

RESERVE ADVISORS

Long-term thinking. Everyday commitment.

February 23, 2011

Ms. Diane S. Allen, Property Manager
c/o GulfView Properties
7902 Thomas Drive
Panama City Beach, FL 32408

RE: Aquavista of Panama City Owners Association, Inc.

Dear Ms. Allen:

We are pleased to submit the enclosed Report of our findings and recommendations. Our typical client's desire is to read and discuss the findings and recommendations of the Report at their own convenience. Some clients do not request changes and this Report remains as the authentic opinion concerning our recommendations. These clients immediately adopt our findings.

We are happy to discuss, *within the next six months*, any changes that you may want to suggest and look forward to issuing a final report copy if so desired at your direction. Please contact your Advisor, Jeffrey Dow, at 800-221-9882 to discuss any changes.

Per our contract, the *final invoice is now due*. It has been a privilege to serve you. Please contact me by email Ted@reserveadvisors.com or by phone with any questions.

Sincerely,

Theodore J. Salgado, PRA, R.S.
Principal

Corporate Office

The Historic Iron Block Building
205 E. Wisconsin Ave., Suite 400
Milwaukee, WI 53202



Long-term thinking. Everyday commitment.

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RESERVE STUDY UPDATE

Conducted on November 8, 2010

We intend this Reserve Study Update Report to append the original or previous Reserve Advisors, Inc. Reserve Study Report.

TABLE of CONTENTS

UPDATE EXECUTIVE SUMMARY	Page 1
NARRATIVE	Page 6
EXTERNAL MARKET CHANGES	Page 7
INTERNAL PROPERTY CHANGES	Page 9
<i>Deletions</i>	Page 12
<i>Breezeways and Balconies, Railings, Paint Finishes and Capital Repairs</i>	Page 12
<i>Roof Assembly, Metal</i>	Page 12
<i>Concrete Deck, Inspections, Coatings and Partial Replacements</i>	Page 12
<i>Light Poles and Fixtures</i>	Page 12
<i>Plaster Finish Replacement and Tile Repairs, Near Term</i>	Page 13
<i>Light Fixtures</i>	Page 13
<i>Traffic Membrane, Elevated Floor</i>	Page 13
<i>Additions</i>	Page 13
<i>Elevators, Traction</i>	Page 13
<i>Elevators, Hydraulic, Doors</i>	Page 15
<i>Deck, Pavers</i>	Page 16
<i>Pipes and Hangers, Paint Finishes and Repairs</i>	Page 16
<i>Significant Changes</i>	Page 16
<i>Breezeways and Balconies, Concrete, Repairs</i>	Page 16
<i>Balconies and Breezeways, Railings</i>	Page 17
<i>Light Fixtures</i>	Page 17
<i>Roofs, Flat</i>	Page 17
<i>Roofs, Mansard, Metal</i>	Page 18
<i>Elevators, Hydraulic, Cylinders</i>	Page 18
<i>Pumps and Controls, Fire Suppression</i>	Page 18
<i>Pumps and Controls, Domestic Water</i>	Page 18
<i>Trash Chutes and Doors</i>	Page 19
<i>Beach Walk and Stairs</i>	Page 19
<i>Gates, Swing Arm</i>	Page 19
<i>Perimeter Fences and Walls</i>	Page 19
<i>Awnings</i>	Page 20
<i>Building Services Equipment</i>	Page 20
<i>Exercise Equipment</i>	Page 20
<i>Interior Renovations</i>	Page 20
<i>Wood Deck and Stairs</i>	Page 21
<i>Expansion Joints</i>	Page 21
CONCLUSION	Page 22
SUPPLEMENTARY INFORMATION FOR FINANCIAL STATEMENTS	Page 28



February 23, 2011

**Aquavista of Panama City Owners Association, Inc.
Panama City Beach, Florida**

UPDATE EXECUTIVE SUMMARY

At the direction of the Board that recognizes the need for proper reserve planning, we have conducted a *Reserve Study Update with Site Visit* of Aquavista of Panama City Owners Association, Inc. (Aquavista) located in Panama City Beach, Florida and submit our findings in this report. The effective date of this study is the date of our visual, noninvasive inspection, November 8, 2010. This Reserve Study is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

The current Board recognizes the need to periodically review or update its Reserve Funding Plan as represented in the prior Reserve Study. Periodic updates incorporate changes in the property, the actual amounts of Reserve Expenditures and funding and actual changes in construction costs since the last Reserve Study. This update considers these types of changes and confirms the Board's objective to continue fulfilling its fiduciary responsibility to maintain the commonly owned property and to fund reserves appropriately.

