

LEVEL 2 REPLACEMENT RESERVE REPORT FY 2020 CANAL WOODS AT WATERSIDE



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REPLACEMENT RESERVE REPORT

CANAL WOODS AT WATERSIDE

FRANKFORD, DELAWARE
November 15, 2019
Revised February 27, 2020



Description. Canal Woods at Waterside is a Property Owners Association located in Frankford, Delaware. The community consists of 3 Townhomes containing 23 units. Canal Woods at Waterside is a sub-association to the Waterside Property Owners Association. The survey examined the common elements of the property, including:

- Entry Monument and Parking Areas
- Concrete curb and sidewalks
- Building exteriors - roof and siding

Unit doors, windows, decks and driveways are the responsibility of the Owners. Irrigation system and bridges are part of the Master Association.

Level of Service. This study has been performed as a Level 2 Update with Site Visit/On-Site Review as defined by the Community Associations Institute's, National Reserve Study Standards. As such, the component inventory is based on the study that was performed by USI Commercial in September 2014. This inventory was adjusted to reflect changes provided by the Community Manager and/or the Board of Directors, or adjustments made based on the site visit and visual assessment performed by the Analyst. The analysis, including fund status and funding plan, is developed from the adjusted inventory.

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To aid in the understanding of this report and its concepts and practices, on our web site, we have developed videos addressing frequently asked topics. In addition, there are posted links covering a variety of subjects under the resources page of our web site at mdareserves.com.

Purpose. The purpose of this Replacement Reserve Study is to provide Canal Woods at Waterside (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 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 includes our estimates of the normal economic life and the remaining economic life for the projected replacements. Section C provides a year-by-year listing of the projected replacements. Section D 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 the Cash Flow Method. Section A, Replacement Reserve Analysis includes graphic and tabular presentations of the Association's current funding and the recommended funding based on the Cash Flow Method. An Executive Summary of these calculations is provided on Page A1. The alternative Component Method of funding is provided in the Appendix.

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

- The Request for Proposal submitted and executed by the Association.
- Miller+Dodson performed a visual evaluation on November 15, 2019 to determine a remaining useful life and replacement cost for the commonly owned elements of this facility.
- This study contains additional recommendations to address inflation for the Cash Flow Method only. For this recommendation, Miller+Dodson uses the Producers Price Index (PPI), which gauges inflation in manufacturing and construction. Please see page A5 for further details.

To-Scale Drawings. Site and building plans were not used in the development of this study. We recommend the Association assemble and maintain a library of site and building plans of the entire facility. Record drawings should be scanned into an electronic format for safe storage and ease of distribution. Upon request for a nominal fee, Miller+Dodson can provide scanning services.

Current Funding. This reserve study has been prepared for Fiscal Year 2020 covering the period from January 1, 2020 to December 31, 2020. The Replacement Reserves on deposit as of January 1, 2020 are proposed to be \$33,076. The reported current annual funding for reserves is \$12,350.

The balance and contribution figures have been supplied by the managing 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 Jennifer Fannin who provided very helpful insight into the current operations of the property.

Analyst's Credentials. Mr. Gregory S. Gilbert (RS) 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. Greg has also performed over twenty feasibility studies for the U. S. Navy, Boards of Education, and retail developers, which included performing existing condition surveys to address maintenance issues, code violations, and general conditions of the structure to determine if and how the buildings can be renovated or modified. Mr. Gilbert is currently a Reserve Specialist for Miller+Dodson Associates.

Respectfully Submitted,

millerdodson
CAPITAL RESERVE CONSULTANTS

Greg Gilbert
Gregory S. Gilbert, RS

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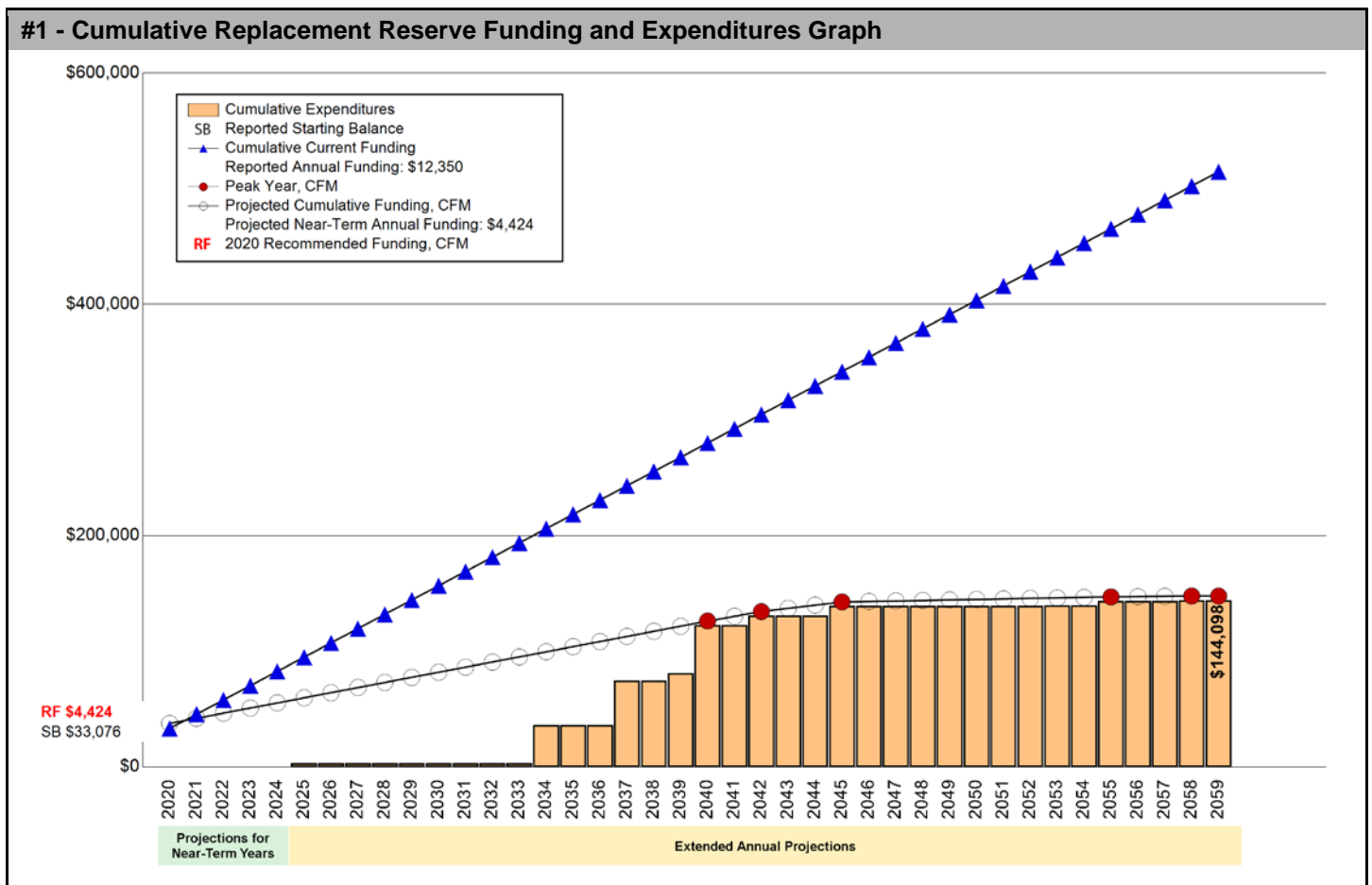
EXECUTIVE SUMMARY

The Canal Woods at Waterside Replacement Reserve Analysis uses the Cash Flow Method (CFM) to calculate Replacement Reserve funding for the periodic replacement of the 16 Projected Replacements identified in the Replacement Reserve Inventory.

