

3 Cherry Way Homeowners Association, Inc.

November 8, 2023 • Denver, NC

FULL RESERVE STUDY



3 Cherry Way Homeowners Association, Inc.
Denver, North Carolina

Dear Board of Directors of 3 Cherry Way Homeowners Association, Inc.:

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Full Reserve Study* of 3 Cherry Way Homeowners Association, Inc. in Denver, North Carolina and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, November 8, 2023.

This *Full Reserve Study* exceeds the Association of Professional Reserve Analysts (APRA) standards fulfilling the requirements of a "Level I Full Reserve Study."

An ongoing review by the Board and an Update of this Reserve Study are necessary to ensure an equitable funding plan since a Reserve Study is a snapshot in time. We recommend the Board budget for an Update to this Reserve Study in two- to three-years. We look forward to continuing to help 3 Cherry Way Homeowners Association, Inc. plan for a successful future.

As part of our long-term thinking and everyday commitment to our clients, we are available to answer any questions you may have regarding this study.

Respectfully submitted on January 30, 2024 by

Reserve Advisors Engineering, PLLC (P-1327)

Visual Inspection and Report by: Kevin Hayes and Tanner A. Oldenburger, RS¹
Alan M. Ebert, P.E. (NC-043524) PRA², RS, Director of Quality Assurance



¹ RS (Reserve Specialist) is the reserve provider professional designation of the Community Associations Institute (CAI) representing America's more than 300,000 condominium, cooperative and homeowners associations.

² PRA (Professional Reserve Analyst) is the professional designation of the Association of Professional Reserve Analysts. Learn more about APRA at <http://www.apra-usa.com>.



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1. RESERVE STUDY EXECUTIVE SUMMARY

Client: 3 Cherry Way Homeowners Association, Inc. (3 Cherry Way)

Location: Denver, North Carolina

Reference: 232744

Property Basics: 3 Cherry Way Homeowners Association, Inc. is a townhome style development which consists of 200 units in 50 residential buildings and one clubhouse. The community was built in 2009 through 2021.

Reserve Components Identified: 31 Reserve Components.

Inspection Date: November 8, 2023.

Funding Goal: The Funding Goal of this Reserve Study is to maintain reserves above an adequate, not excessive threshold during one or more years of significant expenditures. Our recommended Funding Plan recognizes this threshold funding year in 2035 due to the replacement of the phase D roofs. In addition, the Reserve Funding Plan recommends 2053 year end accumulated reserves of approximately \$1,323,900. We judge this amount of accumulated reserves in 2053 necessary to fund the likely replacement of the Roofs and Fiber Cement Siding after 2053. These future needs, although beyond the limit of the Cash Flow Analysis of this Reserve Study, are reflected in the amount of accumulated 2053 year end reserves.

Methodology: We use the Cash Flow Method to compute the Reserve Funding Plan. This method offsets future variable Reserve Expenditures with existing and future stable levels of reserve funding. Our application of this method also considers:

- Current and future local costs of replacement
- 2.0% anticipated annual rate of return on invested reserves
- 3.5% future Inflation Rate for estimating Future Replacement Costs

Sources for Local Costs of Replacement: Our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated.

Unaudited Cash Status of Reserve Fund:

- \$1,061,000 as of January 1, 2024
- Budgeted \$120,000 for reserves in 2024 as directed by the Board
- A potential deficit in reserves might occur by 2033 based upon continuation of the most recent annual reserve contribution of \$120,000 and the identified Reserve Expenditures.

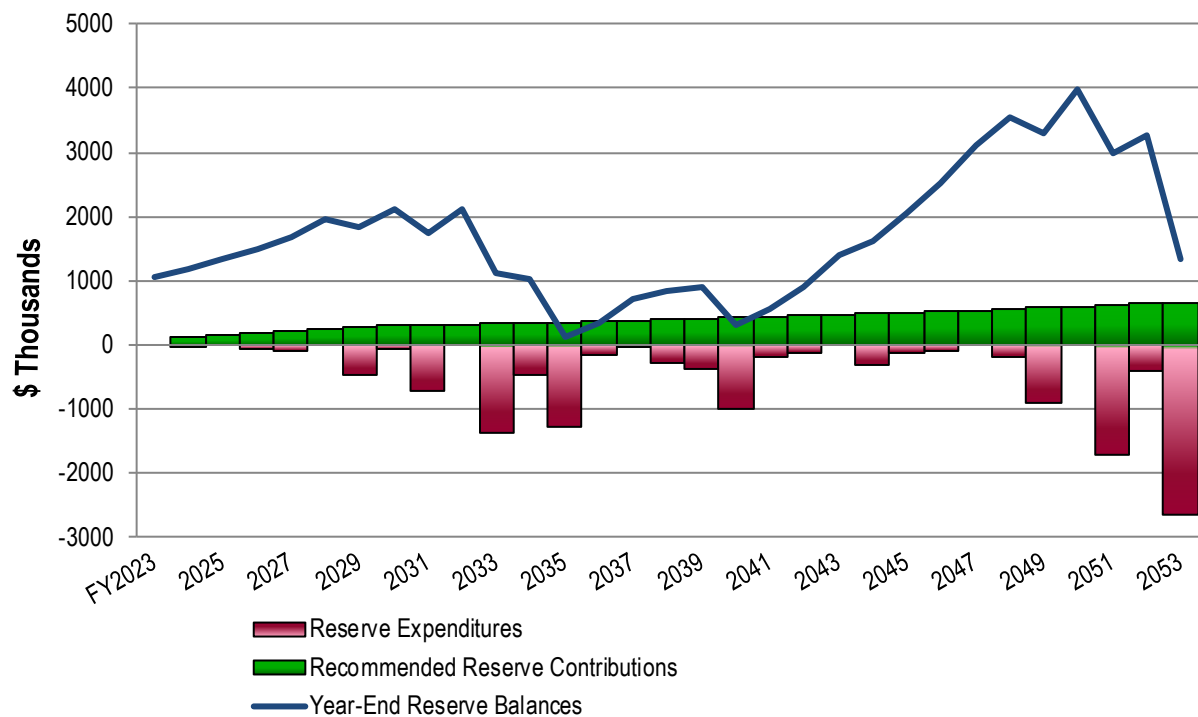
Recommended Reserve Funding: We recommend the following in order to achieve a stable and equitable Cash Flow Methodology Funding Plan:

- Phased increases of \$34,300 from 2025 through 2029
- Inflationary increases thereafter through 2053, the limit of this study's Cash Flow Analysis
- Initial recommended adjustment in Reserve Contributions of \$34,300 represents an average monthly increase of \$14.29 per homeowner and about a six percent (6.1%) adjustment in the 2024 total Operating Budget of \$558,980.

3 Cherry Way

Recommended Reserve Funding Table and Graph

Year	Reserve Contributions (\$)	Reserve Balances (\$)	Year	Reserve Contributions (\$)	Reserve Balances (\$)	Year	Reserve Contributions (\$)	Reserve Balances (\$)
2024	120,000 (Budgeted)	1,172,315	2034	346,200	1,038,137	2044	488,300	1,632,522
2025	154,300	1,351,604	2035	358,300	129,635	2045	505,400	2,041,466
2026	188,600	1,507,140	2036	370,800	337,122	2046	523,100	2,521,499
2027	222,900	1,667,179	2037	383,800	706,407	2047	541,400	3,118,743
2028	257,200	1,960,295	2038	397,200	840,124	2048	560,300	3,557,341
2029	291,500	1,837,889	2039	411,100	892,892	2049	579,900	3,306,791
2030	301,700	2,119,010	2040	425,500	325,636	2050	600,200	3,979,129
2031	312,300	1,749,715	2041	440,400	575,604	2051	621,200	2,971,888
2032	323,200	2,111,141	2042	455,800	916,645	2052	642,900	3,268,504
2033	334,500	1,124,055	2043	471,800	1,411,496	2053	665,400	1,323,937





2.RESERVE STUDY REPORT

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Full Reserve Study* of

3 Cherry Way Homeowners Association, Inc.

Denver, North Carolina

and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, November 8, 2023.

We present our findings and recommendations in the following report sections and spreadsheets:

- **Identification of Property** - Segregates all property into several areas of responsibility for repair or replacement
- **Reserve Expenditures** - Identifies reserve components and related quantities, useful lives, remaining useful lives and future reserve expenditures during the next 30 years
- **Reserve Funding Plan** - Presents the recommended Reserve Contributions and year-end Reserve Balances for the next 30 years
- **Five-Year Outlook** - Identifies reserve components and anticipated reserve expenditures during the first five years
- **Reserve Component Detail** - Describes the reserve components, includes photographic documentation of the condition of various property elements, describes our recommendations for repairs or replacement, and includes detailed solutions and procedures for replacements for the benefit of current and future board members
- **Methodology** - Lists the national standards, methods and procedures used to develop the Reserve Study
- **Definitions** - Contains definitions of terms used in the Reserve Study, consistent with national standards
- **Professional Service Conditions** - Describes Assumptions and Professional Service Conditions
- **Credentials and Resources**

IDENTIFICATION OF PROPERTY



Our investigation includes Reserve Components or property elements as set forth in your Declaration. The Expenditure tables in Section 3 list the elements contained in this study. Our analysis begins by segregating the property elements into several areas of responsibility for repair and replacement.

Our process of identification helps assure that future boards and the management team understand whether reserves, the operating budget or Homeowners fund certain replacements and assists in preparation of the annual budget. We derive these segregated classes of property from our review of the information provided by the Association and through conversations with the Board. These classes of property include:

- Reserve Components
- Long-Lived Property Elements
- Operating Budget Funded Repairs and Replacements
- Property Maintained by Homeowners
- Property Maintained by Others

We advise the Board conduct an annual review of these classes of property to confirm its policy concerning the manner of funding, i.e., from reserves or the operating budget. The Reserve Study identifies Reserve Components as set forth in your Declaration or which were identified as part of your request for proposed services. Reserve Components are defined by CAI as property elements with:

- 3 Cherry Way responsibility
- Limited useful life expectancies
- Predictable remaining useful life expectancies
- Replacement cost above a minimum threshold

Long-Lived Property Elements – These elements may not have predictable Remaining Useful Lives or their replacement may occur beyond the 30-year scope of the study. The operating budget should fund infrequent repairs. Funding untimely or unexpected replacements from reserves will necessitate increases to Reserve Contributions. Periodic updates of this Reserve Study will help determine the merits of adjusting the Reserve Funding Plan. We identify the following Long-Lived Property Elements as excluded from the 30-year Reserve Expenditures at this time.