This Reserve Study is in compliance with and exceeds the standards set forth by Community Associations Institute (CAI) and the Association of Professional Reserve Analysts (APRA) fulfilling the requirements of a *Reserve Study Update with Site Visit*. For brevity, we use the term "Reserve Study Update" or "Update" herein. A Reserve Study comprises two parts:

Physical Analysis

- Component Inventory
- Condition Assessment
- Estimated Useful Life, Remaining Useful Life and Replacement Cost

Financial Analysis

- Fund Status
- Funding Plan

We intend this Update to append the original or previous Reserve Advisors, Inc. Reserve Study for the subject property previously inspected on March 28, 2007. This Update comprises an Update Executive Summary, Narrative, Conclusion, and Exhibits.

The unaudited cash status of the Reserve Fund, as of January 1, 2011, as reported by Management is \$268,752.

The Funding Goal of this Reserve Study is to keep the reserve balance above an adequate, not excessive threshold when reserves are needed the most due to one or more years of significant expenditures. Our recommended Funding Plan recognizes this threshold or critical point in 2014.

Recognizing that *Level Monthly Reserve Assessments* with relatively minor annual adjustments ensure that homeowners pay their “fair share” of the weathering and aging of the commonly owned property each year, we arrived at appropriate amounts of annual reserve contributions to offset (fund) the anticipated expenditures noted in the Exhibits. This Reserve Study Update applies the Cash Flow Method to compute the Reserve Funding Plan. The Reserve Funding Plan determines adequate, not excessive, Reserve Contributions through a 30-year Cash Flow Analysis that incorporates the current reserve funds, future interest earned, and projected Reserve Expenditures.

The Reserve Expenditures reflect current and future *local* costs of replacement, projected earned interest, the average annual fund balances and anticipated inflation. Sources for *local* costs of replacement include our proprietary database, historical costs and published sources, i.e., R.S. Means, Incorporated.

Our revised findings reflect both external market and internal property changes. The result is an overall *decrease* in the recommended Reserve Funding Plan since our last Reserve Study on March 28, 2007. The overall decrease relates primarily to a decrease in the rate of inflation.

The Association budgeted \$111,577 for Reserve Contributions in 2011. Based on our revised analysis, we recommend that the Association adopt a reserve budget of \$168,000 in 2012. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation, through 2014. By 2015, the Association will have fully funded for paint applications to the exterior stucco walls. Therefore, the Association may anticipate a *decrease* in the annual Reserve Contribution to \$149,000. Beginning in 2016, the Association can again budget less significant increases in reserve funding, that in part consider the effects of inflation through 2040, the limit of this study's Cash Flow Analysis. These reserve contributions will maintain the Reserve Fund to meet the major expenditures as identified in the attached Exhibit of *Reserve Expenditures*. The *Reserve Funding Plan* enumerates the details regarding revised recommended annual reserve contributions and projected year end reserve balances.

In addition to the Reserve Funding Plan, we include a Component Method Reserve Analysis in **Exhibit B** at the request of the Board. This method applies the concept of simple straight line depreciation to determine an annual provision of reserve funding for each common element segregated into separate Reserve Accounts. Simply, the annual provision for reserve funding is the replacement cost of a common element (less any existing reserves) divided by its remaining useful life. Using the same physical data as in the Cash Flow Analysis, the Component Method Reserve Analysis for Aquavista results in a 2012 recommended Reserve Contribution of \$533,252. This difference emphasizes our recommendation to fund the Reserve Account using the Cash Flow or “Threshold” method of Reserve Analysis.