\$4,424 **RECOMMENDED REPLACEMENT RESERVE FUNDING FOR THE STUDY YEAR, 2020**
 \$16.03 Per unit (average), minimum monthly funding of Replacement Reserves

We recommend the Association adopt a Replacement Reserve Funding Plan based on the annual funding recommendation above. Inflation adjusted funding for subsequent years is shown on Page A.5.

Canal Woods at Waterside reports a Starting Balance of \$33,076 and Annual Funding totaling \$12,350. The reported Current Annual Funding of \$12,350 adequately funds projected replacements for the near-term years. See Page A.3 for a more detailed evaluation.



The Current Funding Objective as calculated by the Component Method (Fully Funded) is \$58,085 making the reserve account 56.9% funded. See the Appendix for more information on this method.

REPLACEMENT RESERVE ANALYSIS - GENERAL INFORMATION

The Canal Woods at Waterside Replacement Reserve Analysis calculations of recommended funding of Replacement Reserves by the Cash Flow Method (CFM) and the evaluation of the Current Funding are based upon the same Study Year, Study Period, Beginning Balance, Replacement Reserve Inventory and Level of Service.

2020 | 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, 2020.

40 Years | STUDY PERIOD

The Replacement Reserve Analysis evaluates the funding of Replacement Reserves over a 40-year Study Period

\$33,076 | STARTING BALANCE

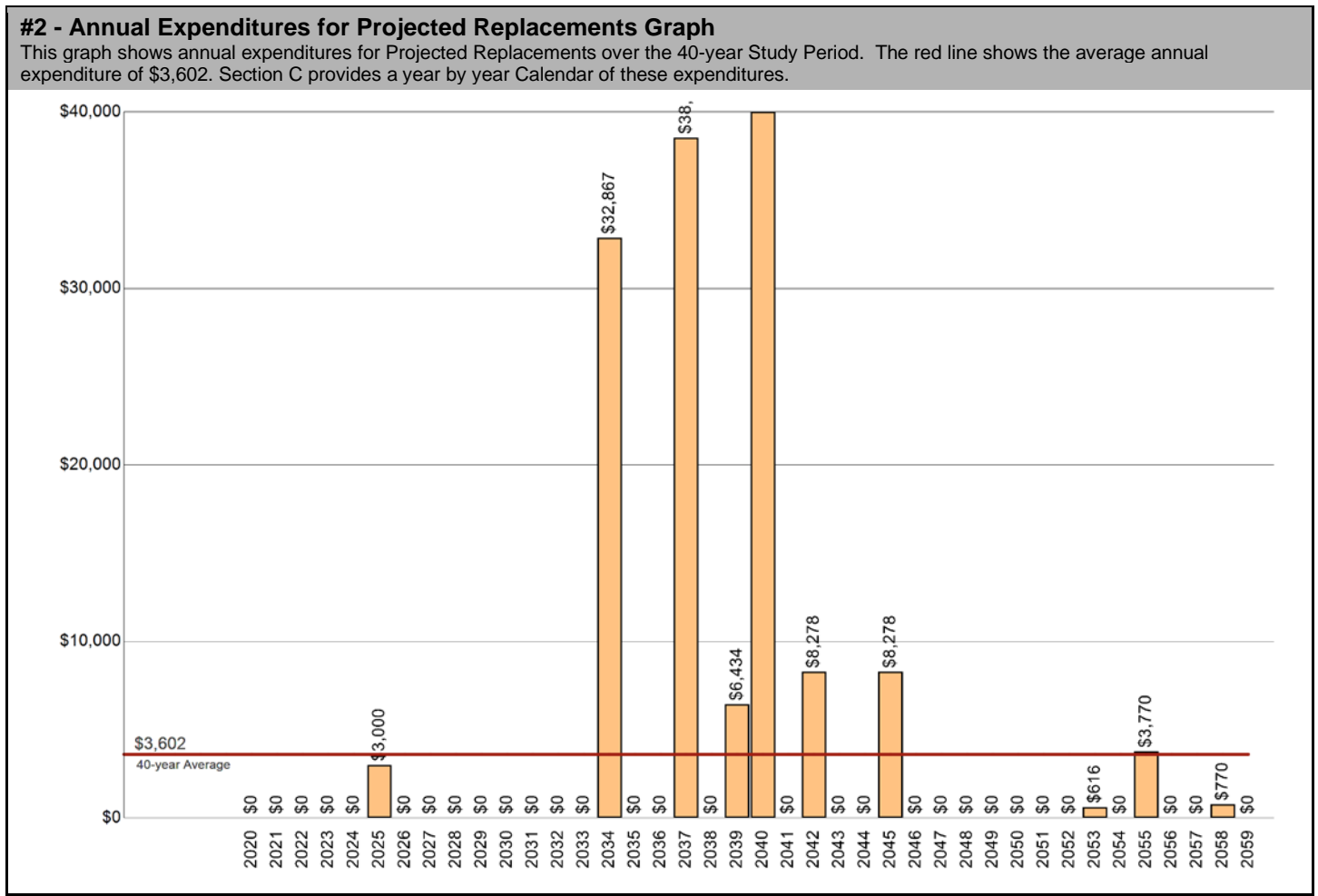
The Association reports Replacement Reserves on Deposit totaling \$33,076 at the start of the Study Year.

Level Two | LEVEL OF SERVICE

The Replacement Reserve Inventory has been developed in compliance with the National Reserve Study Standards for a Level Two Study, as defined by the Community Associations Institute (CAI).

\$144,098 | REPLACEMENT RESERVE INVENTORY - PROJECTED REPLACEMENTS

The Canal Woods at Waterside Replacement Reserve Inventory identifies 16 items that will require periodic replacement, which are to be funded from Replacement Reserves. We estimate the cost of these replacements will be \$144,098 over the 40-year Study Period. The Projected Replacements are divided into 2 major categories starting on Page B.3. Pages B.1-B.2 provide detailed information on the Replacement Reserve Inventory.



UPDATING

UPDATING OF THE FUNDING PLAN

The Association has a responsibility to review the Funding Plan annually. The review should include a comparison and evaluation of actual reserve funding with recommended levels shown on Page A.4 and A.5. The Projected Replacements listed on Page C.2 should be compared with any replacements accomplished and funded from Replacement Reserves. Discrepancies should be evaluated and if necessary, the Reserve Study should be updated or a new study commissioned. We recommend annual increases in replacement reserve funding to account for the impact of inflation. Inflation Adjusted Funding is discussed on Page A.5.

UPDATING OF THE REPLACEMENT RESERVE STUDY

At a minimum, the Replacement Reserve Study should be professionally updated every three to five years or after completion of a major replacement project. Updating should also be considered if during the annual review of the Funding Plan, discrepancies are noted between projected and actual reserve funding or replacement costs. Updating may also be necessary if there is a meaningful discrepancy between the actual inflation rate and the inflation rate used for the Inflation Adjusted Funding of Replacement Reserves on Page A.5.

ANNUAL EXPENDITURES AND CURRENT FUNDING

The annual expenditures that comprise the \$144,098 of Projected Expenditures over the 40-year Study Period and the impact of the Association continuing to fund Replacement Reserves at the current level are detailed in Table 3.