- Retaining Walls, Concrete Block, East and Southeast Perimeters

- Pool Structure
- Walls, Siding, Vinyl and Fiber Cement, Gables and Dormers
- Walls, Siding, Trim, Wood, Soffits and Fascia



Masonry retaining wall

Operating Budget - Provides money for the repair and replacement of certain Reserve Components. The Association may develop independent criteria for use of operating and reserve funds. For purposes of calculating appropriate Reserve Contributions, we identify the following list of Operating Budget Funded Repairs and Replacements:

- General Maintenance to the Common Elements
- Expenditures less than \$6,000 (These relatively minor expenditures have a limited effect on the recommended Reserve Contributions.)
- Clubhouse, Interior, Interim Furnishings and Paint Finish Events
- Exercise Equipment (Per Board)
- Flagpole
- Irrigation, System, Common, Entrance Area (System is reportedly not used)
- Paint Finishes, Composite and Wood Trim (Per the Board, the Association plans to paint on a phased basis through the operating budget in lieu of in aggregate)
- Pickleball Court, Color Coat Applications and Interim Repairs
- Pool and Clubhouse Site Furniture
- Pool Mechanical Equipment
- Pumps, Sewer, Grinders (Located at four buildings. Board was planning on having the pumps inspected in the near term)
- Retaining Wall, Masonry, Northeast Perimeter (Near Berm)
- Retention Pond, Interim Inspections, Testing and Shoreline Maintenance
- Signage, Entrance Monument, Renovation
- Signage, Traffic Management



Pool furniture overview



Catch basin

Homeowners' Responsibility - Items designated as the responsibility of the homeowners to repair or replace at their cost. Property Maintained by Homeowners, including items billed back to Homeowners, relates to unit:

- Light Fixtures
- Patios and Entry Stoops, Concrete
- Railings, Unit Entries
- Screens, Patios
- Skylights, Solar Tubes
- Windows and Doors

Others' Responsibility - Items designated as the responsibility of others to repair or replace. Property Maintained by Others relates to:

- Fence, Wood, Along Rainer Drive (Neighboring Property)
- Lift Station (Lincoln County Utility District)
- Light Poles and Fixtures (Utility Company)

3. RESERVE EXPENDITURES and FUNDING PLAN

The tables following this introduction present:

Reserve Expenditures

- Line item numbers
- Total quantities
- Quantities replaced per phase (in a single year)
- Reserve component inventory
- Estimated first year of event (i.e., replacement, application, etc.)
- Life analysis showing
 - useful life
 - remaining useful life
- 2023 local cost of replacement
 - Per unit
 - Per phase
 - Replacement of total quantity
- Percentage of future expenditures anticipated during the next 30 years
- Schedule of estimated future costs for each reserve component including inflation

Reserve Funding Plan

- Reserves at the beginning of each year
- Total recommended reserve contributions
- Estimated interest earned from invested reserves
- Anticipated expenditures by year
- Anticipated reserves at year end
- Predicted reserves based on current funding level

Five-Year Outlook

- Line item numbers
- Reserve component inventory of only the expenditures anticipated to occur within the first five years
- Schedule of estimated future costs for each reserve component anticipated to occur within the first five years

The purpose of a Reserve Study is to provide an opinion of reasonable annual Reserve Contributions. Prediction of exact timing and costs of minor Reserve Expenditures typically will not significantly affect the 30-year cash flow analysis. Adjustments to the times and/or costs of expenditures may not always result in an adjustment in the recommended Reserve Contributions.

Financial statements prepared by your association, by you or others might rely in part on information contained in this section. For your convenience, we have provided an electronic data file containing the tables of ***Reserve Expenditures*** and ***Reserve Funding Plan***.

RESERVE EXPENDITURES

3 Cherry Way
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Explanatory Notes:

- 1) 3.5% is the estimated Inflation Rate for estimating Future Replacement Costs.
2) FY2023 is Fiscal Year beginning January 1, 2023 and ending December 31, 2023.

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		Costs, \$			Percentage of Future Expenditures	RUL = 0 FY2023	1 2024	2 2025	3 2026	4 2027	5 2028	6 2029	7 2030	8 2031	9 2032	10 2033	11 2034	12 2035	13 2036	14 2037	15 2038	
						Useful	Remaining	Unit (2023)	Per Phase (2023)	Total (2023)																		
Exterior Building Elements																												
1.240	31,500	6,300	Linear Feet	Gutters and Downspouts, Aluminum, Phased	2029	15 to 20	6 to 14	10.00	63,000	315,000	6.6%							30,977		74,663		68,360		142,796				
1.280	440	440	Squares	Roofs, Asphalt Shingles (Phase A 2010-2012)	2029	15 to 20	6	450.00	198,000	198,000	5.6%							243,393										
1.281	1,000	1,000	Squares	Roofs, Asphalt Shingles (Phase B 2014-2015)	2031	15 to 20	8	450.00	450,000	450,000	13.6%									592,564								
1.282	1,450	1,450	Squares	Roofs, Asphalt Shingles (Phase C 2016-2017)	2033	15 to 20	10	450.00	652,500	652,500	21.1%											920,416						
1.283	1,670	1,670	Squares	Roofs, Asphalt Shingles (Phase D 2018-2019)	2035	15 to 20	12	450.00	751,500	751,500	8.7%													1,135,568				
1.284	1,000	1,000	Squares	Roofs, Asphalt Shingles (Phase E 2020-2021)	2040	15 to 20	17	450.00	450,000	450,000	6.2%																	
1.560	785	157	Pairs	Shutters, Vinyl, Phased	2034	to 25	11 to 19	130.00	20,410	102,050	1.3%												29,798		31,920		34,194	
1.820	195,700	39,140	Square Feet	Walls, Masonry, Inspections and Repairs, Phased (Includes Sealants)	2027	10 to 15	4 to 16	1.20	46,968	234,840	5.8%					53,897			59,756				66,253			73,456		
Property Site Elements																												
4.020	15,350	15,350	Square Yards	Asphalt Pavement, Crack Repair and Patch	2026	3 to 5	3	1.00	15,350	15,350	1.2%					17,019			18,869							24,847		
4.040	15,350	7,675	Square Yards	Asphalt Pavement, Mill and Overlay, Access Drives, Phased	2033	15 to 20	10 to 11	17.00	130,475	260,950	8.4%											184,048	190,490					
4.100	40	20	Each	Catch Basins, Inspections and Capital Repairs, Phased	2033	15 to 20	10 to 11	1,000.00	20,000	40,000	1.3%											28,212	29,199					
4.110	12,200	610	Linear Feet	Concrete Gutters, Partial	2024	to 65	1 to 30+	35.50	21,655	433,100	1.7%		22,413					26,620						31,616				
4.120	200,000	6,000	Square Feet	Concrete Driveways, Partial	2029	to 65	6 to 30+	16.50	99,000	3,300,000	6.8%							121,696						144,537				
4.140	21,600	540	Square Feet	Concrete Sidewalks, Partial	2024	to 65	1 to 30+	15.00	8,100	324,000	0.6%		8,384					9,957						11,826				
4.200	250	250	Linear Feet	Fence, Aluminum, East Perimeter	2034	to 25	11	44.00	11,000	11,000	0.1%													16,060				
4.220	580	580	Linear Feet	Fence, Chain Link, Boat Storage	2044	to 35	21	27.00	15,660	15,660	0.2%																	
4.260	220	220	Linear Feet	Fence, Vinyl, Lift Station	2040	15 to 20	17	49.00	10,780	10,780	0.1%																	
4.500	1	1	Allowance	Landscape, Partial Replacements	2026	to 5	3	40,000.00	40,000	40,000	3.3%					44,349				52,672					62,558			
4.600	1	1	Allowance	Mailboxes	2040	to 25	17	10,000.00	10,000	10,000	0.1%																	
4.730	5,250	1,575	Square Yards	Pond, Sediment Removal, Partial	2041	to 30	18	33.00	51,975	173,250	0.7%																	
4.860	100	100	Square Yards	Sport Court, Pickle Ball, Surface Replacement	2040	to 25	17	120.00	12,000	12,000	0.2%																	
Clubhouse Elements																												
5.070	2	2	Each	Air Handling and Condensing Units, Split Systems	2033	15 to 20	10	11,000.00	22,000	22,000	0.7%											31,033						
5.500	1	1	Allowance	Interior Renovations, Complete	2038	to 25	15	70,000.00	70,000	70,000	0.9%															117,274		
5.520	1	1	Allowance	Kitchen and Restrooms, Renovations	2038	to 25	15	76,000.00	76,000	76,000	1.0%															127,327		
5.530	40	40	Each	Light Fixtures, Clubhouse And Pool	2033	to 20	10	80.00	3,200	3,200	0.1%													4,514				
5.600	80	80	Squares	Roof, Asphalt Shingles	2033	15 to 20	10	450.00	36,000	36,000	1.2%													50,782				
5.800	500	500	Square Feet	Windows and Doors	2048	to 40	25	65.00	32,500	32,500	0.6%																	
Pool Elements																												
6.200	6,000	6,000	Square Feet	Concrete Deck, Inspections, Partial Replacements and Repairs	2027	8 to 12	4	1.70	10,200	10,200	0.4%					11,705												
6.400	300	300	Linear Feet	Fence, Steel	2051	to 35	28	63.00	18,900	18,900	0.4%																	
6.800	1,250	1,250	Square Feet	Pool Finish, Plaster	2027	8 to 12	4	20.00	25,000	25,000	0.7%					28,688												
6.801	1,250	1,250	Square Feet	Pool Finish, Plaster and Tile	2039	15 to 25	16	24.50	30,625	30,625	0.4%																	
Anticipated Expenditures, By Year (\$13,049,381 over 30 years)												0	30,797	0	61,368	94,290	0	451,512	59,756	719,899	0	1,353,618	453,526	1,278,364	167,934	24,847	278,795	