If Aquavista currently calculates reserves based on the Component Method and allocates funds to individual line items, the reclassification of existing funds as pooled reserves would not be allowed unless approved by a majority vote of the owners at a duly called meeting of the Association. In lieu of obtaining a vote of the owners, a Board may vote to fund future reserves based on a pooled analysis. The Association then simply spends the funds in their existing segregated accounts on the initial repair or replacement project for that item. When all of the existing segregated funds in an account are expended, the account is eliminated thus eliminating the need to get an owner vote to reallocate.

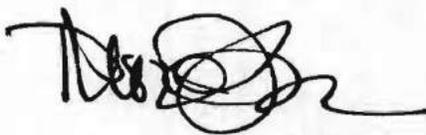
Based on the investigation and analysis as detailed in the accompanying narrative, we recommend the following Reserve Funding Plan (Reserve Contributions) to offset the anticipated future Reserve Expenditures of the subject Reserve Components during the next 30 years.

Recommended Reserve Contributions

Year	\$	Year	\$	Year	\$
2012	168,000	2022	177,000	2032	226,500
2013	172,200	2023	181,400	2033	232,200
2014	176,500	2024	185,900	2034	238,000
2015	149,000	2025	190,500	2035	244,000
2016	152,700	2026	195,300	2036	250,100
2017	156,500	2027	200,200	2037	256,400
2018	160,400	2028	205,200	2038	262,800
2019	164,400	2029	210,300	2039	269,400
2020	168,500	2030	215,600	2040	276,100
2021	172,700	2031	221,000	2041	283,000

We intend this Reserve Study Update Report to append the original or previous Reserve Advisors, Inc. Reserve Study Report.

Respectfully submitted on February 23, 2011 by
RESERVE ADVISORS, INC.



Theodore J. Salgado, PRA¹, RS², Principal
Reference #: 060827

Visual Inspection and Report by: Jeffrey B. Dow, RS



¹ 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>.

² 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.

NARRATIVE

This Reserve Study Update report Narrative describes the manner of report presentation and explains both External Market Changes and Internal Property Changes that have occurred since our last Reserve Study of March 28, 2007. The Conclusion summarizes our recommendations for this Reserve Study Update and includes a graph, a pie chart and Supplementary Information for Financial Statements. The graph Recommended Reserve Funding Plan shows the future fund balances based on the anticipated expenditures and recommended annual reserve funding during the next 30 years. The pie chart Future Expenditures Relative Cost illustrates the relative importance of the reserve expenditures and relative funding during the next 30 years. Supplementary Information for Financial Statements contains significant unaudited information from the Reserve Expenditures about Reserve Component categories and estimated current and future replacement costs. The Exhibits contain pertinent information relating to the analysis such as:

- *Photographs* that document the condition of various property components as of the date of visual inspection, November 8, 2010.
- The *Reserve Expenditures* table that notes our estimate of revised future costs and anticipated times of replacements.
- The *Reserve Funding Plan* table that includes our revised recommendations for Reserve Contributions for the next 30 years.
- *Definitions* that contain terms and definitions used throughout this Reserve Study Update and the industry.
- *Assumptions* that describe how we collect and analyze data in this Reserve Study Update.
- A statement of *Professional Service Conditions* that identifies the general manner of professional services provided, as stated in the original authorized Confirmation of Services for this Reserve Study Update.

- *Credentials* that contain the Qualifications of the Firm, Responsible Advisor and Review Coordinator, and resources we use in our analysis, i.e., published sources of cost data.

We documented both *external market changes* and *internal property changes* through discussions with Management, a review of financial information about reserves and historical Reserve Expenditures, an analysis of market trends since our previous Reserve Study, and our visual inspection of the property on November 8, 2010. External market changes reflect historical and current rates of inflation and yield on reserve savings. Internal property changes reflect additions to and deletions from the list of Reserve Components likely to require future expenditures for major replacements or repairs during the next 30 years. Other internal property changes may involve changes to the Remaining Useful Lives of the Reserve Components based on observed or reported condition. We first comment on the external market changes at Aquavista.