#3 - Table of Annual Expenditures and Current Funding Data - Years 1 through 40										
Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Starting Balance	\$33,076									
Projected Replacements						(\$3,000)				
Annual Deposit	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350
End of Year Balance	\$45,426	\$57,776	\$70,126	\$82,476	\$94,826	\$107,176	\$119,526	\$131,876	\$144,226	\$156,576
Cumulative Expenditures						(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)
Cumulative Receipts	\$33,076	\$45,426	\$57,776	\$70,126	\$82,476	\$94,826	\$107,176	\$119,526	\$131,876	\$144,226
Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Projected Replacements					(\$32,867)			(\$38,543)		(\$6,434)
Annual Deposit	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350
End of Year Balance	\$165,926	\$178,276	\$190,626	\$202,976	\$182,459	\$194,809	\$207,159	\$180,966	\$193,316	\$199,231
Cumulative Expenditures	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$35,867)	(\$35,867)	(\$35,867)	(\$74,410)	(\$74,410)	(\$80,845)
Cumulative Receipts	\$156,576	\$168,926	\$181,276	\$193,626	\$205,976	\$218,326	\$230,676	\$243,026	\$255,376	\$267,726
Year	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Projected Replacements	(\$41,543)		(\$8,278)			(\$8,278)				
Annual Deposit	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350
End of Year Balance	\$170,038	\$182,388	\$194,738	\$207,088	\$211,160	\$215,233	\$227,583	\$239,933	\$252,283	\$264,633
Cumulative Expenditures	(\$122,388)	(\$122,388)	(\$130,666)	(\$130,666)	(\$130,666)	(\$138,943)	(\$138,943)	(\$138,943)	(\$138,943)	(\$138,943)
Cumulative Receipts	\$280,076	\$292,426	\$304,776	\$317,126	\$329,476	\$341,826	\$354,176	\$366,526	\$378,876	\$391,226
Year	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059
Projected Replacements				(\$616)		(\$3,770)			(\$770)	
Annual Deposit	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350	\$12,350
End of Year Balance	\$276,983	\$289,333	\$301,683	\$313,417	\$325,767	\$334,348	\$346,698	\$359,048	\$370,628	\$382,978
Cumulative Expenditures	(\$138,943)	(\$138,943)	(\$138,943)	(\$139,559)	(\$139,559)	(\$143,328)	(\$143,328)	(\$143,328)	(\$144,098)	(\$144,098)
Cumulative Receipts	\$403,576	\$415,926	\$428,276	\$440,626	\$452,976	\$465,326	\$477,676	\$490,026	\$502,376	\$514,726

EVALUATION OF CURRENT FUNDING

The evaluation of Current Funding (Starting Balance of \$33,076 & annual funding of \$12,350), is done in today's dollars with no adjustments for inflation or interest earned on Replacement Reserves. The evaluation assumes Replacement Reserves will only be used for the 16 Projected Replacements identified in the Replacement Reserve Inventory and that the Association will continue Annual Funding of \$12,350 throughout the 40-year Study Period.

Annual Funding of \$12,350 is approximately 279 percent of the \$4,424 recommended Annual Funding calculated by the Cash Flow Method for 2020, the Study Year.

Evaluation of the 16 Projected Replacements calculates an average annual expenditure over the next 40 years of \$3,602. Annual funding of \$12,350 is 343 percent of the average annual expenditure. Our calculations identify funding shortfalls in 0 years of the Study Period with the initial shortfall in . The largest shortfall, \$45,426, occurs in 2020. All shortfalls can be seen and evaluated in Table 3 above.

See the Executive Summary for the Current Funding Statement.

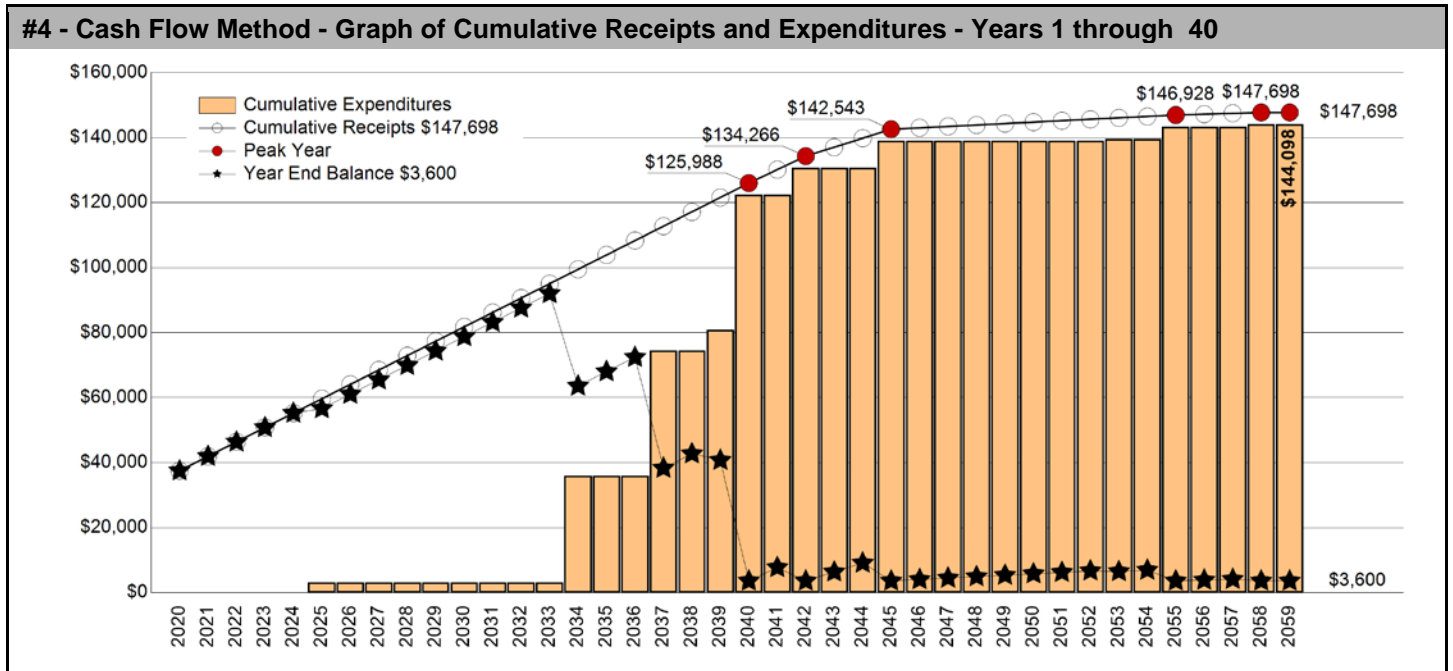
CASH FLOW METHOD FUNDING

\$4,424 RECOMMENDED REPLACEMENT RESERVE FUNDING FOR 2020

\$16.03 Per unit (average), minimum monthly funding of Replacement Reserves

Recommended Replacement Reserve Funding has been calculated using the Cash Flow Method (also called the Straight Line or Threshold Method). This method calculates a constant annual funding between peaks in cumulative expenditures, while maintaining a Minimum Balance (threshold) in the Peak Years.

- **Peak Years.** The First Peak Year occurs in 2040 with Replacement Reserves on Deposit dropping to the Minimum Balance after the completion of \$122,388 of replacements from 2020 to 2040. Recommended funding is projected to decline from \$4,424 in 2040 to \$4,139 in 2041. Peak Years are identified in Chart 4 and Table 5.
- **Minimum Balance.** The calculations assume a Minimum Balance of \$3,600 in Replacement Reserves. This is approximately 12 months of average expenditures based on the \$3,602, 40-year average annual expenditure.
- **Cash Flow Method Study Period.** Cash Flow Method calculates funding for \$144,098 of expenditures over the 40-year Study Period. It does not include funding for any projects beyond 2059 and in 2059, the end of year balance will always be the Minimum Balance.



Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Starting Balance	\$33,076									
Projected Replacements										
Annual Deposit	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424
End of Year Balance	\$37,500	\$41,925	\$46,349	\$50,774	\$55,198	\$59,622	\$64,047	\$68,471	\$72,895	\$77,320
Cumulative Expenditures										
Cumulative Receipts	\$37,500	\$41,925	\$46,349	\$50,774	\$55,198	\$59,622	\$64,047	\$68,471	\$72,895	\$77,320
Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Projected Replacements										
Annual Deposit	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424	\$4,424
End of Year Balance	\$78,744	\$83,169	\$87,593	\$92,017	\$96,442	\$100,866	\$105,290	\$109,715	\$114,139	\$118,564
Cumulative Expenditures	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)	(\$3,000)
Cumulative Receipts	\$81,744	\$86,169	\$90,593	\$95,017	\$99,442	\$103,866	\$108,290	\$112,715	\$117,139	\$121,564
Year	1st Peak - 2040	2041	2nd Peak - 2042	2043	2044	3rd Peak - 2045	2046	2047	2048	2049
Projected Replacements	(\$41,543)		(\$8,278)			(\$8,278)				
Annual Deposit	\$4,424	\$4,139	\$4,139	\$2,759	\$2,759	\$2,759	\$439	\$439	\$439	\$439
End of Year Balance	\$3,600	\$7,739	\$3,600	\$6,359	\$9,118	\$11,877	\$14,636	\$17,395	\$20,154	\$22,913
Cumulative Expenditures	(\$122,388)	(\$122,388)	(\$130,666)	(\$130,666)	(\$130,666)	(\$138,943)	(\$138,943)	(\$138,943)	(\$138,943)	(\$138,943)
Cumulative Receipts	\$125,988	\$130,127	\$134,266	\$137,025	\$139,784	\$142,543	\$145,302	\$148,061	\$150,820	\$153,579
Year	2050	2051	2052	2053	2054	4th Peak - 2055	2056	2057	5th Peak - 2058	6th Peak - 2059
Projected Replacements										
Annual Deposit	\$439	\$439	\$439	\$439	\$439	\$439	\$257	\$257	\$257	\$257
End of Year Balance	\$5,793	\$6,231	\$6,670	\$7,108	\$7,547	\$7,986	\$8,425	\$8,864	\$9,303	\$9,742
Cumulative Expenditures	(\$138,943)	(\$138,943)	(\$138,943)	(\$139,559)	(\$139,559)	(\$140,175)	(\$140,791)	(\$141,407)	(\$142,023)	(\$142,639)
Cumulative Receipts	\$144,736	\$145,174	\$145,613	\$146,051	\$146,490	\$146,928	\$147,367	\$147,805	\$148,244	\$148,683

INFLATION ADJUSTED FUNDING

The Cash Flow Method calculations on Page A4 have been done in today's dollars with no adjustment for inflation. At Miller+Dodson, we believe that long-term inflation forecasting is effective at demonstrating the power of compounding, not at calculating appropriate funding levels for Replacement Reserves. We have developed this proprietary model to estimate the short-term impact of inflation on Replacement Reserve funding.

\$4,424 2020 - CASH FLOW METHOD RECOMMENDED FUNDING

The 2020 Study Year calculations have been made using current replacement costs (see Page B.2), modified by the Analyst for any project specific conditions.

\$4,526 2021 - INFLATION ADJUSTED FUNDING

A new analysis calculates the 2021 funding based on three assumptions:

- Replacement Reserves on Deposit totaling \$37,500 on January 1, 2021.
- No Expenditures from Replacement Reserves in 2020.
- Construction Cost Inflation of 2.30 percent in 2020.

The \$4,526 inflation adjusted funding in 2021 is a 2.30 percent increase over the non-inflation adjusted funding of \$4,424.

\$4,630 2022 - INFLATION ADJUSTED FUNDING

A new analysis calculates the 2022 funding based on three assumptions:

- Replacement Reserves on Deposit totaling \$42,165 on January 1, 2022.
- No Expenditures from Replacement Reserves in 2021.
- Construction Cost Inflation of 2.30 percent in 2021.

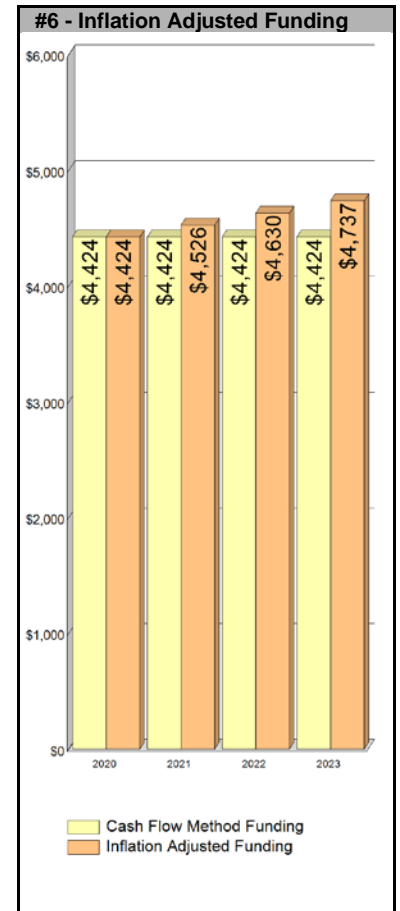
The \$4,630 inflation adjusted funding in 2022 is a 4.65 percent increase over the non-inflation adjusted funding of \$4,424.

\$4,737 2023 - INFLATION ADJUSTED FUNDING

A new analysis calculates the 2023 funding based on three assumptions:

- Replacement Reserves on Deposit totaling \$46,986 on January 1, 2023.
- No Expenditures from Replacement Reserves in 2022.
- Construction Cost Inflation of 2.30 percent in 2022.

The \$4,737 inflation adjusted funding in 2023 is a 7.05 percent increase over the non-inflation adjusted funding of \$4,424.



Year Five and Beyond

The inflation adjusted funding calculations outlined above are not intended to be a substitute for periodic evaluation of common elements by an experienced Reserve Analyst. Industry Standards, lender requirements, and many state and local statutes require a Replacement Reserve Study be professionally updated every 3 to 5 years.

Inflation Adjustment

Prior to approving a budget based upon the 2021, 2022 and 2023 inflation adjusted funding calculations above, the 2.30 percent base rate of inflation used in our calculations should be compared to rates published by the Bureau of Labor Statistics. If there is a significant discrepancy (over 1 percent), contact Miller+Dodson Associates prior to using the Inflation Adjusted Funding.

Interest on Reserves

The recommended funding calculations do not account for interest earned on Replacement Reserves. In 2020, based on a 1.00 percent interest rate, we estimate the Association may earn \$353 on an average balance of \$35,288, \$398 on an average balance of \$39,833 in 2021, and \$446 on \$44,576 in 2022. The Association may elect to attribute 100 percent of the earned interest to Reserves, resulting in a reduction in the 2020 funding from \$4,424 to \$4,071 (a 7.97 percent reduction), \$4,526 to \$4,128 in 2021 (an 8.80 percent reduction), and \$4,630 to \$4,184 in 2022 (a 9.62 percent reduction).

REPLACEMENT RESERVE STUDY - SUPPLEMENTAL COMMENTS

- The Cash Flow Method calculates the minimum annual funding necessary to prevent Replacement Reserves from dropping below the Minimum Balance. Failure to fund at least the recommended levels may result in funding not being available for the Projected Replacements listed in the Replacement Reserve Inventory.
- The accuracy of the Replacement Reserve Analysis is dependent upon expenditures from Replacement Reserves being made ONLY for the 16 Projected Replacements specifically listed in the Replacement Reserve Inventory. The inclusion/exclusion of items from the Replacement Reserve Inventory is discussed on Page B.1.

REPLACEMENT RESERVE INVENTORY GENERAL INFORMATION

Canal Woods at Waterside - Replacement Reserve Inventory identifies 16 Projected Replacements.

- **PROJECTED REPLACEMENTS.** 16 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 \$138,098. Replacements totaling \$144,098 are scheduled in the Replacement Reserve Inventory over the 40-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.** None of the items included in the Replacement Reserve Inventory are 'Excluded Items'. Multiple categories of items 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, minor repairs and capital improvements.

