed that all components met building code requirements in force at the time of construction. Our visual survey was conducted with care by experienced persons, but no warranty or guarantee is expressed or implied.

End of Condition Assessment

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Photo #1. Dumpster Enclosure

Photo #2. Managers Office – Not in Study

Photo #3 Walkways to Units – Not in Study

Photo #4. Snowdrift Fencing – Not in Study

Photo #5. Tennis Court - Cracks

Photo #6. Electrical System

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CASH FLOW METHOD ACCOUNTING SUMMARY

This Pilot Point - Cash Flow Method Accounting Summary is an attachment to the Pilot Point - Replacement Reserve Study dated September 19, 2010 and is for use by accounting and reserve professionals experienced in Association funding and accounting principles. This Summary consists of four reports, the 2011, 2012, and 2013 Cash Flow Method Category Funding Reports (3) and a Three-Year Replacement Funding Report.

- CASH FLOW METHOD CATEGORY FUNDING REPORT, 2011, 2012, and 2013. Each of the 54 Projected Replacements listed in the Pilot Point Replacement Reserve Inventory has been assigned to one of 4 categories. The following information is summarized by category in each report:
  - Normal Economic Life and Remaining Economic Life of the Projected Replacements.
  - Cost of all Scheduled Replacements in each category.
  - Replacement Reserves on Deposit allocated to the category at the beginning and end end of the report period.
  - Cost of Projected Replacements in the report period.
  - Recommended Replacement Reserve Funding allocated to the category during the report period as calculated by the Cash Flow Method.

- THREE-YEAR REPLACEMENT FUNDING REPORT. This report details the allocation of the $300,000 Beginning Balance (at the start of the Study Year) and the $160,482 of additional Replacement Reserve Funding in 2011 through 2013 (as calculated in the Replacement Reserve Analysis) to each of the 54 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made using Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and discussed below. The calculated data includes:
  - Identification and estimated cost of each Projected Replacement schedule in years 2011 through 2013.
  - Allocation of the $300,000 Beginning Balance to the Projected Replacements by Chronological Allocation.
  - Allocation of the $160,482 of additional Replacement Reserve Funding recommended in the Replacement Reserve Analysis in years 2011 through 2013, by Chronological Allocation.

- CHRONOLOGICAL ALLOCATION. Chronological Allocation assigns Replacement Reserves to Projected Replacements on a "first come, first serve" basis in keeping with the basic philosophy of the Cash Flow Method. The Chronological Allocation methodology is outlined below.
  - The first step is the allocation of the $300,000 Beginning Balance to the Projected Replacements in the Study Year. Remaining unallocated funds are next allocated to the Projected Replacements in subsequent years in chronological order until the total of Projected Replacements in the next year is greater than the unallocated funds. Projected Replacements in this year are partially funded with each replacement receiving percentage funding. The percentage of funding is calculated by dividing the unallocated funds by the total of Projected Replacements in the partially funded year.

    At Pilot Point the Beginning Balance funds 59.1% of Scheduled Replacements in the Study Year through 2013 and provides partial funding(1%) of replacements scheduled in 2014.
  - The next step is the allocation of the $53,494 of 2011 Cash Flow Method Reserve Funding calculated in the Replacement Reserve Analysis. These funds are first allocated to fund the partially funded" Projected Replacements and then to subsequent years in chronological order as outlined above.

    At Pilot Point the Beginning Balance and the 2011 Replacement Reserve Funding, funds replacements through 2013 and partial funds (89.8%) replacements in 2014.
  - Allocations of the 2010 and 2011 Reserve Funding are done using the same methodology.
  - The Three-Year Replacement Funding Report details component by component allocations made by Chronological Allocation.