EXTERNAL MARKET CHANGES

External to the property are market conditions which affect inflation of construction materials, labor and equipment costs, and the yield on reserve savings. The following discusses these changes since our last Reserve Study.

The cost of construction materials, labor and equipment in Panama City has increased due to normal inflation, the growth of the local economy and demand for construction related services. Our original forecast for inflation was an annual rate of 4.0%. The most recent financial and historical information available suggests a future sustained near term inflation rate of 2.5%.

Interest rates on reserves are steady or increasing in concert with the certificates of deposit and money market rates. Slight increases exist in the savings rates of one, two or three-year CDs. Without significant differences in these savings rates, shorter term investments are the choice of many investors. We recommend consultation with a professional investment adviser before investing reserves to determine an appropriate investment strategy to maximize a safe return on reserve savings.

Updates to this Reserve Study will continue to monitor historical facts and trends concerning the external market conditions. The following table summarizes rates of inflation and key rates for government securities, generally considered as safe investment alternatives.

Interest Rate and Inflation Data								
Average or Last Actual = (A)	2009:1 (A)	2009:2 (A)	2009:3 (A)	2009:4 (A)	2010:1 (A)	2010:2 (A)	2010:3 (A)	2010:4 (E)
90-Day Treasury Bill	0.250%	0.25%	0.25%	0.05%	0.05%	0.10%	0.1%	0.2%
1-Year Treasury Bill	0.95	0.90	0.30	0.30	0.30	0.34	0.26	0.22
10-Year Treasury Note	2.75	2.84	3.20	3.45	3.50	3.30	2.67	2.50
30-Year Treasury Bond	3.70	3.70	4.00	4.45	4.50	4.20	3.79	3.90
Consumer Price Index	0.00	0.5%	0.0%	0.2%	1.0%	1%	1%	1%
Residential Construction Inflation, Bureau of Labor Statistics (2-year %)		\$0	2.2%	1.4%	1.9%	-0.6%	-0.6%	
National Market Savings Rates as found	0.87%	for Money Market Savings			1.5%	for 2-Year Certificate of Deposit		
	1.0%	for 1-Year Certificate of Deposit			1.8%	for 3-Year Certificate of Deposit		
Estimated Near Term Yield Rate for Reserve Savings2.0%							
Estimated Near Term Inflation Rate for Future Capital Expenditures2.5%							

With localized exceptions, the inflation rate for construction materials and labor are steady or trending higher. Isolated or regional markets of greater construction (development) activity may experience slightly greater rates of inflation for both construction materials and labor.

INTERNAL PROPERTY CHANGES

We have organized our discussion of internal property changes into three types: Deletions, Additions and Significant Changes. We discuss these changes below and summarize them as follows:

Deletions from prior Reserve Study

- Line Item 2: Breezeways and Balconies, Railings, Paint Finishes and Capital Repairs
- Line Item 30: Roof Assembly, Metal
- Line Item 33: Concrete Deck, Inspections, Coatings and Partial Replacements
- Line Item 35: Light Poles and Fixtures
- Line Item 37: Plaster Finish Replacement and Tile Repairs, Near Term
- Line Item 42: Light Fixtures
- Line Item 44: Traffic Membrane, Elevated Floor

Additions to this Reserve Study Update

- Line Item 12: Elevators, Traction, Modernization
- Line Item 13: Elevators, Hydraulic, Doors
- Line Item 33: Deck, Pavers
- Line Item 41: Pipes and Hangers, Paint Finishes and Repairs

Significant Changes since prior Reserve Study

- Line Item 1: Breezeways and Balconies, Concrete, Repairs
- Line Item 2: Breezeways, Railings, Phased Replacement
- Line Item 3: Breezeways and Balconies, Railings, Subsequent Phased Replacement
- Line Item 6: Light Fixtures
- Line Item 8: Roofs, Flat
- Line Item 9: Roofs, Mansard, Metal
- Line Item 15: Elevators, Hydraulic, Cylinders
- Line Item 17: Pump and Controls, Fire Suppression
- Line Item 18: Pumps and Controls, Domestic Water