RESERVE EXPENDITURES

3 Cherry Way
Homeowners Association, Inc.
Denver, North Carolina

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		Costs, \$			Percentage of Future Expenditures	16 2039	17 2040	18 2041	19 2042	20 2043	21 2044	22 2045	23 2046	24 2047	25 2048	26 2049	27 2050	28 2051	29 2052	30 2053	
						Useful	Remaining	Unit (2023)	Per Phase (2023)	Total (2023)																	
Exterior Building Elements																											
1.240	31,500	6,300	Linear Feet	Gutters and Downspouts, Aluminum, Phased	2029	15 to 20	6 to 14	10.00	63,000	315,000	6.6%		101,758									61,638		148,564		229,876	
1.280	440	440	Squares	Roofs, Asphalt Shingles (Phase A 2010-2012)	2029	15 to 20	6	450.00	198,000	198,000	5.6%											484,300					
1.281	1,000	1,000	Squares	Roofs, Asphalt Shingles (Phase B 2014-2015)	2031	15 to 20	8	450.00	450,000	450,000	13.6%													1,179,077			
1.282	1,450	1,450	Squares	Roofs, Asphalt Shingles (Phase C 2016-2017)	2033	15 to 20	10	450.00	652,500	652,500	21.1%															1,831,433	
1.283	1,670	1,670	Squares	Roofs, Asphalt Shingles (Phase D 2018-2019)	2035	15 to 20	12	450.00	751,500	751,500	8.7%																
1.284	1,000	1,000	Squares	Roofs, Asphalt Shingles (Phase E 2020-2021)	2040	15 to 20	17	450.00	450,000	450,000	6.2%		807,604														
1.560	785	157	Pairs	Shutters, Vinyl, Phased	2034	to 25	11 to 19	130.00	20,410	102,050	1.3%		36,629		39,238												
1.820	195,700	39,140	Square Feet	Walls, Masonry, Inspections and Repairs, Phased (Includes Sealants)	2027	10 to 15	4 to 16	1.20	46,968	234,840	5.8%	81,442			90,296		100,113			110,997			123,064				
Property Site Elements																											
4.020	15,350	15,350	Square Yards	Asphalt Pavement, Crack Repair and Patch	2026	3 to 5	3	1.00	15,350	15,350	1.2%			28,512			32,719					37,545					
4.040	15,350	7,675	Square Yards	Asphalt Pavement, Mill and Overlay, Access Drives, Phased	2033	15 to 20	10 to 11	17.00	130,475	260,950	8.4%													353,832	366,216		
4.100	40	20	Each	Catch Basins, Inspections and Capital Repairs, Phased	2033	15 to 20	10 to 11	1,000.00	20,000	40,000	1.3%													54,238	56,136		
4.110	12,200	610	Linear Feet	Concrete Gutters, Partial	2024	to 65	1 to 30+	35.50	21,655	433,100	1.7%	37,549					44,597					52,967					
4.120	200,000	6,000	Square Feet	Concrete Driveways, Partial	2029	to 65	6 to 30+	16.50	99,000	3,300,000	6.8%	171,665					203,884					242,150					
4.140	21,600	540	Square Feet	Concrete Sidewalks, Partial	2024	to 65	1 to 30+	15.00	8,100	324,000	0.6%	14,045					16,681					19,812					
4.200	250	250	Linear Feet	Fence, Aluminum, East Perimeter	2034	to 25	11	44.00	11,000	11,000	0.1%																
4.220	580	580	Linear Feet	Fence, Chain Link, Boat Storage	2044	to 35	21	27.00	15,660	15,660	0.2%						32,251										
4.260	220	220	Linear Feet	Fence, Vinyl, Lift Station	2040	15 to 20	17	49.00	10,780	10,780	0.1%		19,347														
4.500	1	1	Allowance	Landscape, Partial Replacements	2026	to 5	3	40,000.00	40,000	40,000	3.3%			74,300				88,245					104,807				
4.600	1	1	Allowance	Mailboxes	2040	to 25	17	10,000.00	10,000	10,000	0.1%		17,947														
4.730	5,250	1,575	Square Yards	Pond, Sediment Removal, Partial	2041	to 30	18	33.00	51,975	173,250	0.7%			96,543													
4.860	100	100	Square Yards	Sport Court, Pickle Ball, Surface Replacement	2040	to 25	17	120.00	12,000	12,000	0.2%		21,536														
Clubhouse Elements																											
5.070	2	2	Each	Air Handling and Condensing Units, Split Systems	2033	15 to 20	10	11,000.00	22,000	22,000	0.7%														61,749		
5.500	1	1	Allowance	Interior Renovations, Complete	2038	to 25	15	70,000.00	70,000	70,000	0.9%																
5.520	1	1	Allowance	Kitchen and Restrooms, Renovations	2038	to 25	15	76,000.00	76,000	76,000	1.0%																
5.530	40	40	Each	Light Fixtures, Clubhouse And Pool	2033	to 20	10	80.00	3,200	3,200	0.1%														8,982		
5.600	80	80	Squares	Roof, Asphalt Shingles	2033	15 to 20	10	450.00	36,000	36,000	1.2%														101,045		
5.800	500	500	Square Feet	Windows and Doors	2048	to 40	25	65.00	32,500	32,500	0.6%								76,805								
Pool Elements																											
6.200	6,000	6,000	Square Feet	Concrete Deck, Inspections, Partial Replacements and Repairs	2027	8 to 12	4	1.70	10,200	10,200	0.4%	17,687												26,726			
6.400	300	300	Linear Feet	Fence, Steel	2051	to 35	28	63.00	18,900	18,900	0.4%													49,521			
6.800	1,250	1,250	Square Feet	Pool Finish, Plaster	2027	8 to 12	4	20.00	25,000	25,000	0.7%													65,504			
6.801	1,250	1,250	Square Feet	Pool Finish, Plaster and Tile	2039	15 to 25	16	24.50	30,625	30,625	0.4%	53,103															
Anticipated Expenditures, By Year (\$13,049,381 over 30 years)												375,491	1,004,821	199,355	129,534	0	297,413	132,832	88,245	0	187,802	898,412	0	1,697,263	408,070	2,655,437	

RESERVE FUNDING PLAN

CASH FLOW ANALYSIS		Individual Reserve Budgets & Cash Flows for the Next 30 Years															
3 Cherry Way																	
Homeowners Association, Inc.																	
Denver, North Carolina		FY2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Reserves at Beginning of Year	(Note 1)	N/A	1,061,000	1,172,315	1,351,604	1,507,140	1,667,179	1,960,295	1,837,889	2,119,010	1,749,715	2,111,141	1,124,055	1,038,137	129,635	337,122	706,407
Total Recommended Reserve Contributions	(Note 2)	N/A	120,000	154,300	188,600	222,900	257,200	291,500	301,700	312,300	323,200	334,500	346,200	358,300	370,800	383,800	397,200
Estimated Interest Earned, During Year	(Note 3)	N/A	22,112	24,989	28,304	31,429	35,916	37,606	39,177	38,304	38,226	32,032	21,408	11,562	4,621	10,332	15,312
Anticipated Expenditures, By Year		N/A	(30,797)	0	(61,368)	(94,290)	0	(451,512)	(59,756)	(719,899)	0	(1,353,618)	(453,526)	(1,278,364)	(167,934)	(24,847)	(278,795)
Anticipated Reserves at Year End		<u>\$1,061,000</u>	<u>\$1,172,315</u>	<u>\$1,351,604</u>	<u>\$1,507,140</u>	<u>\$1,667,179</u>	<u>\$1,960,295</u>	<u>\$1,837,889</u>	<u>\$2,119,010</u>	<u>\$1,749,715</u>	<u>\$2,111,141</u>	<u>\$1,124,055</u>	<u>\$1,038,137</u>	<u>\$129,635</u>	<u>\$337,122</u>	<u>\$706,407</u>	<u>\$840,124</u>
Predicted Reserves based on 2024 funding level of:	\$120,000	1,061,000	1,172,315	1,316,961	1,402,519	1,456,536	1,606,867	1,304,177	1,391,107	813,031	950,492	(276,452)	(618,842)	(NOTE 5)			

(continued)	Individual Reserve Budgets & Cash Flows for the Next 30 Years, Continued															
	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	
Reserves at Beginning of Year	840,124	892,892	325,636	575,604	916,645	1,411,496	1,632,522	2,041,466	2,521,499	3,118,743	3,557,341	3,306,791	3,979,129	2,971,888	3,268,504	
Total Recommended Reserve Contributions	411,100	425,500	440,400	455,800	471,800	488,300	505,400	523,100	541,400	560,300	579,900	600,200	621,200	642,900	665,400	
Estimated Interest Earned, During Year	17,159	12,065	8,923	14,775	23,051	30,139	36,376	45,178	55,844	66,100	67,962	72,138	68,822	61,786	45,470	
Anticipated Expenditures, By Year	(375,491)	(1,004,821)	(199,355)	(129,534)	0	(297,413)	(132,832)	(88,245)	0	(187,802)	(898,412)	0	(1,697,263)	(408,070)	(2,655,437)	
Anticipated Reserves at Year End	<u>\$892,892</u>	<u>\$325,636</u>	<u>\$575,604</u>	<u>\$916,645</u>	<u>\$1,411,496</u>	<u>\$1,632,522</u>	<u>\$2,041,466</u>	<u>\$2,521,499</u>	<u>\$3,118,743</u>	<u>\$3,557,341</u>	<u>\$3,306,791</u>	<u>\$3,979,129</u>	<u>\$2,971,888</u>	<u>\$3,268,504</u>	<u>\$1,323,937</u>	
															(NOTE 4)	

- Explanatory Notes:**
- 1) Year 2023 starting reserves are projected by the Board as of January 1, 2024; FY2023 starts January 1, 2023 and ends December 31, 2023.
 - 2) Reserve Contributions for 2023 are budgeted; 2024 is budgeted; 2025 is the first year of recommended contributions.
 - 3) 2.0% is the estimated annual rate of return on invested reserves.
 - 4) Accumulated year 2053 ending reserves consider the need to fund for replacement of the Roofs and Fiber Cement Siding shortly after 2053, and the age, size, overall condition and complexity of the property.
 - 5) Threshold Funding Year (reserve balance at critical point).

FIVE-YEAR OUTLOOK

3 Cherry Way
Homeowners Association, Inc.
Denver, North Carolina

Line Item	Reserve Component Inventory	RUL = 0 FY2023	1 2024	2 2025	3 2026	4 2027	5 2028
Exterior Building Elements							
1.820	Walls, Masonry, Inspections and Repairs, Phased (Includes Sealants)					53,897	
Property Site Elements							
4.020	Asphalt Pavement, Crack Repair and Patch				17,019		
4.110	Concrete Gutters, Partial		22,413				
4.140	Concrete Sidewalks, Partial		8,384				
4.500	Landscape, Partial Replacements				44,349		
Pool Elements							
6.200	Concrete Deck, Inspections, Partial Replacements and Repairs					11,705	
6.800	Pool Finish, Plaster					28,688	
Anticipated Expenditures, By Year (\$13,049,381 over 30 years)		0	30,797	0	61,368	94,290	0

4. RESERVE COMPONENT DETAIL

The Reserve Component Detail of this *Full Reserve Study* includes enhanced solutions and procedures for select significant components. This section describes the Reserve Components, documents specific problems and condition assessments, and may include detailed solutions and procedures for necessary capital repairs and replacements for the benefit of current and future board members. We advise the Board use this information to help define the scope and procedures for repair or replacement when soliciting bids or proposals from contractors. *However, the Report in whole or part is not and should not be used as a design specification or design engineering service.*

Exterior Building Elements



Building overview

Gutters and Downspouts, Aluminum

Line Item: 1.240

Quantity: Approximately 31,500 linear feet of aluminum five-inch seamless gutters and two-inch by three-inch downspouts. Due to the varied ages of construction, we include expenditures for phased replacements in coordination with the timing of roof replacements.

History: Original

Condition: Good overall with no significant deterioration evident.



Aluminum gutters and downspouts



Aluminum gutters and downspouts



Aluminum gutters and downspouts



Downspout damage

Useful Life: 15- to 20-years

Component Detail Notes: The size of the gutter is determined by the roof's watershed area, a roof pitch factor and the rainfall intensity number of the Association's region. We recommend sloping gutters 1/16 inch per linear foot and providing fasteners a maximum of every three feet.

Downspouts can drain 100 square feet of roof area per one square inch of downspout cross sectional area. We recommend the use of downspout extensions and splash blocks at the downspout discharge to direct storm water away from the foundations. The useful life of gutters and downspouts coincides with that of the sloped roofs. Coordinated replacement will result in the most economical unit price and minimize the possibility of damage to other roof components as compared to separate replacements.

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Semi-annually:
 - Clean out debris and leaves that collect in the gutters

- Repair and refasten any loose gutter fasteners
- Repair and seal any leaking seams or end caps
- Verify downspouts discharge away from foundations

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section

Roofs, Asphalt Shingles

Line Items: 1.280 through 1.284

Quantity: Approximately 5,560 squares¹

Based on the range of construction of the community, we include the following groupings for anticipation of future phased roof replacement events:

Phase	Buildings	Number of Buildings	Year(s) of Construction
A	1-4	4	2010-2012
B	5-7, 9-14	9	2014-2015
C	8, 15-26	13	2016-2017
D	27-41	15	2018-2019
E	42-50	9	2020-2021



¹ We quantify the roof area in squares where one square is equal to 100 square feet of surface area.



History: Original; The Association informs us of isolated leaks primarily around the boot flashings. We're also informed of issues at the dormer siding interfaces. The Board plans to remediate this issue on an as-needed basis. We recommend the Association conduct inspections of the roofs semiannually and fund these inspections through the operating budget.

Condition: Good to fair overall with isolated shingle lift and granular loss evident from our visual inspection from the ground.