Value. Items with a replacement cost of less than \$1,000 and/or a normal economic life of less than 3 years are typically excluded from funding from Replacement Reserves. This exclusion should reflect Association policy on the administration of Replacement Reserves. If the Association has selected an alternative level, it will be noted in the Replacement Reserve Inventory - General Comments on Page B.2.

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 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.

- **CATEGORIES.** The 16 items included in the Canal Woods at Waterside Replacement Reserve Inventory are divided into 2 major categories. Each category is printed on a separate page, beginning on page B.3.
- **LEVEL OF SERVICE.** This Replacement Reserve Inventory has been developed in compliance with the standards established for a Level Two Update, as defined by the National Reserve Study Standards, established in 1998 by Community Associations Institute, which states:

This study has been performed as a Level 2 Update with Site Visit/On-Site Review as defined by the Community Associations Institute's, National Reserve Study Standards. As such, the component inventory is based on the study that was performed by USI Commercial in September 2014. This inventory was adjusted to reflect changes provided by the Community Manager and/or the Board of Directors, or adjustments made based on the site visit and visual assessment performed by the Analyst. The analysis, including fund status and funding plan, is developed from the adjusted inventory.

REPLACEMENT RESERVE INVENTORY - GENERAL INFORMATION (CONT'D)

- **INVENTORY DATA.** Each of the 16 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 identified each item included in the Inventory. Additional information may be included in the Comments section at the bottom of each page of the Inventory.
 - Units. We have used standard abbreviations to identify the number of units including SF-square feet, LF-lineal feet, SY-square yard, LS-lump sum, EA-each, and PR-pair. Non-standard abbreviations are noted in the Comments section at the bottom of the page.
 - Number of Units. The methods used to develop the quantities are discussed in "Level of Service" above.
 - Unit Replacement Cost. We use four sources to develop the unit cost data shown in the Inventory; actual replacement cost data provided by the client, information provided by local contractors and suppliers, industry standard estimating manuals, and a cost database we have developed based upon our detailed interviews with contractors and service providers who are specialists in their respective lines of work.
 - Normal Economic Life (Years). The number of years that a new and properly installed item should be expected to remain in service.
 - Remaining Economic Life (Years). 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.
- **REVIEW OF EXPENDITURES.** This Replacement Reserve Study should be reviewed by an accounting professional representing the Association prior to implementation.
- **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 in the Comments section.
- **REMAINING ECONOMIC LIFE GREATER THAN 40 YEARS.** The calculations do not include funding for initial replacements beyond 40 years. These replacements are included in this Study for tracking and evaluation. They should be included for funding in future Studies when they enter the 40-year window.

SITE ITEMS PROJECTED REPLACEMENTS						NEL- Normal Economic Life (yrs) REL- Remaining Economic Life (yrs)		
ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NEL	REL	REPLACEMENT COST (\$)	
1	Entrance monument, composite sign	ls	1	\$3,000.00	15	5	\$3,000	
Replacement Costs - Page Subtotal								\$3,000

COMMENTS
<ul style="list-style-type: none"> 2.27.2020: Per request, removed Asphalt and Concrete from study.

TOWNHOUSES						NEL- Normal Economic Life (yrs)		REPLACEMENT COST (\$)
PROJECTED REPLACEMENTS						REL- Remaining Economic Life (yrs)		
ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NEL	REL	REPLACEMENT COST (\$)	
2	Roofing, asphalt shingles, Building A	sf	8,080	\$4.00	30	14	\$32,320	
3	Roofing, asphalt shingles, Building B	sf	9,454	\$4.00	30	17	\$37,816	
4	Roofing, asphalt shingles, Building C	sf	9,454	\$4.00	30	20	\$37,816	
5	Gutter & downspouts, 5" aluminum, Building A	ft	76	\$7.20	30	14	\$547	
6	Gutter & downspouts, 5" aluminum, Building B	ft	101	\$7.20	30	17	\$727	
7	Gutter & downspouts, 5" aluminum, Building C	ft	101	\$7.20	30	20	\$727	
8	Soffit & trim, vinyl, Building A	sf	76	\$8.10	50	33	\$616	
9	Soffit & trim, vinyl, Building B	sf	95	\$8.10	50	35	\$770	
10	Soffit & trim, vinyl, Building C	sf	95	\$8.10	50	38	\$770	
11	Siding & trim, vinyl, standard, Building A	sf	668	\$7.80	35	19	\$5,210	
12	Siding & trim, vinyl, standard, Building B	sf	835	\$7.80	35	22	\$6,513	
13	Siding & trim, vinyl, standard, Building C	sf	835	\$7.80	35	25	\$6,513	
14	Siding & trim, vinyl, premium, Building A	sf	120	\$10.20	35	19	\$1,224	
15	Siding & trim, vinyl, premium, Building B	sf	173	\$10.20	35	22	\$1,765	
16	Siding & trim, vinyl, premium, Building C	sf	173	\$10.20	35	25	\$1,765	
Replacement Costs - Page Subtotal							\$135,098	

COMMENTS
<ul style="list-style-type: none"> 2.27.2020: Per request, reduced Gutters, Soffits, and Sidings to a 10% allowance.

LONG-LIFE EXCLUSIONS								
Excluded Items								
ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	REPLACEMENT COST (\$)	UNIT REL	REL	REPLACEMENT COST (\$)	
	Bridge structure and foundations							EXCLUDED
	Building foundation(s)							EXCLUDED
	Concrete floor slabs (interior)							EXCLUDED
	Wall, floor, & roof structure							EXCLUDED
	Electrical wiring							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 (\$)	NEL	REL	REPLACEMENT COST (\$)	
	Domestic water pipes serving one unit							EXCLUDED
	Sanitary sewers serving one unit							EXCLUDED
	Electrical wiring serving one unit							EXCLUDED
	Cable TV service serving one unit							EXCLUDED
	Telephone service serving one unit							EXCLUDED
	Gas service serving one unit							EXCLUDED
	Driveway on an individual lot							EXCLUDED
	Apron on an individual lot							EXCLUDED
	Unit windows							EXCLUDED
	Unit doors							EXCLUDED
	Unit deck, patio, and/or balcony							EXCLUDED
	Unit interior							EXCLUDED
	Unit HVAC system							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.

UTILITY EXCLUSIONS							
Excluded Items							
ITEM #	ITEM DESCRIPTION	UNIT	NUMBER OF UNITS	UNIT REPLACEMENT COST (\$)	NEL	REL	REPLACEMENT COST (\$)
	Primary electric feeds						EXCLUDED
	Electric transformers						EXCLUDED
	Cable TV systems and structures						EXCLUDED
	Telephone cables and structures						EXCLUDED
	Site lighting						EXCLUDED
	Gas mains and meters						EXCLUDED
	Water mains and meters						EXCLUDED
	Sanitary sewers						EXCLUDED

UTILITY EXCLUSIONS
 Comments

- Utility Exclusions. Many improvements owned by utility companies are on property owned by the Association. We have assumed that repair, maintenance, and replacements of these components will be done at the expense of the appropriate utility company. Examples of items excluded from funding 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.

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PROJECTED ANNUAL REPLACEMENTS GENERAL INFORMATION

CALENDAR OF ANNUAL REPLACEMENTS. The 16 Projected Replacements in the Canal Woods at Waterside 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 C.2.