- Line Item 21: Trash Chutes and Doors
- Line Item 22: Beach Walk and Stairs, Wood
- Line Item 23: Gates, Swing Arm
- Line Items 24 and 25: Perimeter, Fences Walls
- Line Item 26: Awnings
- Line Item 27: Building Services Equipment
- Line Item 28: Exercise Equipment
- Line Items 29 and 30: Interior Renovations
- Line Item 32: Wood Decks and Stairs
- Line Item 39: Expansion Joints

In addition to the internal property changes listed above, we list the following Long-Lived Property Elements, defined as those items without predictable Remaining Useful Life expectancies:

- Electrical Systems, Common
- Foundations
- Pipes, Subsurface Utilities
- Structural Frames

Long-Lived Property Elements (without predictable Remaining Useful Lives) may require infrequent repairs due to abuse, normal wear and tear or unknown construction defects. Aquavista should fund the cost of these infrequent replacements from the operating budget. Funding untimely or unexpected replacements from reserves will necessitate adjustments to future Reserve Contributions. An update of this Reserve Study will help determine the merits of adjusting the Reserve Funding Plan.

The operating budget provides money for the repair and replacement of certain Reserve

Components. Operating Budget Funded Repairs and Replacements relate to:

- General Maintenance to the Common Elements
- Expenditures less than \$3,500 (*These relatively minor expenditures have a limited effect on the recommended Reserve Contributions.*)
- Back Flow Prevention Valves
- Breezeways and Balconies, Coating Applications
- Breezeways and Balconies, Railings, Paint Finishes and Capital Repairs
- Elevator Cab Finishes
- Garage Elevator Lobbies, Ceramic Tile
- Irrigation System
- Landscape
- Light Fixtures, Garage
- Light Poles and Fixtures, Pool
- Office Equipment
- Paint Finishes, Touch Up
- Other Repairs normally funded through the Operating Budget

Certain items have been designated as the responsibility of the homeowner to repair or replace. Property Maintained by Homeowners relates to unit:

- Balcony Floor Coverings (Excluding Standard Finishes)
- Heating, Ventilating and Air Conditioning (HVAC) Units
- Interiors
- Pipes, Interior, Water and Sewer

Deletions

We deleted seven Reserve Components from our last Reserve Study. We discuss these deletions in the following narratives.

Breezeways and Balconies, Railings, Paint Finishes and Capital Repairs - Management informs us that the Association funds the paint finishes and capital repairs to the balcony and breezeway railings through the operating budget. Therefore, we eliminate Line Item 2 from our previous Reserve Study in this 2011 Reserve Study Update.

Roof Assembly, Metal - We include the quantity of metal roof over the clubhouse in Line Item 9, "**Roofs, Mansard, Metal**". Therefore, we eliminate Line Item 30 from our previous Reserve Study in this 2011 Reserve Study Update.

Concrete Deck, Inspections, Coatings and Partial Replacements - The Association installed pavers at the pool deck our last Reserve Study. Therefore, we eliminate Line Item 33 from our previous Reserve Study in this 2011 Reserve Study Update.

Light Poles and Fixtures - Management informs us that the Association replaces the light poles and fixtures at the pool area as needed and funds this activity through the operating budget. Therefore, we eliminate Line Item 35 from our previous Reserve Study in this 2011 Reserve Study Update.

Plaster Finish Replacement and Tile Repairs, Near Term - The Association completed replacement of the pool plaster finish since our last Reserve Study. Therefore, we eliminate Line Item 37 from our previous Reserve Study in this 2011 Reserve Study Update.

Light Fixtures - Management informs us that the Association replaces the light fixtures in the garage as needed and funds this activity through the operating budget. Therefore, we eliminate Line Item 42 from our previous Reserve Study in this 2011 Reserve Study Update.

Traffic Membrane, Elevated Floor - The Association does not utilize a traffic membrane on the elevated drive aisle adjacent to the garage. Therefore, we eliminate Line Item 44 from our previous Reserve Study in this 2011 Reserve Study Update.