2011 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CF-1 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- A Beginning Balance of $300,000 as of the first day of the Study Year, January 1, 2011.
- Total reserve funding (including the Beginning Balance) of $353,494 in the Study Year.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2011 being accomplished in 2011 at a cost of $48,188.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2011 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF-1

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2011 BEGINNING BALANCE	2011 RESERVE FUNDING	2011 PROJECTED REPLACEMENTS	2011 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 28 years	$281,876	$27,547	$27,708	$10,000	$45,255
SITE COMPONENT (cont.)	60 years	0 to 57 years	$53,325	$13,047	$2,960	$1,658	$14,350
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	0 to 25 years	$804,279	$254,735	$105,857	$36,530	$324,061
COURTS	5 to 30 years	0 to 13 years	$33,140	$4,672	$4,694		$9,366

2012 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CF-2 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $305,306 on January 1, 2012.
- Total reserve funding (including the Beginning Balance) of $406,988 in 2011 through 2012.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2012 being accomplished in 2012 at a cost of $136,868.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2012 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF-2

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2012 BEGINNING BALANCE	2012 RESERVE FUNDING	2012 PROJECTED REPLACEMENTS	2012 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 27 years	$281,876	$45,255	$23,155	$12,000	$56,410
SITE COMPONENT (cont.)	60 years	2 to 59 years	$53,325	$14,350	$2,123		$16,472
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	0 to 24 years	$804,279	$324,061	$88,251	$124,868	$287,445
COURTS	5 to 30 years	2 to 12 years	$33,140	$9,366	$4,694		$14,060

2013 - CASH FLOW METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CF-3 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $221,932 on January 1, 2013.
- Total Replacement Reserve funding (including the Beginning Balance) of $460,482 in 2011 to 2013.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2013 being accomplished in 2013 at a cost of $12,000.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2013 - CASH FLOW METHOD CATEGORY FUNDING - TABLE CF-3

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2013 BEGINNING BALANCE	2013 RESERVE FUNDING	2013 PROJECTED REPLACEMENTS	2013 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 26 years	$281,876	$56,410	$20,441	$12,000	$64,851
SITE COMPONENT (cont.)	60 years	1 to 58 years	$53,325	$16,472	$2,123		$18,595
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	1 to 49 years	$804,279	$287,445	$56,968		$344,412
COURTS	5 to 30 years	1 to 11 years	$33,140	$14,060	$4,694		$18,754

CASH FLOW METHOD - THREE-YEAR REPLACEMENT FUNDING REPORT

TABLE 4 below details the allocation of the $300,000 Beginning Balance, as reported by the Association and the

Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made by Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and outlined on Page CF-1. The accuracy of the allocations is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $300,000 on January 1, 2011.
- Replacement Reserves on Deposit totaling $305,306 on January 1, 2012.
- Replacement Reserves on Deposit totaling $221,932 on January 1, 2013.
- Total Replacement Reserve funding (including the Beginning Balance) of $460,482 in 2011 to 2013.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2011 to 2013 being accomplished as scheduled in the Replacement Reserve Inventory at a cost of $197,056.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates, Inc., to arrange for an update of the Replacement Reserve Study.

CASH FLOW METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE CF-4

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2011 Reserve Funding	2011 Projected Replacements	2011 End of Year Balance	2012 Reserve Funding	2012 Projected Replacements	2012 End of Year Balance	2013 Reserve Funding	2013 Projected Replacements	2013 End of Year Balance
	SITE COMPONENT											
1	Asphalt pavement, seal coat	21,176	12,514	6,503		19,016	2,159		21,176			21,176
2	Asphalt pavement, overlay	148,231										
3	Wood walkway to beach - 1 of 5	10,000										
4	Wood walkway to beach - 1 of 5	10,000	10,000		(10,000)							
5	Wood walkway to beach - 1 of 5	12,000	12,000			12,000		(12,000)				
6	Wood walkway to beach - 1 of 5	12,000	12,000			12,000			12,000		(12,000)	
7	Wood walkway to beach - 1 of 5	13,000	7,682	3,992		11,674	1,326		13,000			13,000
8	Wood walkway - tennis court, decking	7,200										
9	Trash corral surround, 8' wood	768										
10	Board fence (wood)	8,100										
11	Site light head (standard)	450										
12	Site light pole (standard)	1,500										
13	Entry monument sign, carved	4,000										
14	Electrical service cable (two units)	2,951					874		874	1,308		2,182
15	Stormwater mgmt (10%)	30,500										
	SITE COMPONENT (cont.)											
16	Concrete sidewalk (6%)	1,658	1,658		(1,658)							
17	Concrete sidewalk (6%)	1,658										
18	Concrete sidewalk (6%)	1,658										
19	Concrete sidewalk (6%)	1,658										
20	Concrete sidewalk (6%)	1,658										
21	Concrete sidewalk (6%)	1,658										
22	Concrete sidewalk (6%)	1,658										
23	Concrete sidewalk (6%)	1,658										
24	Concrete sidewalk (6%)	1,658										
25	Concrete sidewalk (6%)	1,658										
26	Concrete curb and gutter (3%)	4,998	2,954	1,535		4,488	510		4,998			4,998
27	Concrete curb and gutter (3%)	3,528										
28	Concrete curb and gutter (3%)	3,528										
29	Concrete curb and gutter (3%)	3,528										
30	Concrete curb and gutter (3%)	3,528										
31	Concrete curb and gutter (3%)	3,528										
32	Concrete curb and gutter (3%)	3,528										
33	Concrete curb and gutter (3%)	3,528										
34	Concrete curb and gutter (3%)	3,528										
35	Concrete curb and gutter (3%)	3,528										
	BUILDING EXTERIOR (T1, T2, T3,											
36	T1 - Shingle asphalt/fiberglass	41,280										
37	T1 - EDPM roof	3,978										
38	T1 - Siding & trim, cementitious	124,868	124,868			124,868		(124,868)				
39	T2 - Shingle asphalt/fiberglass	79,704										