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 1120 (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 co-mingle 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 1120H (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.
- **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 Test 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 1 TO 10

2020 - YEAR 1		2021 - YEAR 2	
Item	\$	Item	\$
No Scheduled Replacements		No Scheduled Replacements	
2022 - YEAR 3		2023 - YEAR 4	
Item	\$	Item	\$
No Scheduled Replacements		No Scheduled Replacements	
2024 - YEAR 5		2025 - YEAR 6	
Item	\$	Item	\$
No Scheduled Replacements		1 Entrance monument, composite sign	\$3,000
		Total Scheduled Replacements	\$3,000
2026 - YEAR 7		2027 - YEAR 8	
Item	\$	Item	\$
No Scheduled Replacements		No Scheduled Replacements	
2028 - YEAR 9		2029 - YEAR 10	
Item	\$	Item	\$
No Scheduled Replacements		No Scheduled Replacements	

PROJECTED REPLACEMENTS - YEARS 11 TO 20

2030 - YEAR 11			2031 - YEAR 12		
Item		\$	Item		\$
No Scheduled Replacements			No Scheduled Replacements		
2032 - YEAR 13			2033 - YEAR 14		
No Scheduled Replacements			No Scheduled Replacements		
2034 - YEAR 15			2035 - YEAR 16		
2	Roofing, asphalt shingles, Building A	\$32,320	No Scheduled Replacements		
5	Gutter & downspouts, 5" aluminum, Building A	\$547			
Total Scheduled Replacements		\$32,867			
2036 - YEAR 17			2037 - YEAR 18		
No Scheduled Replacements			3	Roofing, asphalt shingles, Building B	\$37,816
			6	Gutter & downspouts, 5" aluminum, Building B	\$727
			Total Scheduled Replacements		\$38,543
2038 - YEAR 19			2039 - YEAR 20		
No Scheduled Replacements			11	Siding & trim, vinyl, standard, Building A	\$5,210
			14	Siding & trim, vinyl, premium, Building A	\$1,224
			Total Scheduled Replacements		\$6,434

PROJECTED REPLACEMENTS - YEARS 21 TO 30

Item	2040 - YEAR 21	\$	Item	2041 - YEAR 22	\$
1	Entrance monument, composite sign	\$3,000			
4	Roofing, asphalt shingles, Building C	\$37,816			
7	Gutter & downspouts, 5" aluminum, Building C	\$727			
Total Scheduled Replacements		\$41,543	No Scheduled Replacements		

Item	2042 - YEAR 23	\$	Item	2043 - YEAR 24	\$
12	Siding & trim, vinyl, standard, Building B	\$6,513			
15	Siding & trim, vinyl, premium, Building B	\$1,765			
Total Scheduled Replacements		\$8,278	No Scheduled Replacements		

Item	2044 - YEAR 25	\$	Item	2045 - YEAR 26	\$
No Scheduled Replacements			13	Siding & trim, vinyl, standard, Building C	\$6,513
			16	Siding & trim, vinyl, premium, Building C	\$1,765
			Total Scheduled Replacements		\$8,278

Item	2046 - YEAR 27	\$	Item	2047 - YEAR 28	\$
No Scheduled Replacements			No Scheduled Replacements		

Item	2048 - YEAR 29	\$	Item	2049 - YEAR 30	\$
No Scheduled Replacements			No Scheduled Replacements		

PROJECTED REPLACEMENTS - YEARS 31 TO 40

2050 - YEAR 31			2051 - YEAR 32		
Item		\$	Item		\$
No Scheduled Replacements			No Scheduled Replacements		
2052 - YEAR 33			2053 - YEAR 34		
No Scheduled Replacements			8	Soffit & trim, vinyl, Building A	\$616
No Scheduled Replacements			Total Scheduled Replacements \$616		
2054 - YEAR 35			2055 - YEAR 36		
No Scheduled Replacements			1	Entrance monument, composite sign	\$3,000
No Scheduled Replacements			9	Soffit & trim, vinyl, Building B	\$770
No Scheduled Replacements			Total Scheduled Replacements \$3,770		
2056 - YEAR 37			2057 - YEAR 38		
No Scheduled Replacements			No Scheduled Replacements		
2058 - YEAR 39			2059 - YEAR 40		
10	Soffit & trim, vinyl, Building C	\$770	No Scheduled Replacements		
Total Scheduled Replacements		\$770	No Scheduled Replacements		

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CONDITION ASSESSMENT

General Comments. Miller+Dodson Associates conducted a Reserve Study at Canal Woods at Waterside in November 2019. Canal Woods at Waterside is in generally good condition for a property owners association. 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.

General Condition Statements.

Excellent. 100% to 90% of Normal Economic Life expected, with no appreciable wear or defects.

Good. 90% to 60% of Normal Economic Life expected, minor wear or cosmetic defects found. Normal maintenance should be expected. If performed properly, normal maintenance may increase the useful life of a component. Otherwise, the component is wearing normally.

Fair. 60% to 30% of Normal Economic Life expected, moderate wear with defects found. Repair actions should be taken to extend the life of the component or to correct repairable defects and distress. Otherwise, the component is wearing normally.

Marginal. 30% to 10% of Normal Economic Life expected, with moderate to significant wear or distress found. Repair actions are expected to be cost effective for localized issues, but normal wear and use are evident. The component is reaching the end of the Normal Economic Life.

Poor. 10% to 0% of Normal Economic Life expected, with significant distress and wear. Left unattended, additional damage to underlying structures is likely to occur. Further maintenance is unlikely to be cost effective.

SITE ITEMS

Entry Monument and Signage. The Association maintains an entry monument.

The monument is made of fiberboard and is in fair condition, with damaged areas and weathering. In order to keep the monument fresh and appealing, we recommend replacement every 10 to 15 years.



TOWNHOUSES

Building Roofing. The Townhomes are roofed in asphalt shingles which are in good condition.



Asphalt shingle roofs can have a useful life of 20 to 50 years depending on the weight and quality of the shingle. Weathered, curled, and missing shingles are all indications that the shingles may be nearing the end of their useful life.

Annual inspections are recommended, with cleaning, repair, and mitigation of vegetation performed as needed. Access, inspection, and repair work should be performed by contractors and personnel with the appropriate access equipment who are experienced in the types of roofing used for the facility.

Gutters and Downspouts. The buildings has aluminum gutters and downspouts. The gutters and downspouts are in good condition.

A gutter and downspout system will remove rainwater from the area of the building roof, siding, and foundation. This will protect building's exterior surfaces from water damage. Gutters should run the full length of all drip edges of the building roof. Even with full gutters, it is important to inspection the function of the gutters during heavy rain to identify any deficiencies. It may be necessary to periodically adjust the slope of sections, repair connections, replace hangers, and install shrouds to the gutters. Downspouts should be securely attached to the side of the structure. Any broken straps should be replaced. The area of the outlet should be inspected to promote run-off in the desired direction. Long straight runs should have an elbow at the bottom. Splash blocks should be installed to fray the water out-letting from the downspout.

It is recommended that all gutters be cleaned at least twice each year. If there are a large number of trees located close to a building, consider installing a gutter debris shield that will let water into the gutters but will filter out leaves, twigs, and other debris.

Siding and Trim. The Townhomes are constructed with premium and standard vinyl siding which are in good condition.



Vinyl siding and trim can have an extended useful life if not damaged by impact, heat, or other physical reasons. However, the coatings and finishes typically have a useful life and over time begin to weather, chalk, and show their age. For these reasons, we have modeled for the replacement of the siding and trim every 30 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.