Additions

We added four Components since our last Reserve Study. A Reserve Component is a property element of 1) Association responsibility; 2) with limited Useful Life expectancy; and 3) predictable Remaining Useful Life expectancy. This Update uses a 30-year Reserve Component forecast and Cash Flow Analysis to project and illustrate the Reserve Funding Plan. Property additions, the 30-year analysis and aging of the common elements have resulted in the following additions to the inventory of Reserve Components. We discuss these additions in the following narratives.

Elevators, Traction - The building utilizes two traction elevators that provide service to all eight floors in the building. The major elevator system components are in good condition at an age of five years. Management informs us that service interruptions on the two traction

elevators are infrequent. Elevator system components of this type provide many years of service and when cared for by a maintenance contract, can have useful lives of up to 35 years. However, the scarcity of parts and the potential frequency and duration of service interruption makes *modernization* more desirable as the components age. We include the following solutions and procedures for traction elevator component modernization for present and future board members.

Traction elevators are raised and lowered by woven steel cables, or hoisting ropes. The ropes are attached to the elevator car and wound around a sheave. The sheave is connected to an electric motor. As the motor turns one way or the other, the sheave either raises or lowers the elevator car. The ropes that lift the car are also connected to a counterweight to ease the load on the motor.

Three basic types of traction elevators include gearless, geared and machine-roomless (MRL). In gearless elevators, the motor rotates the sheaves directly while in geared elevators, the motor turns a gear train that rotates the sheave. For gearless and geared elevators, the sheave, motor and controls are located in a machine room above the elevator shaft. MRL elevators are relatively new elevator systems that use smaller sheaves than conventional traction elevators. The smaller sheave size allows the lifting components to be mounted within the hoistway itself, eliminating the need for a machine room.

We anticipate that modernization of the elevators will include replacement of the following traction elevator system components:

- Cab control panels
- Door operators
- Hallway panels/buttons
- Hoists and motors

- Microprocessor based controllers

Based on the age and condition of the elevators, we recommend the Association budget for modernization by 2041. We depict this information on Line Item 12 in the Exhibit of *Reserve Expenditures*.

The elevator cabs and shafts have an indefinite useful life and therefore we do not include their replacement during the next 30 years. The Association should fund all other elevator component replacements through the operating budget as normal maintenance.

These costs may vary based on the desired scope of the actual replacements, changes in technology and requirements of local codes or ordinances at the actual times of replacements. However, we judge our estimated costs sufficient to budget appropriate reserves at this time. The Association should require the contractor to verify that elevator modernization includes all of the necessary features for the latest in elevator code compliance. In addition, the design should meet or exceed accessibility standards as defined by The Americans with Disabilities Act (ADA).

Elevators, Hydraulic, Doors - Aquavista maintains 16 pairs of elevator doors that serve the hydraulic elevators. The hydraulic elevator doors are in good to poor condition at an age of 26 years. These elements have a useful life of up to 60 years. We recommend the Association budget for replacement of the two pairs of hydraulic elevator doors at the garage level in 2012. We anticipate the replacement of up to two pairs of elevator doors by 2025 and every five years thereafter. We depict this information on Line Item 13 in the Exhibit of *Reserve Expenditures*.

Deck, Pavers - Aquavista maintains 4,700 square feet of pavers at the pool area. The pavers are in good condition at an age of approximately three years. Pavers have a useful life of up to 30 years. We recommend the Association budget for replacement of the pavers by 2038. We depict this information on Line Item 33 in the Exhibit of *Reserve Expenditures*. We suggest the Association conduct interim resetting and replacement of minor areas of pavers as normal maintenance, funded from the operating budget.

Pipes and Hangers, Paint Finishes and Repairs - Aquavista maintains various pipes and associated metal hangers in the garage. The pipe finishes and hangers are in fair to poor overall condition at unknown ages. We recommend the Association budget for paint finishes to the pipes and partial hanger replacements every 12 to 15 years, or by 2012, 2027 and again by 2039. We depict this information on Line Item 41 in the Exhibit of *Reserve Expenditures*.