CASH FLOW METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE 4 cont'd

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2011 Reserve Funding	2011 Projected Replacements	2011 End of Year Balance	2012 Reserve Funding	2012 Projected Replacements	2012 End of Year Balance	2013 Reserve Funding	2013 Projected Replacements	2013 End of Year Balance
40	T2 - EDPM roof	12,149										
41	T2 - Siding & trim, cementitious	117,729	69,571	36,152		105,723	12,005		117,729			117,729
42	T2 - Siding & trim, cementitious	117,729					34,856		34,856	52,186		87,041
43	T3 - Shingle asphalt/fiberglass	22,880										
44	T3 - Shingle asphalt/fiberglass	22,880	22,880		(22,880)							
45	T3 - EDPM roof	13,650										
46	T3 - EDPM roof	13,650	13,650		(13,650)							
47	T3 - Siding & trim, cementitious	99,769										
48	T4 - Shingle asphalt/fiberglass	28,464										
49	T4 - EDPM roof	21,294										
50	T4 - Siding & trim, cementitious	84,256										
	COURTS											
51	Tennis court, color coat w/ repair	14,000	8,273	4,299		12,572	1,428		14,000			14,000
52	Tennis court, post & footings	2,600	1,536	798		2,335	265		2,600			2,600
53	Tennis court, net	700	414	215		629	71		700			700
54	Tennis court, fence	15,840										

COMPONENT METHOD ACCOUNTING SUMMARY

This Pilot Point - Component Method Accounting Summary is an attachment to the Pilot Point - Replacement Reserve Study dated September 19, 2010 and is for use by accounting and reserve professionals experienced in Association funding and accounting principals. This Summary consists of four reports, the 2011, 2012, and 2013 Cash Flow Method Category Funding Reports (3) and a Three-Year Replacement Funding Report.

- COMPONENT METHOD CATEGORY FUNDING REPORT, 2011, 2012, and 2013. Each of the 54 Projected Replacements listed in the Pilot Point Replacement Reserve Inventory has been assigned to one of 4 categories. The following information is summarized by category in each report:
  - Normal Economic Life and Remaining Economic Life of the Projected Replacements.
  - Cost of all Scheduled Replacements in each category.
  - Replacement Reserves on Deposit allocated to the category at the beginning and end end of the report period.
  - Cost of Projected Replacements in the report period.
  - Recommended Replacement Reserve Funding allocated to the category during the report period as calculated by the Component Method.

- THREE-YEAR REPLACEMENT FUNDING REPORT. This report details the allocation of the $300,000 Beginning Balance (at the start of the Study Year) and the $343,667 of additional Replacement Reserve funding in 2011 through 2013 (as calculated in the Replacement Reserve Analysis) to each of the 54 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made using the Component Method as outlined in the Replacement Reserve Analysis.
  The calculated data includes:
  - Identification and estimated cost of each Projected Replacement schedule in years 2011 through 2013.
  - Allocation of the $300,000 Beginning Balance to the Projected Replacements by the Component Method.
  - Allocation of the $343,667 of additional Replacement Reserve Funding recommended in the Replacement Reserve Analysis in years 2011 through 2013, by the Component Method.