Roof overview



Gable vent



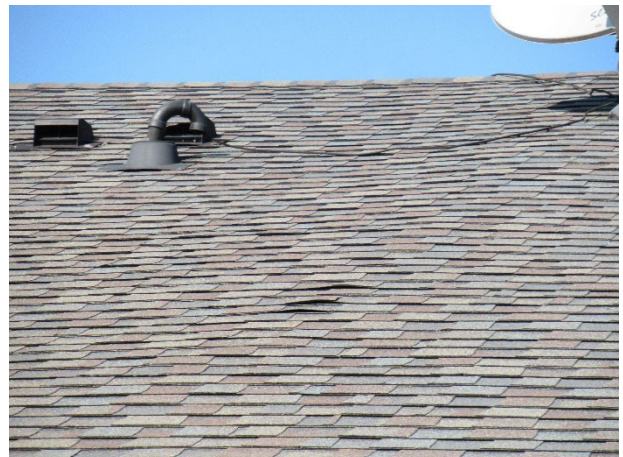
Drip edge



Shingle curl



Shingle curl



Shingle curl



Dormer siding interface



Woven valley



Sheathing deflection



Granular loss

Useful Life: 15- to 20-years

Component Detail Notes: The existing roof assembly comprises the following:

- Laminate architectural shingles
- Boston style ridge caps
- Boot Flashing
- Soffit and gable
- Lack metal drip edge at the roof perimeters (this condition increases the likelihood of water infiltration)
- Enclosed full weaved valleys

Insulation and ventilation are two major components of a sloped roof system. Together, proper insulation and ventilation help to control attic moisture and maintain an energy efficient building. Both insulation and ventilation prevent moisture buildup which can cause wood rot, mold and mildew growth, warp sheathing, deteriorate shingles, and eventually damage building interiors. Sufficient insulation helps to minimize the quantity of moisture that enters the attic spaces and adequate ventilation helps to remove any

moisture that enters the attic spaces. These two roof system components also help to reduce the amount of energy that is required to heat and cool a building. Proper attic insulation minimizes heat gain and heat loss between the residential living spaces and attic spaces. This reduces energy consumption year-round. Proper attic ventilation removes excessive heat from attic spaces that can radiate into residential living spaces and cause air conditioners to work harder. Properly installed attic insulation and ventilation work together to maximize the useful life of sloped roof systems.

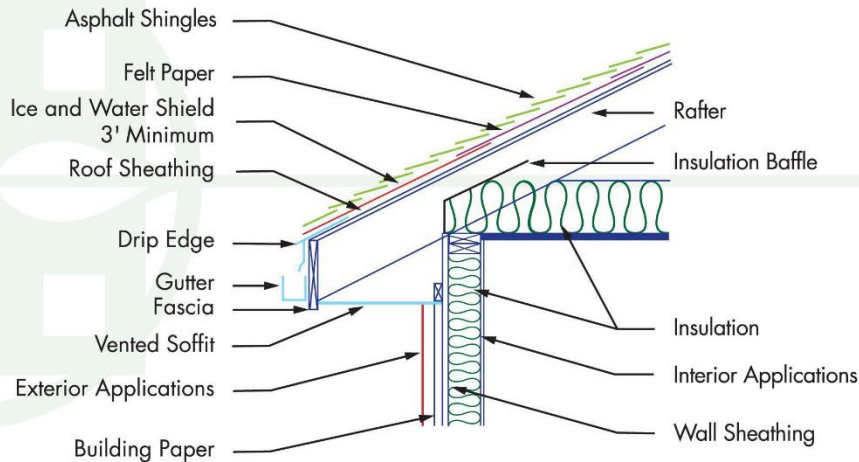
The vents should be clear of debris and not blocked from above by attic insulation. If the soffit vents are blocked from above, installation of polystyrene vent spaces or baffles between the roof joists at these locations can ensure proper ventilation.

Certain characteristics of condition govern the times of replacement. Replacement of an asphalt shingle roof becomes necessary when there are multiple or recurring leaks and when the shingles begin to cup, curl and lift. These conditions are indications that the asphalt shingle roof is near the end of its useful life. Even if the shingles are largely watertight, the infiltration of water in one area can lead to permanent damage to the underlying roof sheathing. This type of deterioration requires replacement of saturated sections of sheathing and greatly increases the cost of roof replacement. Roof leaks may occur from interrelated roof system components, i.e., flashings. Therefore, the warranty period, if any, on the asphalt shingles, may exceed the useful life of the roof system.

Warranties are an indication of product quality and are not a product guarantee. Asphalt shingle product warranties vary from 20- to 50-years and beyond. However, the scope is usually limited to only the material cost of the shingles as caused by manufacturing defects. Warranties may cover defects such as thermal splitting, granule loss, cupping, and curling. Labor cost is rarely included in the remedy so if roof materials fail, the labor to tear off and install new shingles is extra. Other limitations of warranties are exclusions for "incidental and consequential" damages resulting from age, hurricanes, hail storms, ice dams, severe winds, tornadoes, earthquakes, etc. There are some warranties which offer no dollar limit for replacement at an additional cost (effectively an insurance policy) but again these warranties also have limits and may not cover all damages other than a product defect. We recommend a review of the manufacturers' warranties as part of the evaluation of competing proposals to replace a roof system. This evaluation should identify the current costs of remedy if the roof were to fail in the near future. A comparison of the costs of remedy to the total replacement cost will assist in judging the merits of the warranties.

The following cross-sectional schematic illustrates a typical asphalt shingle roof system although it may not reflect the actual configuration at 3 Cherry Way:

ROOF SCHEMATIC



© Reserve Advisors

Contractors use one of two methods for replacement of sloped roofs, either an overlayment or a tear-off. Overlayment is the application of new shingles over an existing roof. However, there are many disadvantages to overlayment including hidden defects of the underlying roof system, absorption of more heat resulting in accelerated deterioration of the new and old shingles, and an uneven visual appearance. Therefore, we recommend only the tear-off method of replacement. The tear-off method of replacement includes removal of the existing shingles, flashings if required and underlayments.

The Association should plan to coordinate the replacement of gutters and downspouts with the adjacent roofs. This will result in the most economical unit price and minimize the possibility of damage to other roof components as compared to separate replacements.

Preventative Maintenance Notes: We recommend the Association maintain a service and inspection contract with a qualified professional and record all documentation of repairs conducted. We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Record any areas of water infiltration, flashing deterioration, damage or loose shingles
 - Implement repairs as needed if issues are reoccurring
 - Trim tree branches that are near or in contact with roof
- As-needed:

- Ensure proper ventilation and verify vents are clear of debris and not blocked from attic insulation

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Shutters, Vinyl

Line Item: 1.560

Quantity: Approximately 785 pairs of decorative raised panel profile vinyl shutters

History: Original; The Association reports a recent repainting of shutters and replacement of fasteners.

Condition: Good overall



Vinyl shutters

Useful Life: Up to 25 years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- As-needed:
 - Inspect and repair loose fasteners and damaged shutters

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Walls, Masonry

Line Item: 1.820

Quantity: Approximately 195,700 square feet of masonry comprises the exterior walls

History: Original; The Board reports an isolated instance of brick heaving, caused by an evident burial of construction debris under patio concrete. We noticed a periodic deterioration of sealant at window lintel.

Condition: Good overall with the following evident:

- No reported history of recent water infiltration
- Face brick masonry
- No previous repairs evident
- Efflorescence is not visible
- Isolated lintel rust is evident
- No masonry cracks are evident
- No spalled masonry is evident
- Isolated mortar deterioration is evident
- Mortar joints are tooled
- Weeps and flashing at lintels are not visible



Masonry walls overview



Masonry cracks beneath patio



Sealant deterioration at steel lintel



Masonry sill and sealant at window

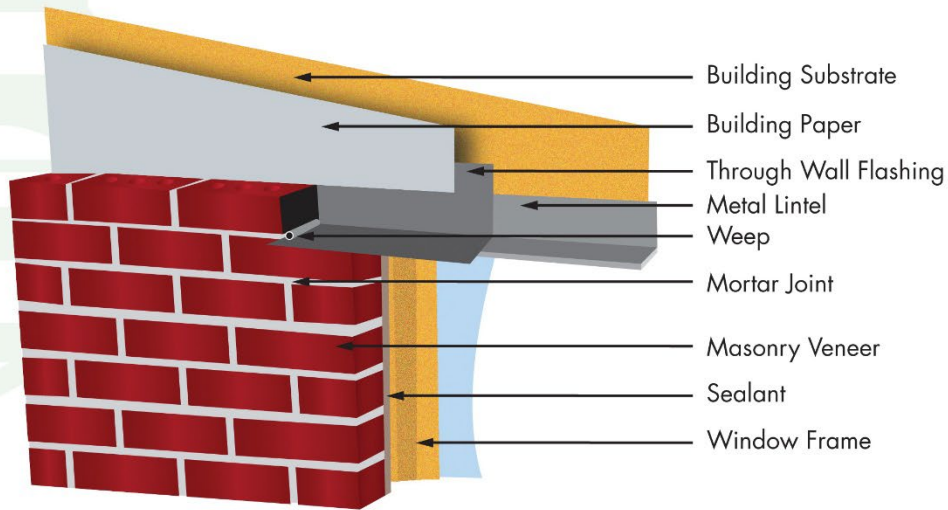
Useful Life: We advise a complete inspection of the masonry and related masonry repairs every 10- to 15-years to forestall deterioration.

Component Detail Notes: Common types of masonry deterioration include efflorescence, spalling, joint deterioration and cracking. The primary cause of efflorescence, cracks and face spall is water infiltration; therefore, prevention of water infiltration is the principal concern for the maintenance of masonry applications.

Repointing is a process of raking and cutting out defective mortar to a depth of not less than $\frac{1}{2}$ inch nor more than $\frac{3}{4}$ inch and replacing it with new mortar. Face grouting is the process of placing mortar over top of the existing mortar. We advise against face grouting because the existing, often deteriorated mortar does not provide a solid base for the new mortar. New mortar spalls at face grouted areas will likely occur. One purpose of a mortar joint is to protect the masonry by relieving stresses within the wall caused by expansion, contraction, moisture migration and settlement. Repointed mortar joints are more effective if the mortar is softer and more permeable than the masonry units, and no harder or less permeable than the existing mortar. The masonry contractor should address these issues within the proposed scope of work.

We recommend an inspection, partial repair and replacement of the steel lintels. Lintels are structural supports or beams above windows and doors. Fatigued lintels also allow the direct penetration of storm water into the wall assembly. These inspections should locate areas of rust on the lintels and cracks or other structural damage to the walls around lintels. The contractor should remove any areas of rust, prime and paint these lintels. Paint protects and maximizes the remaining useful life of the lintels and therefore the exterior wall systems. Structural damage can eventually lead to costly replacements of lintels and surrounding wall systems. The following diagram details a typical metal lintel and weep system and may not reflect the actual configuration at the Association:

MASONRY WALL, METAL LINTEL AND WEEP SYSTEM DETAIL



© Reserve Advisors

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. Due to the varied ages of construction, our cost includes the following activities at up to twenty percent (20%) of the buildings per event:

- Complete inspection of the masonry
- Repointing of up to five percent (5%) of the masonry
- Replacement of a limited amount of the masonry (The exact amount of area in need of replacement will be discretionary based on the actual future conditions and the desired appearance.)
- Paint applications to the metal lintels (approximately 10,500 linear feet)
- Replacement of up to fifty percent (50%) of the sealants at the window and door perimeters

Property Site Elements

Asphalt Pavement, Repaving

Line Items: 4.020 and 4.040

Quantity: Approximately 15,350 square yards at the access drives

History:

- Repaving: Original. Based on the observed condition of the pavement, we assume the pavement wear course was installed in the latter stages of the community development.
- Repairs: Original. No recent significant repairs conducted with an isolated patch due to a subsurface drain repair event.