Significant Changes

All remaining Reserve Components experienced changes in estimated future costs of replacement due to inflation. Several remaining Reserve Components experienced changes with respect to the times or anticipated quantities at the time of replacement. We discuss the more significant changes in the following narratives.

Breezeways and Balconies, Concrete, Repairs - The concrete breezeways and balconies are in good to fair overall condition at an ages of 26- to 27-years. Based on the observed condition and conversations with Management, we now recommend the Association budget for partial depth replacement of less than one percent (0.5%) of the concrete topside, edge and underside of the breezeways and balconies. We recommend the Association budget for this work

Roofs, Mansard, Metal - The metal roof quantity on the clubhouse has been added to Line Item 9 for a total of 95 squares of standard seam metal roofs. The metal roofs are in fair overall condition at an age of 26- to 27-years. Based on their age and observed condition, we now recommend the Association anticipate complete replacement of the roofs by 2013. We note this significant change in quantity and timing on Line Item 9 in the Exhibit of *Reserve Expenditures*.

Elevators, Hydraulic, Cylinders - The hydraulic cylinders remain in good overall condition. The hydraulic cylinder in the west building is original while the cylinder in the east building is 13 years old. Based on the reported condition, we now recommend the Association defer replacement of the cylinder in the west building until 2017 and the cylinder in the east building until 2033. We note this significant change in timing on Line Item 15 in the Exhibit of *Reserve Expenditures*.

Pumps and Controls, Fire Suppression - The fire suppression pump remains in good reported condition at an age of 27 years. The fire pump control panel has been upgraded since original construction. Based on the age and reported condition, we now recommend the Association defer replacement of the pump and control panel until 2023. We note this significant change in timing on Line Item 17 in the Exhibit of *Reserve Expenditures*.

Pumps and Controls, Domestic Water - The domestic water pumps and controls are in good reported operational condition at unknown ages. Based on the observed condition, we now recommend the Association anticipate complete renovation of the pumps and controls by 2012

and again by 2027. We note this significant change on Line Item 18 in the Exhibit of *Reserve Expenditures*.

Trash Chutes and Doors - The trash chutes and doors are in fair overall condition at an age of 26- to 27-years. Based on the observed condition, we now recommend the Association accelerate replacement of the trash chutes and doors to 2012. We note this significant change in timing on Line Item 21 in the Exhibit of *Reserve Expenditures*.

Beach Walk and Stairs - The beach walk and stairs remain in fair overall condition at an age of 27 years. The Association did not replace the beach walk and stairs since our last Reserve Study. Based on the observed condition, we recommend the Association replace the beach walk and stairs by 2012 and again by 2035. We note this significant change in timing on Line Item 22 in the Exhibit of *Reserve Expenditures*.

Gates, Swing Arm - The swing arm gate operators remain in fair overall condition at an age of 27 years. The Association did not replace the operators since our last Reserve Study. Based on the observed condition, we recommend the Association replace the operators by 2012 and every ten years thereafter. We note this significant change in timing on Line Item 23 in the Exhibit of *Reserve Expenditures*.

Perimeter Fences and Walls - The stucco perimeter walls are in good to fair condition while the aluminum fences are in poor overall condition at an age of 27 years. The Association did not replace the aluminum fences since our last Reserve Study. Based on the observed condition, we recommend the Association replace the fences and apply paint finishes to the walls

by 2012 and again by 2040. We also recommend paint finishes to the walls and fences every six- to eight-years, or by 2019 and every seven years thereafter except when replacement occurs. We note these significant changes on Line Items 24 and 25 in the Exhibit of *Reserve Expenditures*.

Awnings - The Association replaced the awnings at the clubhouse in 2010 and their condition is good. We recommend the Association replace the awnings again by 2025 and 2040. We note this significant change in timing on Line Item 26 in the Exhibit of *Reserve Expenditures*.