2011 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CM-1 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- A Beginning Balance of $300,000 as of the first day of the Study Year, January 1, 2011.
- Total reserve funding (including the Beginning Balance) of $441,219 in the Study Year.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2011 being accomplished in 2011 at a cost of $48,188.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2011 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM-1

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2011 BEGINNING BALANCE	2011 RESERVE FUNDING	2011 PROJECTED REPLACEMENTS	2011 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 28 years	$281,876	$27,547	$27,708	$10,000	$45,255
SITE COMPONENT (cont.)	60 years	0 to 57 years	$53,325	$13,047	$2,960	$1,658	$14,350
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	0 to 25 years	$804,279	$254,735	$105,857	$36,530	$324,061
COURTS	5 to 30 years	0 to 13 years	$33,140	$4,672	$4,694		$9,366

2012 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CM-2 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $393,031 on January 1, 2012.
- Total reserve funding (including the Beginning Balance) of $559,442 in 2011 through 2012.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2012 being accomplished in 2012 at a cost of $136,868.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2012 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM-2

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2012 BEGINNING BALANCE	2012 RESERVE FUNDING	2012 PROJECTED REPLACEMENTS	2012 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 27 years	$281,876	$45,255	$23,155	$12,000	$56,410
SITE COMPONENT (cont.)	60 years	2 to 59 years	$53,325	$14,350	$2,123		$16,472
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	0 to 24 years	$804,279	$324,061	$88,251	$124,868	$287,445
COURTS	5 to 30 years	2 to 12 years	$33,140	$9,366	$4,694		$14,060

2013 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 54 Projected Replacements included in the Pilot Point Replacement Reserve Inventory has been assigned to one of the 4 categories listed in TABLE CM-3 below. This calculated data is a summary of data provided in the Three-Year Replacement Funding Report and Replacement Reserve Inventory. The accuracy of this data is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $374,386 on January 1, 2013.
- Total Replacement Reserve funding (including the Beginning Balance) of $643,667 in 2011 to 2013.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2013 being accomplished in 2013 at a cost of $12,000.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates to arrange for an update of the Replacement Reserve Study.

2013 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM-3

CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2013 BEGINNING BALANCE	2013 RESERVE FUNDING	2013 PROJECTED REPLACEMENTS	2013 END OF YEAR BALANCE
SITE COMPONENT	5 to 30 years	0 to 26 years	$281,876	$56,410	$20,441	$12,000	$64,851
SITE COMPONENT (cont.)	60 years	1 to 58 years	$53,325	$16,472	$2,123		$18,595
BUILDING EXTERIOR (T1, T2, T3, T4)	25 to 50 years	1 to 49 years	$804,279	$287,445	$56,968		$344,412
COURTS	5 to 30 years	1 to 11 years	$33,140	$14,060	$4,694		$18,754

COMPONENT METHOD - THREE-YEAR REPLACEMENT FUNDING REPORT

TABLE CM-4 below details the allocation of the $300,000 Beginning Balance, as reported by the Association and the $460,482 of Replacement Reserve Funding calculated by the Cash Flow Method in 2011 to 2013, to the 54 Projected Replacements listed in the Replacement Reserve Inventory. These allocations have been made by Chronological Allocation, a method developed by Miller Dodson Associates, Inc., and outlined on Page CF-1. The accuracy of the allocations is dependent upon many factors including the following critical financial data:

- Replacement Reserves on Deposit totaling $300,000 on January 1, 2011.
- Replacement Reserves on Deposit totaling $393,031 on January 1, 2012.
- Replacement Reserves on Deposit totaling $374,386 on January 1, 2013.
- Total Replacement Reserve funding (including the Beginning Balance) of $643,667 in 2011 to 2013.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory in 2011 to 2013 being accomplished as scheduled in the Replacement Reserve Inventory at a cost of $197,056.

If any of these critical factors are inaccurate, do not use the data and please contact Miller Dodson Associates, Inc., to arrange for an update of the Replacement Reserve Study.