Condition: Good overall with no significant deterioration evident



Pavement overview



Pavement overview



Pavement overview



Pavement cracks



Pavement overview



Pavement overview



Pavement cracks



Pavement overview



Pavement cracks

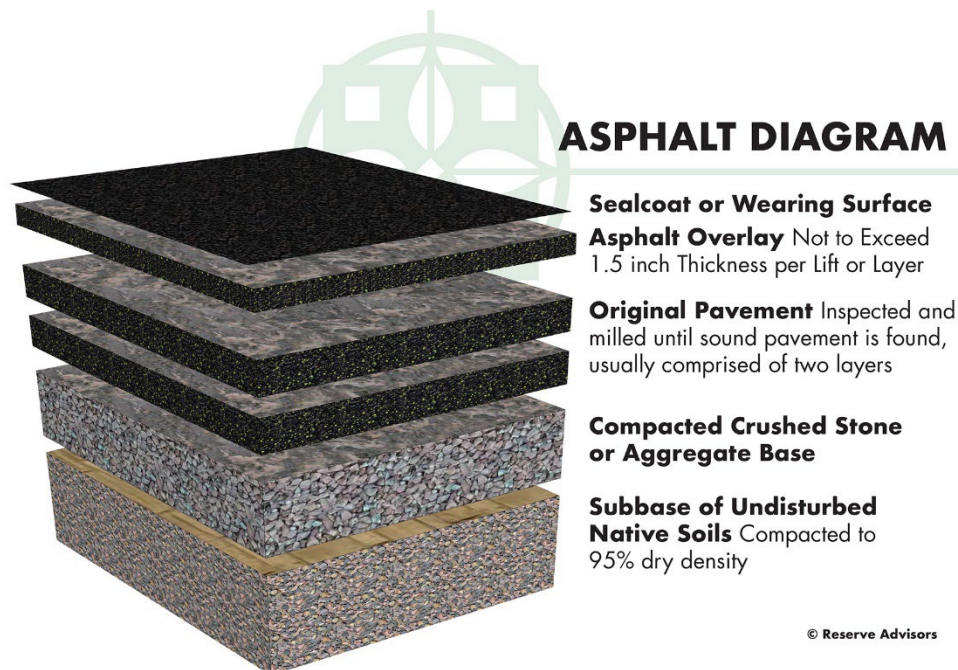


Pavement overview

Useful Life: 15- to 20-years with the benefit of crack repair and patch events every three- to five-years

Component Detail Notes: Proposals should include mechanically routing and filling all cracks with hot emulsion. Crack repair minimizes the chance of the cracks transmitting through the pavement. Patch repairs are conducted at areas exhibiting settlement, potholes, or excessive cracking. These conditions typically occur near high traffic areas, catch basins, and pavement edges.

The initial installation of asphalt uses at least two lifts, or two separate applications of asphalt, over the base course. The first lift is the binder course. The second lift is the wearing course. The wearing course comprises a finer aggregate for a smoother more watertight finish. The following diagram depicts the typical components although it may not reflect the actual configuration at 3 Cherry Way:



The manner of repaving is either a mill and overlay or total replacement. A mill and overlay is a method of repaving where cracked, worn and failed pavement is mechanically removed or milled until sound pavement is found. A new layer of asphalt is overlaid atop the remaining base course of pavement. Total replacement includes the removal of all existing asphalt down to the base course of aggregate and native soil followed by the application of two or more new lifts of asphalt. We recommend mill and overlayment on asphalt pavement that exhibits normal deterioration and wear. We recommend total replacement of asphalt pavement that exhibits severe deterioration, inadequate drainage, pavement that has been overlaid multiple times in the past or where the configuration makes overlayment not possible. Based on the apparent visual condition and configuration of the asphalt pavement, we recommend the mill and overlay method for initial repaving followed by the total replacement method for subsequent repaving at 3 Cherry Way.

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect for settlement, large cracks and trip hazards, and ensure proper drainage
 - Repair areas which could cause vehicular damage such as potholes
- As needed:
 - Perform crack repairs and patching

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. Our cost includes an allowance for crack repairs and patching of up to two percent (2%) of the pavement. Our cost for milling and overlayment includes area patching of up to ten percent (10%).

Catch Basins

Line Item: 4.100

Quantity: Approximately 40 catch basins²

History: Original; The Board reports a recent repair of a crushed drain. The Board is considering a proposed capital improvement to fix poor drainage in the newest section of the community. Updates to this Reserve Study will consider possible changes in the scope and times of component replacements.

Condition: Good to fair overall



Catch basin



Catch basin collar damage

² We utilize the terminology catch basin to refer to all storm water collection structures including curb inlets.



Catch basin



Spalling at catch basin



Catch basin



Catch basin recent repair

Useful Life: The useful life of catch basins is up to 65 years. However, achieving this useful life usually requires interim capital repairs or partial replacements every 15- to 20-years.

Component Detail Notes: Erosion causes settlement around the collar of catch basins. Left unrepaired, the entire catch basin will shift and need replacement.

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair any settlement and collar cracks
 - Ensure proper drainage and inlets are free of debris
 - If property drainage is not adequate in heavy rainfall events, typically bi-annual cleaning of the catch basins is recommended

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We recommend the Association plan for inspections and capital repairs to the catch basins in conjunction with repaving.

Concrete Gutters

Line Item: 4.110

Quantity: Approximately 12,200 linear feet

History and Condition: Fair overall with frequent cracks, spalled concrete and damage evident.



Concrete cracks



Concrete spalls



Concrete damage



Curb settlement



Curb damage

Useful Life: Up to 65 years although interim deterioration of areas is common

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair major cracks, spalls and trip hazards
 - Mark with orange safety paint prior to replacement or repair
 - Repair or perform concrete leveling in areas in immediate need of repair or possible safety hazard

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We estimate that up to 3,660 linear feet of gutters, or thirty percent (30%) of the total, will require replacement during the next 30 years.

Concrete Driveways

Line Item: 4.120

Quantity: Approximately 200,000 square feet located at the alleys and unit driveways

Condition: Good to fair overall with isolated cracks and spalled concrete evident.



Concrete driveway



Driveway spalls



Driveway cracks



Driveway cracks



Driveway settlement near unit 8622

Useful Life: Up to 65 years although interim deterioration of areas is common

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair major cracks, spalls and trip hazards
 - Mark with orange safety paint prior to replacement or repair
 - Repair or perform concrete leveling in areas in immediate need of repair or possible safety hazard

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We estimate that up to 29,800 square feet of concrete driveways, or fifteen percent (15%) of the total, will require replacement during the next 30 years.

Concrete Sidewalks

Line Item: 4.140

Quantity: Approximately 21,600 square feet

Condition: Good to fair overall with isolated cracks, spalled concrete and undermining evident.



Concrete sidewalk recent repair



Soil undermining at sidewalk



Soil undermining at sidewalk

Useful Life: Up to 65 years although interim deterioration of areas is common

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair major cracks, spalls and trip hazards
 - Mark with orange safety paint prior to replacement or repair
 - Repair or perform concrete leveling in areas in immediate need of repair or possible safety hazard

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We estimate that up to 3,240 square feet of concrete sidewalks, or fifteen percent (15%) of the total, will require replacement during the next 30 years.

Fence, Aluminum

Line Item: 4.200

Quantity: 250 linear feet located at the east perimeter

History: Original

Condition: Good overall



Aluminum fence

Useful Life: Up to 25 years (The useful life of the finish is indeterminate. Future updates of this Reserve Study will again consider the need to refinish the railings based on condition.)

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair loose fasteners or sections, and damage
 - Repair leaning sections and clear vegetation from fence areas which could cause damage

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Fence, Chain Link

Line Item: 4.220

Quantity: 580 linear feet at the boat storage lot

History: Original

Condition: Good overall with no visible deterioration



Chain link fence at boat storage

Useful Life: Up to 35 years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair loose sections, and damage
 - Repair leaning sections and clear vegetation from fence areas which could cause damage

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Fence, Vinyl

Line Item: 4.260

Quantity: 220 linear feet at the lift station area and the south perimeter of the west side of the community

History: Installed in approximately 2020.

Condition: Good overall



Vinyl fence at lift station



Vinyl fence at perimeter

Useful Life: 15- to 20-years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair loose panels, and damage
 - Repair leaning sections and clear vegetation from fence areas which could cause damage
 - Periodically clean vinyl fence as needed

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Landscape

Line Item: 4.500

Component Detail Notes: The Association contains a large quantity of trees, shrubbery and other landscape elements. Replacement of these elements is an ongoing need. Many associations budget for these replacements as normal maintenance. Other associations fund ongoing replacements from reserves. Large amounts of landscape may need replacement due to disease, drought or other forces of nature. If the cost of removal and replacement is substantial, funding from reserves is logical. The Association may also desire to periodically update the appearance of the community through major improvements to the landscape.

Useful Life: Based on conversations with the Board, we include a landscape allowance for partial replacements every five years.

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Mailboxes

Line Item: 4.600

Quantity: One station

History: Installed in 2015.

Condition: Good overall



Mailbox stations

Useful Life: Up to 25 years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- As-needed:
 - Inspect and repair damage, vandalism, and finish deterioration
 - Verify posts are anchored properly

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Pond, Sediment Removal

Line Item: 4.730

Quantity: Approximately 5,250 square yards of water surface area

History: Original. The Board informs us of sediment build-up at the east side of the pond at the inlet structure. The pond typically has water retained, and was dry at the time of our inspection.

The Board also informs us of possible future changes at the outflow structure due to development of the adjacent lot. There were no project bids or plans for changes to the outflow design available at the time of our inspection. Updates to this Reserve Study will consider possible changes in the scope and times of component replacements.

Condition: Good to fair overall with sediment accumulation evident.



Pond overview



Pond overview



Pond overview



Pond settlement

Useful Life: Based on the visual condition, construction, adjacent deciduous trees and visibly apparent erosion, we recommend the Association anticipate the need to remove pond sediment up to every 30 years.

Component Detail Notes: The gradual build-up of natural debris, including tree leaves, branches and silt, may eventually change the topography of areas of the pond. Silt typically accumulates at inlets, outlets and areas of shoreline erosion. Sediment removal of ponds becomes necessary if this accumulation alters the quality of pond water or the

functionality of the ponds as storm water management structures. Sediment removal is the optimal but also the most capital-intensive method of pond management. Excavation equipment used for sediment removal includes clamshells, draglines and suction pipe lines. Sediment removal can also include shoreline regrading. Regrading includes removal of collapsed and eroded soil, and redefining the shoreline.

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and remediate shoreline erosion and areas of sediment accumulation
 - Clear and remove debris and vegetation overgrowth at pond edges, and inlet and outlet structures
 - Inspect for algae blooms and remedy as needed through a chemical treatment program or aeration

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. For reserve budgeting purposes, we estimate the need to remove an average depth of one yard from approximately fifty percent (50%) of the surface area. However, the actual volume of material to remove may vary dependent upon an invasive analysis at the time of removal. A visual inspection of a body of water cannot reveal the amount of accumulated silt. This is especially true on larger bodies of water. It is therefore inaccurate to assume an entire body of water will require sediment removal. It is more cost effective to spot remove in areas of intense silt accumulation as noted through bathymetric surveys. The amount or depth of silt is determined through prodding into the silt until a relatively solid base is found or through bathymetric surveys. A bathymetric survey establishes a base of data about the depth of the body of water over many locations against which the data of future surveys is compared. These invasive procedures are beyond the scope of a Reserve Study and require multiple visits to the site. We recommend 3 Cherry Way contract with a local engineer for periodic bathymetric surveys. Future updates of the Reserve Study can incorporate future anticipated expenditures based on the results of the bathymetric surveys.