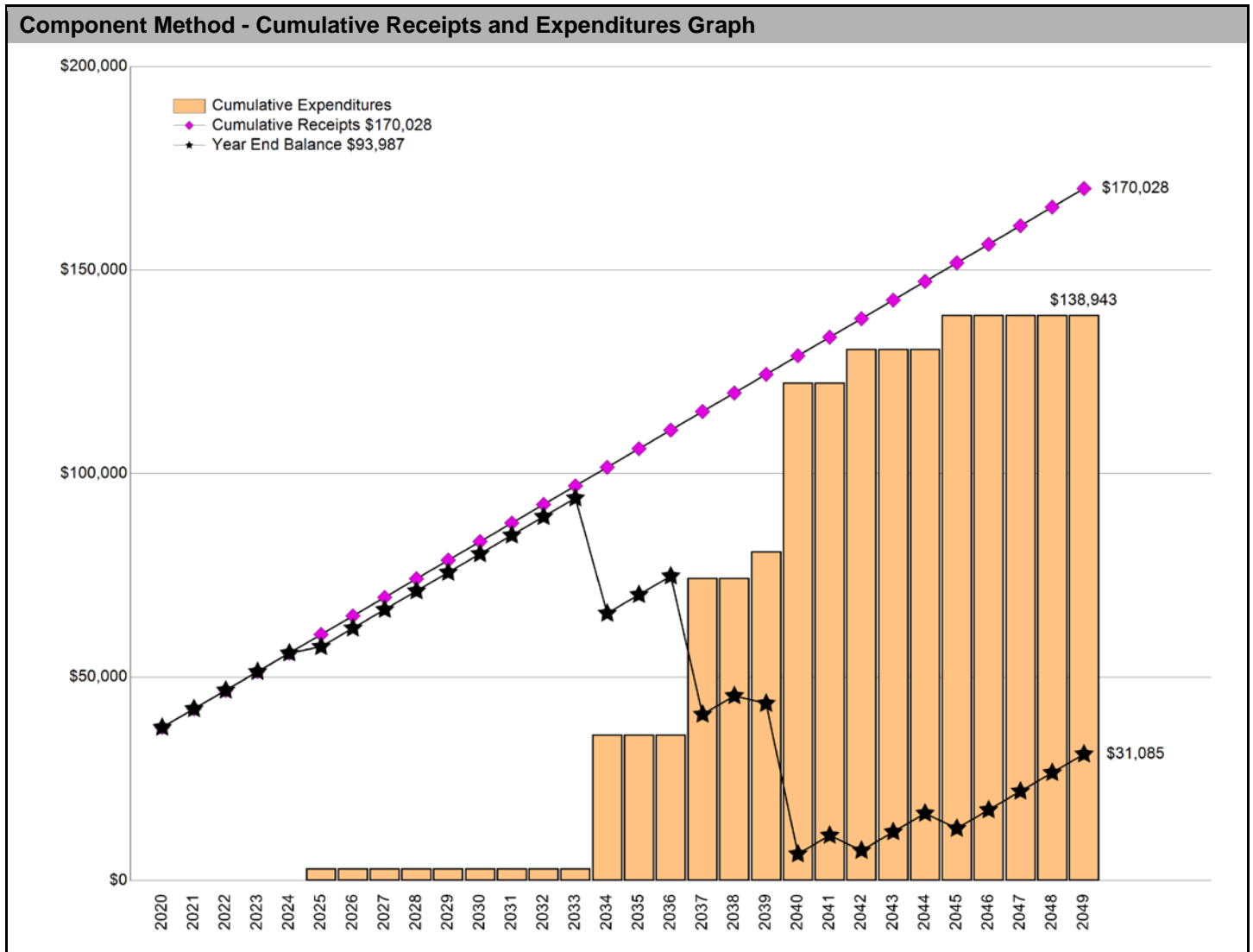
End of Condition Assessment

COMPONENT METHOD

\$4,565 | **COMPONENT METHOD RECOMMENDED ANNUAL FUNDING OF REPLACEMENT RESERVES IN THE STUDY YEAR, 2020.**

\$16.54 Per unit (average), recommended monthly funding of Replacement Reserves

General. The Component Method (also referred to as the Full Funded Method) is a very conservative mathematical model developed by HUD in the early 1980s. Each of the 16 Projected Replacements listed in the Replacement Reserve Inventory is treated as a separate account. The Beginning Balance is allocated to each of the 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 Recommended Annual Funding of Replacement Reserves is a multi-step process outlined in more detail on Page CM.2.



COMPONENT METHOD (CONT.)

- **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 16 Projected Replacements. The total, \$58,085, is the Current Funding Objective.

For an example, consider a 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 (\$33,076) by the Current Funding Objective (\$58,085). At Canal Woods at Waterside the Funding Percentage is 56.9%
- **Allocation of the Beginning Balance.** The Beginning Balance is divided among the 18 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 56.9 percent funded, there is \$456 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 \$4,565, the Component Method Recommended Annual Funding of Replacement Reserves in the Study Year (2020).

In our fence example, the \$456 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 \$272. Next year, the deposit remains \$272, 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, inflation, or a constant annual increase in Annual Funding of Replacement Reserves. The Component Method is a very conservative method and if the Analysis is updated regularly, adequate funding will be maintained without the need for adjustments.

Component Method Data - Years 1 through 30										
Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Beginning Balance	\$33,076									
Recommended Annual Funding	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565
Expenditures						\$3,000				
Year End Balance	\$37,641	\$42,206	\$46,771	\$51,336	\$55,901	\$57,466	\$62,031	\$66,596	\$71,162	\$75,727
Cumulative Expenditures						\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Cumulative Receipts	\$37,641	\$42,206	\$46,771	\$51,336	\$55,901	\$60,466	\$65,031	\$69,596	\$74,162	\$78,727
Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Recommended Annual Funding	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565
Expenditures					\$32,867					
Year End Balance	\$80,292	\$84,857	\$89,422	\$93,987	\$65,685	\$70,250	\$74,815	\$40,837	\$45,402	\$43,532
Cumulative Expenditures	\$3,000	\$3,000	\$3,000	\$3,000	\$35,867	\$35,867	\$35,867	\$74,410	\$74,410	\$80,845
Cumulative Receipts	\$83,292	\$87,857	\$92,422	\$96,987	\$101,552	\$106,117	\$110,682	\$115,247	\$119,812	\$124,377
Year	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Recommended Annual Funding	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565	\$4,565
Expenditures	\$41,543		\$8,278			\$8,278				
Year End Balance	\$6,554	\$11,119	\$7,407	\$11,972	\$16,537	\$12,824	\$17,389	\$21,954	\$26,519	\$31,085
Cumulative Expenditures	\$122,388	\$122,388	\$130,666	\$130,666	\$130,666	\$138,943	\$138,943	\$138,943	\$138,943	\$138,943
Cumulative Receipts	\$128,942	\$133,507	\$138,072	\$142,637	\$147,202	\$151,767	\$156,333	\$160,898	\$165,463	\$170,028

2020 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 16 Projected Replacements included in the Canal Woods at Waterside Replacement Reserve Inventory has been assigned to one of the 2 categories listed in TABLE CM1 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 \$33,076 as of the first day of the Study Year, January 1, 2020.
- Total reserve funding (including the Beginning Balance) of \$37,641 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 2020 being accomplished in 2020 at a cost of \$0.

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.

2020 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM1							
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2020 BEGINNING BALANCE	2020 RESERVE FUNDING	2020 PROJECTED REPLACEMENTS	2020 END OF YEAR BALANCE
	15 to 15 years	5 to 5 years	\$3,000	\$1,024	\$200		\$1,224
	30 to 50 years	14 to 38 years	\$135,098	\$29,429	\$4,365		\$33,794

2021 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 16 Projected Replacements included in the Canal Woods at Waterside Replacement Reserve Inventory has been assigned to one of the 2 categories listed in TABLE CM2 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 \$37,641 on January 1, 2021.
- Total reserve funding (including the Beginning Balance) of \$42,206 from 2020 to 2021.
- 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 2021 being accomplished in 2021 at a cost of \$0.

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.

2021 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM2							
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2021 BEGINNING BALANCE	2021 RESERVE FUNDING	2021 PROJECTED REPLACEMENTS	2021 END OF YEAR BALANCE
	15 to 15 years	4 to 4 years	\$3,000	\$1,224	\$200		\$1,424
	30 to 50 years	13 to 37 years	\$135,098	\$33,794	\$4,365		\$38,159

2022 - COMPONENT METHOD CATEGORY FUNDING REPORT

Each of the 16 Projected Replacements included in the Canal Woods at Waterside Replacement Reserve Inventory has been assigned to one of the 2 categories listed in TABLE CM3 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 \$42,206 on January 1, 2022.
- Total reserve funding (including the Beginning Balance) of \$46,771 from 2021 to 2022.
- 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 2022 being accomplished in 2022 at a cost of \$0.