COMPONENT METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE CM-4

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2011 Reserve Funding	2011 Projected Replacements	2011 End of Year Balance	2012 Reserve Funding	2012 Projected Replacements	2012 End of Year Balance	2013 Reserve Funding	2013 Projected Replacements	2013 End of Year Balance
	SITE COMPONENT											
1	Asphalt pavement, seal coat	21,176	2,025	4,788		6,812	4,788		11,600	4,788		16,388
2	Asphalt pavement, overlay	148,231	2,362	5,030		7,392	5,030		12,422	5,030		17,452
3	Wood walkway to beach - 1 of 5	10,000		625		625	625		1,250	625		1,875
4	Wood walkway to beach - 1 of 5	10,000	4,781	5,219	(10,000)		667		667	667		1,333
5	Wood walkway to beach - 1 of 5	12,000	4,972	3,514		8,486	3,514	(12,000)		800		800
6	Wood walkway to beach - 1 of 5	12,000	4,589	2,470		7,060	2,470		9,530	2,470	(12,000)	
7	Wood walkway to beach - 1 of 5	13,000	4,557	2,111		6,668	2,111		8,779	2,111		10,889
8	Wood walkway - tennis court, decking	7,200	918	571		1,489	571		2,060	571		2,631
9	Trash corral surround, 8' wood	768	202	63		265	63		328	63		391
10	Board fence (wood)	8,100	2,130	663		2,793	663		3,456	663		4,120
11	Site light head (standard)	450	115	48		163	48		211	48		258
12	Site light pole (standard)	1,500	191	59		251	59		310	59		370
13	Entry monument sign, carved	4,000		190		190	190		381	190		571
14	Electrical service cable (two units)	2,951	705	449		1,155	449		1,604	449		2,053
15	Stormwater mgmt (10%)	30,500		1,906		1,906	1,906		3,813	1,906		5,719
	SITE COMPONENT (cont.)											
16	Concrete sidewalk (6%)	1,658	792	865	(1,658)		28		28	28		55
17	Concrete sidewalk (6%)	1,658	700	137		837	137		974	137		1,110
18	Concrete sidewalk (6%)	1,658	621	80		700	80		780	80		860
19	Concrete sidewalk (6%)	1,658	541	59		600	59		659	59		718
20	Concrete sidewalk (6%)	1,658	462	48		510	48		558	48		606
21	Concrete sidewalk (6%)	1,658	383	41		424	41		465	41		506
22	Concrete sidewalk (6%)	1,658	304	37		340	37		377	37		414
23	Concrete sidewalk (6%)	1,658	225	33		258	33		291	33		324
24	Concrete sidewalk (6%)	1,658	145	31		176	31		207	31		238
25	Concrete sidewalk (6%)	1,658	66	29		95	29		124	29		153
26	Concrete curb and gutter (3%)	4,998	2,230	692		2,922	692		3,614	692		4,306
27	Concrete curb and gutter (3%)	3,528	1,405	212		1,618	212		1,830	212		2,042
28	Concrete curb and gutter (3%)	3,528	1,237	143		1,380	143		1,523	143		1,666
29	Concrete curb and gutter (3%)	3,528	1,068	112		1,180	112		1,292	112		1,404
30	Concrete curb and gutter (3%)	3,528	900	94		993	94		1,087	94		1,181
31	Concrete curb and gutter (3%)	3,528	731	82		813	82		895	82		978
32	Concrete curb and gutter (3%)	3,528	562	74		636	74		710	74		785
33	Concrete curb and gutter (3%)	3,528	394	68		462	68		530	68		598
34	Concrete curb and gutter (3%)	3,528	225	64		288	64		352	64		415
35	Concrete curb and gutter (3%)	3,528	56	60		116	60		176	60		236
	BUILDING EXTERIOR (T1, T2, T3,											
36	T1 - Shingle asphalt/fiberglass	41,280	1,579	1,726		3,305	1,726		5,031	1,726		6,757
37	T1 - EDPM roof	3,978	152	166		318	166		485	166		651
38	T1 - Siding & trim, cementitious	124,868	57,306	33,781		91,087	33,781	(124,868)		2,497		2,497
39	T2 - Shingle asphalt/fiberglass	79,704	1,524	3,257		4,782	3,257		8,039	3,257		11,297