Unit costs per cubic yard to remove can vary significantly based on the type of equipment used, quantity of removed material and disposal of removed material. Sediment removal costs must also include mobilization, or getting the equipment to and from the site. Also, the portion of the overall cost to remove associated with mobilization varies based on the volume removed. Costs for sediment disposal also vary depending on the site. Compact sites will require hauling and in some cases disposal fees.

Sport Court, Pickle Ball

Line Item: 4.860

Quantity: 100 square yards of asphalt comprising one pickle ball court

History: Installed in 2015 with recent repairs at one end of the court due to settlement.

Condition: Good overall with settlement evident.



Pickle ball court overview



Recent repair



Slight displacement

Useful Life: Up to 25 years for replacement of the surface with the benefit of color coat applications and repairs every 4- to 8-years. We recommend these interim events are funded through the operating budget.

Preventative Maintenance Notes: Prior to the application of the color coat, the Association should require the contractor to rout and fill all cracks with hot emulsion. This deters water infiltration and further deterioration of the asphalt playing surface. We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair large cracks, trip hazards and possibly safety hazards
 - Verify gate and fencing is secure

- Semi-annually:
 - Lubricate motors and bearings
 - Change or clean air filters as needed
 - Inspect condenser base and piping insulation
 - Inspect base pan, coil, cabinet and clear obstructions as necessary
- Annually:
 - Clean coils and drain pans, clean fan assembly, check refrigerant charge, inspect fan drive system and controls
 - Inspect and clean accessible ductwork as needed
 - Clean debris from inside cabinet, inspect condenser compressor and associated tubing for damage

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. The condensing unit may require replacement prior to replacement of the related interior forced air unit. For purposes of this Reserve Study, we assume coordination of replacement of the interior forced air unit, evaporator coil, refrigerant lines and exterior condensing unit.

Interior Renovations

Line Item: 5.500

Quantity: The clubhouse interior components include:

- Rubber and tile floor coverings
- Paint finishes at the walls
- Paint finishes at the ceilings
- Plumbing fixtures
- Light fixtures including exit and emergency lights
- Furnishings

History: The clubhouse was installed in 2013 and the finishes and fixtures are primarily original. The Association recently added acoustical ceiling panels.

Condition: Good overall



Club house Ceiling



Clubhouse flooring



Clubhouse interior



Clubhouse interior



Clubhouse interior



Clubhouse interior



Exercise room

Useful Life: Complete renovations every 25 years.

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We recommend interim renovations and paint finishes are funded through the operating budget.

Kitchen and Rest Rooms

Line Item: 5.520

Quantity: Components include:

- Tile floor coverings
- Paint finishes at the walls
- Paint finishes at the ceilings
- Appliances
- Cabinets and countertops
- Light fixtures
- Bathroom fixtures

History: Original to 2013

Condition: Good overall with no significant deterioration evident.



Bathroom overview



Kitchen cabinets and countertops



Kitchen cabinets and countertops



Kitchen flooring



Kitchen overview

Useful Life: Renovation in 15 years

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Light Fixtures

Line Item: 5.530

Quantity: Approximately 39 exterior metal light fixtures

History: Original to 2013

Condition: Good overall with no significant deterioration evident.



Exterior light fixture

Useful Life: Up to 20 years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- As-needed:
 - Replace burned out bulbs at common fixtures as needed
 - Inspect and repair broken or dislodged fixtures
 - Ensure a waterproof seal between the fixture and building exists

Priority/Criticality: Per Board discretion

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Roof, Asphalt Shingles

Line Item: 5.600

Quantity: Approximately 80 squares³

History: Original to 2013

Condition: Good to fair overall with shingle lift and granular loss evident from our visual inspection from the ground.

Useful Life: 15- to 20-years

Component Detail Notes: Contractors use one of two methods for replacement of sloped roofs, either an overlayment or a tear-off. Overlayment is the application of new shingles over an existing roof. However, there are many disadvantages to overlayment including hidden defects of the underlying roof system, absorption of more heat resulting in accelerated deterioration of the new and old shingles, and an uneven visual appearance. Therefore, we recommend only the tear-off method of replacement. The tear-off method of replacement includes removal of the existing shingles, flashings if required and underlayments.

Preventative Maintenance Notes: We recommend the Association maintain a service and inspection contract with a qualified professional and record all documentation of repairs conducted. We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Record any areas of water infiltration, flashing deterioration, damage or loose shingles
 - Implement repairs as needed if issues are reoccurring
 - Trim tree branches that are near or in contact with roof
- As-needed:
 - Ensure proper ventilation and verify vents are clear of debris and not blocked from attic insulation

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

³ We quantify the roof area in squares where one square is equal to 100 square feet of surface area.

Windows and Doors

Line Item: 5.800

Quantity: Approximately 500 square feet

History: Original to 2013. in 2013

Condition: Good overall



Common windows and doors



Common windows

Useful Life: Up to 40 years

Component Detail Notes: Construction of the windows and doors at the clubhouse includes the following:

- Vinyl frames
- Dual pane glass
- Hinged doors

Priority/Criticality: Not recommended to defer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Pool Elements

Concrete Deck

Line Item: 6.200

Quantity: 6,000 square feet

History: Original to 2015.

Condition: Good overall with isolated cracks evident.



Concrete pool deck overview



Concrete pool deck overview



Concrete cracks

Useful Life: The useful life of a concrete pool deck is up to 60 years or more with timely repairs. We recommend the Association conduct inspections, partial replacements and repairs to the deck every 8- to 12-years.

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Semi-annually:
 - Inspect and repair large cracks, trip hazards, and possible safety hazards
 - Inspect and repair pool coping for cracks, settlement, heaves or sealant deterioration
 - Repair concrete spalling
 - Schedule periodic pressure cleanings as needed

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We recommend the Association budget for the following per event:

- Selective cut out and replacements of up to ten percent (10%) of concrete
- Crack repairs as needed
- Mortar joint repairs
- Caulk replacement
-

Fence, Steel

Line Item: 6.400

Quantity: 300 linear feet

History: Replaced in 2015.

Condition: Good to fair overall with isolated rust evident.



Steel pool fence overview



Fence rust



Fence rust

Useful Life: Up to 35 years

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Annually:
 - Inspect and repair loose fasteners or sections, and damage
 - Repair leaning sections and clear vegetation from fence areas which could cause damage

Priority/Criticality: Not recommended to defer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3.

Pool Finishes, Plaster and Tile

Line Items: 6.800 and 6.801

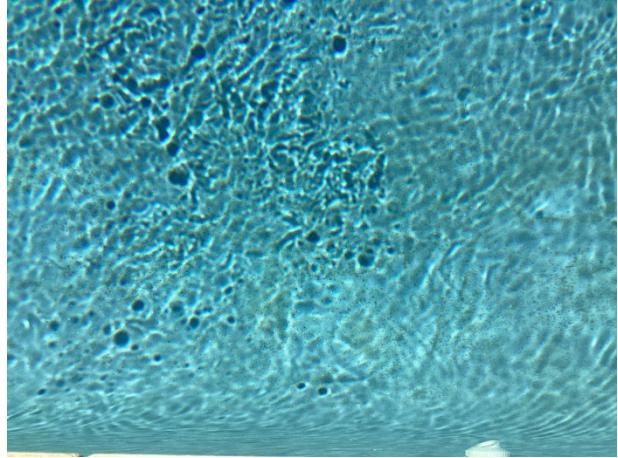
Quantity: 1,250 square feet of plaster based on the horizontal surface area and approximately 150 linear feet of tile

History: Original to 2015

Condition: Good to fair overall with isolated evident.



Pool plaster overview



Spalling

Useful Life: 8- to 12-years for the plaster and 15- to 25-years for the tile

Preventative Maintenance Notes: We note the following select recommended preventative maintenance activities to maximize the remaining useful life:

- Semi-annually:
 - Inspect and patch areas of significant plaster delamination, coping damage and structure cracks
 - Inspect main drain connection and anti-entrapment covers, pressure test circulation piping and valves
 - Test handrails and safety features for proper operation

Priority/Criticality: Defer only upon opinion of independent professional or engineer

Expenditure Detail Notes: Expenditure timing and costs are depicted in the **Reserve Expenditures** table in Section 3. We recommend the Association budget for full tile replacement every other plaster replacement event. Removal and replacement of the finish provides the opportunity to inspect the pool structure and to allow for partial repairs of the underlying concrete surfaces as needed. To maintain the integrity of the pool structure, we recommend the Association budget for the following:

- Removal and replacement of the plaster finish
- Partial replacements of the scuppers and coping as needed
- Replacement of tiles as needed
- Replacement of joint sealants as needed
- Concrete structure repairs as needed

Reserve Study Update

An ongoing review by the Board and an Update of this Reserve Study are necessary to ensure an equitable funding plan since a Reserve Study is a snapshot in time. Many variables change after the study is conducted that may result in significant



overfunding or underfunding the reserve account. Variables that may affect the Reserve Funding Plan include, but are not limited to:

- Deferred or accelerated capital projects based on Board discretion
- Changes in the interest rates on reserve investments
- Changes in the *local* construction inflation rate
- Additions and deletions to the Reserve Component Inventory
- The presence or absence of maintenance programs
- Unusually mild or extreme weather conditions
- Technological advancements

Periodic updates incorporate these variable changes since the last Reserve Study or Update. We recommend the Board budget for an Update to this Reserve Study in two- to three-years. Budgeting for an Update demonstrates the Board's objective to continue fulfilling its fiduciary responsibility to maintain the commonly owned property and to fund reserves appropriately.

5.METHODOLOGY

Reserves for replacement are the amounts of money required for future expenditures to repair or replace Reserve Components that wear out before the entire facility or project wears out. Reserving funds for future repair or replacement of the Reserve Components is also one of the most reliable ways of protecting the value of the property's infrastructure and marketability.

3 Cherry Way can fund capital repairs and replacements in any combination of the following:

1. Increases in the operating budget during years when the shortages occur
2. Loans using borrowed capital for major replacement projects
3. Level monthly reserve assessments annually adjusted upward for inflation to increase reserves to fund the expected major future expenditures
4. Special assessments

We do not advocate special assessments or loans unless near term circumstances dictate otherwise. Although loans provide a gradual method of funding a replacement, the costs are higher than if the Association were to accumulate reserves ahead of the actual replacement. Interest earnings on reserves also accumulate in this process of saving or reserving for future replacements, thereby defraying the amount of gradual reserve collections. We advocate the third method of *Level Monthly Reserve Assessments* with relatively minor annual adjustments. The method ensures that Homeowners pay their "fair share" of the weathering and aging of the commonly owned property each year. Level reserve assessments preserve the property and enhance the resale value of the homes.

This Reserve Study is in compliance with and exceeds the National standards¹ set forth by the Association of Professional Reserve Analysts (APRA) fulfilling the requirements of a "Level I Full Reserve Study." These standards require a Reserve Component to have a "predictable remaining Useful Life." Estimating Remaining Useful Lives and Reserve Expenditures beyond 30 years is often indeterminate. Long-Lived Property Elements are necessarily excluded from this analysis. We considered the following factors in our analysis:

- The Cash Flow Method to compute, project and illustrate the 30-year Reserve Funding Plan
- Local² costs of material, equipment and labor
- Current and future costs of replacement for the Reserve Components
- Costs of demolition as part of the cost of replacement
- Local economic conditions and a historical perspective to arrive at our estimate of long-term future inflation for construction costs in Denver, North Carolina at an annual inflation rate³. Isolated or regional markets of

¹ Identified in the APRA "Standards - Terms and Definitions" and the CAI "Terms and Definitions".

² See Credentials for additional information on our use of published sources of cost data.

³ Derived from Marshall & Swift, historical costs and the Bureau of Labor Statistics.

greater construction (development) activity may experience slightly greater rates of inflation for both construction materials and labor.