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.

2022 - COMPONENT METHOD CATEGORY FUNDING - TABLE CM3							
CATEGORY	NORMAL ECONOMIC LIFE	REMAINING ECONOMIC LIFE	ESTIMATED REPLACEMENT COST	2022 BEGINNING BALANCE	2022 RESERVE FUNDING	2022 PROJECTED REPLACEMENTS	2022 END OF YEAR BALANCE
	15 to 15 years	3 to 3 years	\$3,000	\$1,424	\$200		\$1,624
	30 to 50 years	12 to 36 years	\$135,098	\$38,159	\$4,365		\$42,524

TABLE CM4 below details the allocation of the \$33,076 Beginning Balance, as reported by the Association and the \$13,695 of Replacement Reserve Funding calculated by the Component Method from 2020 to 2022, to the 16 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 \$33,076 on January 1, 2020.
- Replacement Reserves on Deposit totaling \$37,641 on January 1, 2021.
- Replacement Reserves on Deposit totaling \$42,206 on January 1, 2022.
- Total Replacement Reserve funding (including the Beginning Balance) of \$46,771 from 2020 to 2022.
- No expenditures from Replacement Reserves other than those specifically listed in the Replacement Reserve Inventory.
- All Projected Replacements scheduled in the Replacement Reserve Inventory from 2020 to 2022 being accomplished as scheduled in the Replacement Reserve Inventory at a cost of \$.

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 CM4												
Item #	Description of Projected Replacement	Estimated Replacement Costs	Allocation of Beginning Balance	2020 Reserve Funding	2020 Projected Replacements	2020 End of Year Balance	2021 Reserve Funding	2021 Projected Replacements	2021 End of Year Balance	2022 Reserve Funding	2022 Projected Replacements	2022 End of Year Balance
SITE ITEMS -												
1	Entrance monument, composite	3,000	1,024	200		1,224	200		1,424	200		1,624
TOWNHOUSES -												
2	Roofing, asphalt shingles, Building	32,320	9,195	1,077		10,272	1,077		11,350	1,077		12,427
3	Roofing, asphalt shingles, Building	37,816	8,607	1,261		9,867	1,261		11,128	1,261		12,389
4	Roofing, asphalt shingles, Building	37,816	6,455	1,261		7,716	1,261		8,976	1,261		10,237
5	Gutter & downspouts, 5" aluminum,	547	156	18		174	18		192	18		210
6	Gutter & downspouts, 5" aluminum,	727	166	24		190	24		214	24		238
7	Gutter & downspouts, 5" aluminum,	727	124	24		148	24		173	24		197
8	Soffit & trim, vinyl, Building A	616	112	12		124	12		137	12		149
9	Soffit & trim, vinyl, Building B	770	123	15		138	15		153	15		169
10	Soffit & trim, vinyl, Building C	770	96	15		112	15		127	15		142
11	Siding & trim, vinyl, standard,	5,210	1,271	149		1,419	149		1,568	149		1,717
12	Siding & trim, vinyl, standard,	6,513	1,271	186		1,457	186		1,643	186		1,829
13	Siding & trim, vinyl, standard,	6,513	953	186		1,139	186		1,325	186		1,511
14	Siding & trim, vinyl, premium,	1,224	298	35		333	35		368	35		403
15	Siding & trim, vinyl, premium,	1,765	344	50		395	50		445	50		495
16	Siding & trim, vinyl, premium,	1,765	258	50		309	50		359	50		409

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 homeowner 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, streetlights, 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 1990 U.S. Census, there were 130,000 Community Associations. The Community Associations Institute (CAI), a national trade association, estimates in 2018 that there were more than 347,000 communities with over 73.5 million residents.

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, homeowners 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, 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. Miller+Dodson provides a replacement reserve recommendation based on the Cash Flow Method in Section A, and the Component Method in the Appendix of the report.

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.

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.). The Appendix also includes the Accounting Summary for the Cash Flow Method and the Component Method.

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:

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.

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 that is less than that arrived at by the Component Method.

Component Method. This method is a time-tested mathematical model developed by HUD in the early 1980s but has been generally relegated to a few States that require it by law. For the vast majority of Miller+Dodson's clients, this method is not used.

The Component Method 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.

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 Normal Economic Life (NEL). 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 Remaining Economic Life (REL). 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 Balance. Shown on the Summary Sheet A4, this amount is used in the Cash Flow Method only. Normally derived using the average annual expenditure over the study period, this is the minimum amount held in reserves for every year in the study period.

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 numbers 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	ls	lump sum	sy	square yard
ft or lf	linear foot	pr	pair	cy	cubic yard
sf	square foot				

What is a Reserve Study?
Who are we?



<https://youtu.be/m4BcOE6q3Aw>

What kind of property uses a Reserve Study?
Who are our clients?



<https://youtu.be/40SodajTW1g>

Who conducts a Reserve Study?
Reserve Specialist (RS) what does this mean?



<https://youtu.be/pYSMZ013VjQ>

When should a Reserve Study be updated?
What are the different types of Reserve Studies?



<https://youtu.be/Qx8WHB9Cgnc>

What's in a Reserve Study and what's out?
Improvement/Component, what's the difference?



<https://youtu.be/ZfBoAEhtf3E>

What is my role as a Community Manager?
Will the report help me explain Reserves?



<https://youtu.be/1J2h7FIU3qw>

What is my role as a community Board Member?
Will a Reserve Study meet my needs?



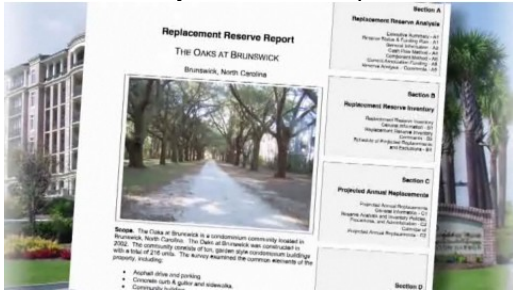
<https://youtu.be/aARD1B1Oa3o>

Community dues, how can a Reserve Study help?
Will a study keep my property competitive?



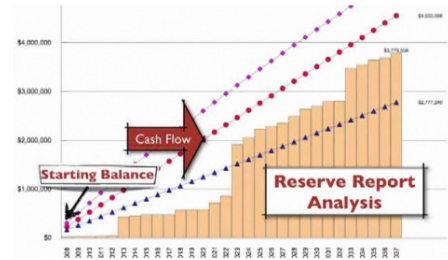
<https://youtu.be/diZfM1IyJYU>

How do I read the report?
Will I have a say in what the report contains?



<https://youtu.be/qCeVJhFf9ag>

Where do the numbers come from?
Cumulative expenditures and funding, what?



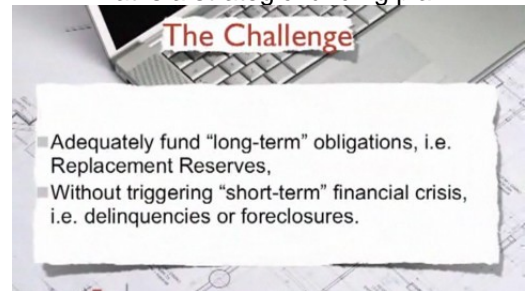
<https://youtu.be/SePdwVDvHWI>

How are interest and inflation addressed?
Inflation, what should we consider?



<https://youtu.be/W8CDLwRlv68>

A community needs more help, where do we go?
What is a strategic funding plan?



<https://youtu.be/hIxV9X1tlcA>