COMPONENT METHOD - THREE-YEAR REPLACEMENT FUNDING - TABLE CM-4 cont'd

Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2011 Reserve Funding	2011 Projected Replacements	2011 End of Year Balance	2012 Reserve Funding	2012 Projected Replacements	2012 End of Year Balance	2013 Reserve Funding	2013 Projected Replacements	2013 End of Year Balance
40	T2 - EDPM roof	12,149	232	497		729	497		1,225	497		1,722
41	T2 - Siding & trim, cementitious	117,729	51,778	16,488		68,266	16,488		84,754	16,488		101,241
42	T2 - Siding & trim, cementitious	117,729	50,653	13,415		64,068	13,415		77,483	13,415		90,898
43	T3 - Shingle asphalt/fiberglass	22,880		915		915	915		1,830	915		2,746
44	T3 - Shingle asphalt/fiberglass	22,880	10,938	11,942	(22,880)		915		915	915		1,830
45	T3 - EDPM roof	13,650		546		546	546		1,092	546		1,638
46	T3 - EDPM roof	13,650	6,525	7,125	(13,650)		546		546	546		1,092
47	T3 - Siding & trim, cementitious	99,769	41,018	8,393		49,411	8,393		57,804	8,393		66,197
48	T4 - Shingle asphalt/fiberglass	28,464		1,095		1,095	1,095		2,190	1,095		3,284
49	T4 - EDPM roof	21,294		819		819	819		1,638	819		2,457
50	T4 - Siding & trim, cementitious	84,256	33,029	5,692		38,721	5,692		44,412	5,692		50,104
	COURTS											
51	Tennis court, color coat w/ repair	14,000	1,339	3,165		4,504	3,165		7,669	3,165		10,835
52	Tennis court, post & footings	2,600	994	401		1,396	401		1,797	401		2,199
53	Tennis court, net	700	67	158		225	158		383	158		542
54	Tennis court, fence	15,840	2,272	969		3,241	969		4,210	969		5,179

1. COMMON INTEREST DEVELOPMENTS - AN OVERVIEW

Over the past 40 years, the responsibility for community facilities and infrastructure around many of our homes has shifted from the local government to Community Associations. Thirty years ago, a typical new town house abutted a public street on the front and a public alley on the rear. Open space was provided by a nearby public park and recreational facilities were purchased ala carte from privately owned country clubs, swim clubs, tennis clubs, and gymnasiums. Today, 60% of all new residential construction, i.e. townhouses, single family homes, condominiums, and cooperatives, is in Common Interest Developments (CID). In a CID, a home owner is bound to a Community Association that owns, maintains, and is responsible for periodic replacements of various components that may include the roads, curbs, sidewalks, playgrounds, street lights, recreational facilities, and other community facilities and infrastructure.

The growth of Community Associations has been explosive. In 1965 there were only 500 Community Associations in the United States. According to the U.S. Census, there were 130,000 Community Associations in 1990. Community Associations Institute (CAI), a national trade association, estimates there were more than 200,000 Community Associations in the year 2000, and that the number of Community Associations will continue to multiply.

The shift of responsibility for billions of dollars of community facilities and infrastructure from the local government and private sector to Community Associations has generated new and unanticipated problems. Although Community Associations have succeeded in solving many short term problems, many Associations have failed to properly plan for the tremendous expenses of replacing community facilities and infrastructure components. When inadequate replacement reserve funding results in less than timely replacements of failing components, home owners are exposed to the burden of special assessments, major increases in Association fees, and a decline in property values.

2. REPLACEMENT RESERVE STUDY

The purpose of a Replacement Reserve Study is to provide the Association with an inventory of the common community facilities and infrastructure components that require periodic replacement, a general view of the condition of these components, and an effective financial plan to fund projected periodic replacements. The Replacement Reserve Study consists of the following:

- Replacement Reserve Study Introduction. The introduction provides a description of the property, reviews the intent of the Replacement Reserve Study, and lists documents and site evaluations upon which the Replacement Reserve Study is based.

- Section A Replacement Reserve Analysis. Many components owned by the Association have a limited life and require periodic replacement. Therefore it is essential the Association have a financial plan that provides funding for the timely replacement of these components in order to protect the safety, appearance, and value of the community. In conformance with American Institute of Certified Public Accountant guidelines, Section A Replacement Reserve Analysis evaluates the current funding of Replacement Reserves as reported by the Association and recommends annual funding of Replacement Reserves by two generally accepted accounting methods; the Cash Flow Method and the Component Method. Section A Replacement Reserve Analysis includes graphic and tabular presentations of these methods and current Association funding.