- The past and current maintenance practices of 3 Cherry Way and their effects on remaining useful lives
- Financial information provided by the Association pertaining to the cash status of the reserve fund and budgeted reserve contribution
- The anticipated effects of appreciation of the reserves over time in accord with a return or yield on investment of your cash equivalent assets. (We did not consider the costs, if any, of Federal and State Taxes on income derived from interest and/or dividend income).
- The Funding Plan excludes necessary operating budget expenditures. It is our understanding that future operating budgets will provide for the ongoing normal maintenance of Reserve Components.

Updates to this Reserve Study will continue to monitor historical facts and trends concerning the external market conditions.



6. CREDENTIALS

HISTORY AND DEPTH OF SERVICE

Reserve Advisors Engineering, PLLC is the leading provider of reserve studies and other engineering consulting services.

The **architectural engineering consulting firm** was formed to take a leadership role in helping fiduciaries, boards, and property managers manage their property like a business with a long-range master plan known as a Reserve Study.

Reserve Advisors employs the **largest staff of Reserve Specialists** with bachelor's degrees in engineering dedicated to Reserve Study services. Our founders are also founders of Community Associations Institute's (CAI) Reserve Committee that developed national standards for reserve study providers. One of our founders is a Past President of the Association of Professional Reserve Analysts (APRA). Our vast experience with a variety of building types and ages, on-site examination and historical analyses are keys to determining accurate remaining useful life estimates of building components.

No Conflict of Interest - As consulting specialists, our **independent opinion** eliminates any real or perceived conflict of interest because we do not conduct or manage capital projects.

TOTAL STAFF INVOLVEMENT

Several staff members participate in each assignment. The responsible advisor involves the staff through a Team Review, exclusive to Reserve Advisors, and by utilizing the experience of other staff members, each of whom has served hundreds of clients. We conduct Team Reviews, an internal quality assurance review of each assignment, including: the inspection; building component costing; lifting; and technical report phases of the assignment. Due to our extensive experience with building components, we do not have a need to utilize subcontractors.

OUR GOAL

To help our clients fulfill their fiduciary responsibilities to maintain property in good condition.

VAST EXPERIENCE WITH A VARIETY OF BUILDINGS

Reserve Advisors has conducted reserve studies for a multitude of different communities and building types, and routinely inspects buildings with various types of mechanical systems such as simple electric heat, to complex systems with air handlers, chillers, boilers, elevators, and life safety and security systems.

We're familiar with all types of building exteriors as well. Our well-versed staff regularly identifies optimal repair and replacement solutions for such building exterior surfaces such as adobe, brick, stone, concrete, stucco, EIFS, wood products, stained glass and aluminum siding, and window wall systems.

OLD TO NEW

Reserve Advisors' experience includes ornate and vintage buildings as well as modern structures. Our specialists are no strangers to older buildings. We're accustomed to addressing the unique challenges posed by buildings that date to the 1800's. We recognize and consider the methods of construction employed into our analysis. We recommend appropriate replacement programs that apply cost effective technologies while maintaining a building's character and appeal.

TANNER A. OLDENBURGER, PE, RS
Vice President of Engineering

CURRENT CLIENT SERVICES

Tanner A. Oldenburger, a Professional Civil Engineer, is an Advisor for Reserve Advisors. Mr. Oldenburger is responsible for the inspection and analysis of the condition of clients' properties, and recommending engineering solutions to prolong the lives of the components. He also forecasts capital expenditures for the repair and/or replacement of the property components and prepares technical reports on assignments. He is responsible for conducting Life Cycle Cost Analyses and Capital Replacement Forecast services and the preparation of Reserve Study Reports for condominiums, townhomes and homeowner associations.



The following is a partial list of over 750 clients served by Tanner Oldenburger demonstrating his breadth of experiential knowledge of community associations in construction, remediation procedures and related buildings systems.

North Star Lofts Owner's Association - Located in the historic Mill District in Minneapolis, Minnesota, this distinctive building contains 37 loft-style condominiums in an eight-story building. The building was originally a blanket factory in the 1920's and was converted to residential units in the late 1990's. The building exterior comprises masonry walls, rooftop decks and a historically preserved tower and sign.

MacLaren Hill Condominium Association - This development contains a combination of three apartment-style buildings and eight townhome style buildings located in St. Paul, Minnesota. This Association maintains a shared ownership agreement between the two building types that include all the property site and garage elements.

Portland Tower Association - This 17-story high-rise in downtown Minneapolis, Minnesota includes rooftop deck, curtain wall exterior and parking garage. The building also utilizes a high-efficiency central HVAC system with 22 variable frequency drives.

Bearpath Homeowners Association - Located in Eden Prairie, Minnesota, this exclusive community comprises four cost centers for the single family homes, golf villas, fairway villas and townhomes. The Association maintains the villa and townhome exterior building elements as well as a gate house and approximately four miles of private streets.

Cochran Park Condominium Association - Located in St. Paul, Minnesota, these two distinguished condominium buildings were constructed in 1914. The Association maintains garage structures, the stucco exteriors and clay tile mansard roof, as well as the common electrical and piping systems throughout the buildings.

PRIOR RELEVANT EXPERIENCE

Before joining Reserve Advisors, Mr. Oldenburger attended Montana State University in Bozeman, Montana where he attained his Bachelor of Science degree in Civil Engineering and his Masters of Science degree in Civil Engineering with a focus on Structural Engineering. His relevant employment history includes working for the structural design team at Compass Consulting Engineers. He was responsible for the design and analysis of custom residential and commercial projects throughout the Northwest.

EDUCATION

Montana State University - B.S. Civil Engineering
Montana State University - M.S. Civil Engineering

PROFESSIONAL AFFILIATIONS/DESIGNATIONS

Professional Engineering License (PE) – Minnesota
Reserve Specialist (RS) - Community Associations Institute

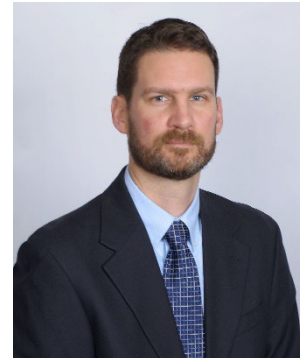


ALAN M. EBERT, P.E., PRA, RS
Director of Quality Assurance

CURRENT CLIENT SERVICES

Alan M. Ebert, a Professional Engineer, is the Director of Quality Assurance for Reserve Advisors. Mr. Ebert is responsible for the management, review and quality assurance of reserve studies. In this role, he assumes the responsibility of stringent report review analysis to assure report accuracy and the best solution for Reserve Advisors' clients.

Mr. Ebert has been involved with thousands of Reserve Study assignments. The following is a partial list of clients served by Alan Ebert demonstrating his breadth of experiential knowledge of community associations in construction and related buildings systems.



Brownsville Winter Haven Located in Brownsville, Texas, this unique homeowners association contains 525 units. The Association maintains three pools and pool houses, a community and management office, landscape and maintenance equipment, and nine irrigation canals with associated infrastructure.

Rosemont Condominiums This unique condominium is located in Alexandria, Virginia and dates to the 1940's. The two mid-rise buildings utilize decorative stone and brick masonry. The development features common interior spaces, multi-level wood balconies and common asphalt parking areas.

Stillwater Homeowners Association Located in Naperville, Illinois, Stillwater Homeowners Association maintains four tennis courts, an Olympic sized pool and an upscale ballroom with commercial-grade kitchen. The community also maintains three storm water retention ponds and a detention basin.

Birchfield Community Services Association This extensive Association comprises seven separate parcels which include 505 townhome and single family homes. This Community Services Association is located in Mt. Laurel, New Jersey. Three lakes, a pool, a clubhouse and management office, wood carports, aluminum siding, and asphalt shingle roofs are a few of the elements maintained by the Association.

Oakridge Manor Condominium Association Located in Londonderry, New Hampshire, this Association includes 104 units at 13 buildings. In addition to extensive roads and parking areas, the Association maintains a large septic system and significant concrete retaining walls.

Memorial Lofts Homeowners Association This upscale high rise is located in Houston, Texas. The 20 luxury units include large balconies and decorative interior hallways. The 10-story building utilizes a painted stucco facade and TPO roof, while an on-grade garage serves residents and guests.

PRIOR RELEVANT EXPERIENCE

Mr. Ebert earned his Bachelor of Science degree in Geological Engineering from the University of Wisconsin-Madison. His relevant course work includes foundations, retaining walls, and slope stability. Before joining Reserve Advisors, Mr. Ebert was an oilfield engineer and tested and evaluated hundreds of oil and gas wells throughout North America.

EDUCATION

University of Wisconsin-Madison - B.S. Geological Engineering

PROFESSIONAL AFFILIATIONS/DESIGNATIONS

Professional Engineering License – Wisconsin, North Carolina, Illinois, Colorado

Reserve Specialist (RS) - Community Associations Institute

Professional Reserve Analyst (PRA) - Association of Professional Reserve Analysts

RESOURCES

Reserve Advisors utilizes numerous resources of national and local data to conduct its Professional Services. A concise list of several of these resources follows:

Association of Construction Inspectors, (ACI) the largest professional organization for those involved in construction inspection and construction project management. ACI is also the leading association providing standards, guidelines, regulations, education, training, and professional recognition in a field that has quickly become important procedure for both residential and commercial construction, found on the web at www.iami.org.

American Society of Heating, Refrigerating and Air-Conditioning Engineers, Inc., (ASHRAE) the American Society of Heating, Refrigerating and Air-Conditioning Engineers, Inc., devoted to the arts and sciences of heating, ventilation, air conditioning and refrigeration; recognized as the foremost, authoritative, timely and responsive source of technical and educational information, standards and guidelines, found on the web at www.ashrae.org. Reserve Advisors actively participates in its local chapter and holds individual memberships.

Community Associations Institute, (CAI) America's leading advocate for responsible communities noted as the only national organization dedicated to fostering vibrant, responsive, competent community associations. Their mission is to assist community associations in promoting harmony, community, and responsible leadership.

Marshall & Swift / Boeckh, (MS/B) the worldwide provider of building cost data, co-sourcing solutions, and estimating technology for the property and casualty insurance industry found on the web at www.marshallswift.com.

R.S. Means CostWorks, North America's leading supplier of construction cost information. As a member of the Construction Market Data Group, Means provides accurate and up-to-date cost information that helps owners, developers, architects, engineers, contractors and others to carefully and precisely project and control the cost of both new building construction and renovation projects found on the web at www.rsmeans.com.

Reserve Advisors' library of numerous periodicals relating to reserve studies, condition analyses, chapter community associations, and historical costs from thousands of capital repair and replacement projects, and product literature from manufacturers of building products and building systems.

7. DEFINITIONS

Definitions are derived from the standards set forth by the Community Associations Institute (CAI) representing America's 305,000 condominium and homeowners associations and cooperatives, and the Association of Professional Reserve Analysts, setting the standards of care for reserve study practitioners.

Cash Flow Method - A method of calculating Reserve Contributions where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund. Different Reserve Funding Plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

Component Method - A method of developing a Reserve Funding Plan with the total contribution is based on the sum of the contributions for individual components.

Current Cost of Replacement - That amount required today derived from the quantity of a *Reserve Component* and its unit cost to replace or repair a Reserve Component using the most current technology and construction materials, duplicating the productive utility of the existing property at current *local* market prices for *materials*, *labor* and manufactured equipment, contractors' overhead, profit and fees, but without provisions for building permits, overtime, bonuses for labor or premiums for material and equipment. We include removal and disposal costs where applicable.

Fully Funded Balance - The Reserve balance that is in direct proportion to the fraction of life "used up" of the current Repair or Replacement cost similar to Total Accrued Depreciation.

Funding Goal (Threshold) - The stated purpose of this Reserve Study is to determine the adequate, not excessive, minimal threshold reserve balances.

Future Cost of Replacement - *Reserve Expenditure* derived from the inflated current cost of replacement or current cost of replacement as defined above, with consideration given to the effects of inflation on local market rates for materials, labor and equipment.

Long-Lived Property Component - Property component of 3 Cherry Way responsibility not likely to require capital repair or replacement during the next 30 years with an unpredictable remaining Useful Life beyond the next 30 years.

Percent Funded - The ratio, at a particular point of time (typically the beginning of the Fiscal Year), of the actual (or projected) Reserve Balance to the Fully Funded Balance, expressed as a percentage.

Remaining Useful Life - The estimated remaining functional or useful time in years of a *Reserve Component* based on its age, condition and maintenance.

Reserve Component - Property elements with: 1) 3 Cherry Way responsibility; 2) limited Useful Life expectancies; 3) predictable Remaining Useful Life expectancies; and 4) a replacement cost above a minimum threshold.

Reserve Component Inventory - Line Items in *Reserve Expenditures* that identify a *Reserve Component*.

Reserve Contribution - An amount of money set aside or *Reserve Assessment* contributed to a *Reserve Fund* for future *Reserve Expenditures* to repair or replace *Reserve Components*.

Reserve Expenditure - Future Cost of Replacement of a Reserve Component.

Reserve Fund Status - The accumulated amount of reserves in dollars at a given point in time, i.e., at year end.

Reserve Funding Plan - The portion of the Reserve Study identifying the *Cash Flow Analysis* and containing the recommended Reserve Contributions and projected annual expenditures, interest earned and reserve balances.

Reserve Study - A budget planning tool that identifies the current status of the reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures.

Useful Life - The anticipated total time in years that a *Reserve Component* is expected to serve its intended function in its present application or installation.



8. PROFESSIONAL SERVICE CONDITIONS

Our Services - Reserve Advisors Engineering, PLLC ("RA") performs its services as an independent contractor in accordance with our professional practice standards and its compensation is not contingent upon our conclusions. The purpose of our reserve study is to provide a budget planning tool that identifies the current status of the reserve fund, and an opinion recommending an annual funding plan, to create reserves for anticipated future replacement expenditures of the subject property. The purpose of our energy benchmarking services is to track, collect and summarize the subject property's energy consumption over time for your use in comparison with other buildings of similar size and establishing a performance baseline for your planning of long-term energy efficiency goals.

Our inspection and analysis of the subject property is limited to visual observations, is noninvasive and is not meant to nor does it include investigation into statutory, regulatory or code compliance. RA inspects sloped roofs from the ground and inspects flat roofs where safe access (stairs or ladder permanently attached to the structure) is available. Our energy benchmarking services with respect to the subject property is limited to collecting energy and utility data and summarizing such data in the form of an Energy Star Portfolio Manager Report or any other similar report, and hereby expressly excludes any recommendations with respect to the results of such energy benchmarking services or the accuracy of the energy information obtained from utility companies and other third-party sources with respect to the subject property. The reserve report and any energy benchmarking report (i.e., any Energy Star Portfolio Manager Report) (including any subsequent revisions thereto pursuant to the terms hereof, collectively, the "Report") are based upon a "snapshot in time" at the moment of inspection. RA may note visible physical defects in the Engineering Report. The inspection is made by employees generally familiar with real estate and building construction. Except to the extent readily apparent to RA, RA cannot and shall not opine on the structural integrity of or other physical defects in the property under any circumstances. Without limitation to the foregoing, RA cannot and shall not opine on, nor is RA responsible for, the property's conformity to specific governmental code requirements for fire, building, earthquake, occupancy or otherwise.

RA is not responsible for conditions that have changed between the time of inspection and the issuance of the Engineering Report. RA does not provide invasive testing on any mechanical systems that provide energy to the property, nor can RA opine on any system components that are not easily accessible during the inspection. RA does not investigate, nor assume any responsibility for any existence or impact of any hazardous materials, such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, environmental mold or other potentially hazardous materials or structural defects that are latent or hidden defects which may or may not be present on or within the property. RA does not make any soil analysis or geological study as part of its services, nor does RA investigate vapor, water, oil, gas, coal, or other subsurface mineral and use rights or such hidden conditions, and RA assumes no responsibility for any such conditions. The Engineering Report contains opinions of estimated replacement costs or deferred maintenance expenses and remaining useful lives, which are neither a guarantee of the actual costs or expenses of replacement or deferred maintenance nor a guarantee of remaining useful lives of any property element.

RA assumes, without independent verification, the accuracy of all data provided to it. Except to the extent resulting from RA's willful misconduct in connection with the performance of its obligations under this agreement, you agree to indemnify, defend, and hold RA and its affiliates, officers, managers, employees, agents, successors and assigns (each, an "RA Party") harmless from and against (and promptly reimburse each RA Party for) any and all losses, claims, actions, demands, judgments, orders, damages, expenses or liabilities, including, without limitation, reasonable attorneys' fees, asserted against or to which any RA Party may become subject in connection with this engagement, including, without limitation, as a result of any false, misleading or incomplete information which RA relied upon that was supplied by you or others under your direction, or which may result from any improper use or reliance on the Report by you or third parties under your control or direction or to whom you provided the Report. NOTWITHSTANDING ANY OTHER PROVISION HEREIN TO THE CONTRARY, THE AGGREGATE LIABILITY (IF ANY) OF RA WITH RESPECT TO THIS AGREEMENT AND RA'S OBLIGATIONS HEREUNDER IS LIMITED TO THE AMOUNT OF THE FEES ACTUALLY RECEIVED BY RA FROM YOU FOR THE SERVICES AND REPORT PERFORMED BY RA UNDER THIS AGREEMENT, WHETHER ARISING IN CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHERWISE. YOUR REMEDIES SET FORTH HEREIN ARE EXCLUSIVE AND ARE YOUR SOLE REMEDIES FOR ANY FAILURE OF RA TO COMPLY WITH ITS OBLIGATIONS HEREUNDER OR OTHERWISE. RA SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES OF ANY KIND, INCLUDING, BUT NOT LIMITED TO, ANY LOST PROFITS AND LOST SAVINGS, LOSS OF USE OR INTERRUPTION OF BUSINESS, HOWEVER CAUSED, WHETHER ARISING IN CONTRACT, TORT (INCLUDING NEGLIGENCE), BREACH OF WARRANTY, STRICT LIABILITY OR OTHERWISE, EVEN IF RA HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT WILL RA BE LIABLE FOR THE COST OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES. RA DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED OR OF ANY NATURE, WITH REGARD TO THE SERVICES AND THE REPORT, INCLUDING, WITHOUT LIMITATION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

Report - RA will complete the services in accordance with the Proposal. The Engineering Report represents a valid opinion of RA's findings and recommendations with respect to the reserve study and is deemed complete. RA will consider any additional information made available to RA within 6 months of issuing the Engineering Report and issue a revised Engineering Report based on such additional information if a timely request for a revised Engineering Report is made by you. RA retains the right to withhold a revised Engineering Report if payment for services was not tendered in a timely manner. All information received by RA and all files, work papers or documents developed by RA



during the course of the engagement shall remain the property of RA and may be used for whatever purpose it sees fit. RA reserves the right to, and you acknowledge and agree that RA may, use any data provided by you in connection with the services, or gathered as a result of providing such services, including in connection with creating and issuing any Engineering Report, in a de-identified and aggregated form for RA's business purposes.

Your Obligations - You agree to provide us access to the subject property for an inspection. You agree to provide RA all available, historical and budgetary information, the governing documents, and other information that we request and deem necessary to complete the Engineering Report. Additionally, you agree to provide historical replacement schedules, utility bills and historical energy usage files that RA requests and deems necessary to complete the energy benchmarking services, and you agree to provide any utility release(s) reasonably requested by RA permitting RA to obtain any such data and/or information from any utility representative or other third party. You agree to pay actual attorneys' fees and any other costs incurred to collect on any unpaid balance for RA's services.

Use of Our Report and Your Name - Use of the Engineering Report is limited to only the purpose stated herein. You acknowledge that RA is the exclusive owner of all intellectual property rights in and relating to the Engineering Report. You hereby acknowledge that any use or reliance by you on the Engineering Report for any unauthorized purpose is at your own risk and that you will be liable for the consequences of any unauthorized use or distribution of the Engineering Report. Use or possession of the Engineering Report by any unauthorized third party is prohibited. The Engineering Report in whole or in part ***is not and cannot be used as a design specification for design engineering purposes or as an appraisal.*** You may show the Engineering Report in its entirety to the following third parties: members of your organization (including your directors, officers, tenants and prospective purchasers), your accountants, attorneys, financial institutions and property managers who need to review the information contained herein, and any other third party who has a right to inspect the Engineering Report under applicable law including, but not limited, to any government entity or agency, or any utility companies. Without the written consent of RA, you shall not disclose the Engineering Report to any other third party. By engaging our services, you agree that the Engineering Report contains intellectual property developed (and owned solely) by RA and agree that you will not reproduce or distribute the Engineering Report ***to any party that conducts reserve studies without the written consent of RA.***

RA will include (and you hereby agree that RA may include) your name in our client lists. RA reserves the right to use (and you hereby agree that RA may use) property information to obtain estimates of replacement costs, useful life of property elements or otherwise as RA, in its sole discretion, deems appropriate.

Payment Terms, Due Dates and Interest Charges - If reserve study and energy benchmarking services are performed by RA, then the retainer payment is due upon execution of this agreement and prior to the inspection by RA, and any balance is due net 30 days from the Engineering Report shipment date. If only energy benchmarking services are performed by RA, then the retainer payment is due upon execution of this agreement and any balance is due net 30 days from the Engineering Report shipment date. In any case, any balance remaining 30 days after delivery of the Engineering Report shall accrue an interest charge of 1.5% per month. Unless this agreement is earlier terminated by RA in the event you breach or otherwise fail to comply with your obligations under this agreement, RA's obligations under this agreement shall commence on the date you execute and deliver this agreement and terminate on the date that is 6 months from the date of delivery of the Engineering Report by RA. Notwithstanding anything herein to the contrary, each provision that by its context and nature should survive the expiration or early termination of this agreement shall so survive, including, without limitation, any provisions with respect to payment, intellectual property rights, limitations of liability and governing law.

Miscellaneous – Neither party shall be liable for any failures or delays in performance due to fire, flood, strike or other labor difficulty, act of God, act of any governmental authority, riot, embargo, fuel or energy shortage, pandemic, wrecks or delays in transportation, or due to any other cause beyond such party's reasonable control; provided, however, that you shall not be relieved from your obligations to make any payment(s) to RA as and when due hereunder. In the event of a delay in performance due to any such cause, the time for completion or date of delivery will be extended by a period of time reasonably necessary to overcome the effect of such delay. You may not assign or otherwise transfer this agreement, in whole or in part, without the prior written consent of RA. RA may freely assign or otherwise transfer this agreement, in whole or in part, without your prior consent. This agreement shall be governed by the laws of the State of Wisconsin without regard to any principles of conflicts of law that would apply the laws of another jurisdiction. Any dispute with respect to this agreement shall be exclusively venued in Milwaukee County Circuit Court or in the United States District Court for the Eastern District of Wisconsin. Each party hereto agrees and hereby waives the right to a trial by jury in any action, proceeding or claim brought by or on behalf of the parties hereto with respect to any matter related to this agreement.