- Section B Replacement Reserve Inventory. The Replacement Reserve Inventory lists the commonly-owned components within the community that require periodic replacement using funding from Replacement Reserves. The Replacement Reserve Inventory also provides information about components excluded from the Replacement Reserve Inventory whose replacement is not scheduled for funding from Replacement Reserves.

  Replacement Reserve Inventory includes estimates of the normal economic life and the remaining economic life for those components whose replacement is scheduled for funding from Replacement Reserves.

- Section C Projected Annual Replacements. The Calendar of Projected Annual Replacements provides a year-by-year listing of the Projected Replacements based on the data in the Replacement Reserve Inventory.

- Section D Condition Assessment. Several of the items listed in the Replacement Reserve Inventory are discussed in more detail. The Condition Assessment includes a narrative and photographs that document conditions at the property observed during our visual evaluation.

- Section E Attachments. The Appendix is provided as an attachment to the Replacement Reserve Study. Additional attachments may include supplemental photographs to document conditions at the property and additional information specific to the property cited in the Conditions Assessment (i.e. Consumer Product Safety Commission, Handbook for Public Playground Safety, information on segmental retaining walls, manufacturer recommendations for asphalt shingles or siding, etc).

3. METHODS OF ANALYSIS

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 the Association. The two methods are:

- Component Method. This method is a time tested mathematical model developed by HUD in the early 1980s. 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 Reserves 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.

- 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 Method.

- 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.

4. REPLACEMENT RESERVE STUDY DATA

- Identification of Reserve Components. The Reserve Analyst has only two methods of identifying Reserve Components; 1) information provided by the Association and 2) observations made at the site. It is important that the Reserve Analyst be provided with all available information detailing the components owned by the Association. It is our policy to request such information prior to bidding on a project and to meet with the individuals responsible for maintaining the community after acceptance of our proposal. After completion of the Study, the Study should be reviewed by the Board of Directors, individuals responsible for maintaining the community, and the Association's accounting professionals. We are dependent upon the Association for correct information, documentation, and drawings.

- 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.

5. 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 A1 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 Method, 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 cost. 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)

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 A1. 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 A1. 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 A1, 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 total 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 A1 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 A1, 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 A1, 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). Non-standard abbreviations are defined on the page of the Replacement Reserve Inventory where the item appears. The following standard abbreviations are used in this report:

EA: each FT: feet LS: lump sum PR: pair SF: square feet SY: square yard

6. LIST OF RECOMMENDED REPAIRS - PROCEDURES

A List of Recommended Repairs is offered as a supplemental report to the Replacement Reserve Study (at an additional fee) to assist the Association in understanding the financial implications of all items owned by the Association, not just the items included for funding by Replacement Reserves listed in the Replacement Reserve Inventory. The following information relates to the List of Recommended Repairs:

- Repair costs. Cost range estimates given in the repair list assume that all work by a given trade will be done together as a single project. If repairs are done piece-meal, the costs would be significantly higher. The costs of any repairs to be funded out of the Reserve Fund should be subtracted from the Reserves Currently on Deposit figure. The Board or Property Manager should coordinate this decision with the Reserve Analyst as part of the revision process.

- Completion of repairs. The Replacement Reserve Analysis assumes that all repairs cited in the Repair List will be completed within a twelve-month period of time. Estimated Life Left in the Replacement Reserve Study has been factored under this assumption. Any deletions or delays of the projects included in the List of Recommended Repairs may result in major inaccuracies in the Replacement Reserve Analysis.

- Safety issues. If safety issues have been cited, they should be given the highest priority and should be done immediately upon receipt of this report. The Board must recognize that from a liability standpoint, they have been made aware of the existence of these unsafe conditions, if any, once the report is delivered for their review.

- Unit costs. Nationally published standards and standard estimating manuals have been used in the development of this report. Contractor proposals or actual cost experience may be available as part of the Association records. We will adjust our figures to conform to your experience if the material or information is disclosed to us and/or made available for our use.