Building Services Equipment - The building services equipment for the clubhouse vary in condition and age. Based on the observed condition, we recommend the Association plan for phased replacements of up to fifty percent (50%) of the building services equipment every seven years beginning by 2013. We note this significant change in timing on Line Item 27 in the Exhibit of *Reserve Expenditures*.

Exercise Equipment - The exercise equipment remains in fair overall condition at varied ages. Based on the observed condition, we recommend the Association plan for a complete replacement of the equipment by 2013 and every eight years thereafter. We note this significant change in timing on Line Item 28 in the Exhibit of *Reserve Expenditures*.

Interior Renovations - The clubhouse interior elements are in fair to poor overall condition at ages of up to 27 years. The Association has not completed renovations since our last Reserve Study. Based on the observed condition of the clubhouse elements, we recommend the Association plan for a complete renovation by 2013 and for partial renovations by 2023 and

2033. We note these significant changes in timing on Line Items 29 and 30 in the Exhibit of *Reserve Expenditures*.

Wood Deck and Stairs - The wood deck and stairs at the clubhouse remain in fair to poor overall condition at an age of 27 years. Based on the observed condition, we recommend the Association replace the wood deck and stairs by 2013 and again by 2036. We note this significant change in timing on Line Item 32 in the Exhibit of *Reserve Expenditures*.

Expansion Joints - The expansion joints remain in good overall condition. Partial replacements of the joints has occurred in the past. Based on the observed condition, we recommend the Association anticipate a complete replacement of the expansion joints by 2021. We note this significant change in timing on Line Item 39 in the Exhibit of *Reserve Expenditures*.

CONCLUSION

This Reserve Study Update with Site Visit is a budget planning tool that identifies the current status of the reserve fund and a stable and equitable Reserve Funding Plan to offset the anticipated future major common area expenditures.

Our revised findings reflect both external market and internal property changes. The result is an overall *decrease* in the recommended Reserve Funding Plan since our last Reserve Study on March 28, 2007. The overall decrease relates primarily to a decrease in the rate of inflation.

The Association budgeted \$111,577 for Reserve Contributions in 2011. Based on our revised analysis, we recommend that the Association adopt a reserve budget of \$168,000 in 2012. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation, through 2014. By 2015, the Association will have fully funded for paint applications to the exterior stucco walls. Therefore, the Association may anticipate a *decrease* in the annual Reserve Contribution to \$149,000. Beginning in 2016, the Association can again budget less significant increases in reserve funding, that in part consider the effects of inflation through 2040, the limit of this study's Cash Flow Analysis. These reserve contributions will maintain the Reserve Fund to meet the major expenditures as identified in the attached Exhibit of *Reserve Expenditures*. The *Reserve Funding Plan* enumerates the details regarding revised recommended annual reserve contributions and projected year end reserve balances.

In addition to the Reserve Funding Plan, we include a Component Method Reserve Analysis in **Exhibit B** at the request of the Board. This method applies the concept of simple straight line depreciation to determine an annual provision of reserve funding for each common element segregated into separate Reserve Accounts. Simply, the annual provision for reserve funding is the replacement cost of a common element (less any existing reserves) divided by its remaining useful life. Using the same physical data as in the Cash Flow Analysis, the Component Method Reserve Analysis for Aquavista results in a 2012 recommended Reserve Contribution of \$533,252. This difference emphasizes our recommendation to fund the Reserve Account using the Cash Flow or "Threshold" method of Reserve Analysis.

If Aquavista currently calculates reserves based on the Component Method and allocates funds to individual line items, the reclassification of existing funds as pooled reserves would not be allowed unless approved by a majority vote of the owners at a duly called meeting of the Association. In lieu of obtaining a vote of the owners, a Board may vote to fund future reserves based on a pooled analysis. The Association then simply spends the funds in their existing segregated accounts on the initial repair or replacement project for that item. When all of the existing segregated funds in an account are expended, the account is eliminated thus eliminating the need to get an owner vote to reallocate.

Based on the investigation and analysis as detailed in the accompanying narrative, we recommend the following Reserve Contributions to fund the expected expenditures of the subject Reserve Components during the next 30 years.

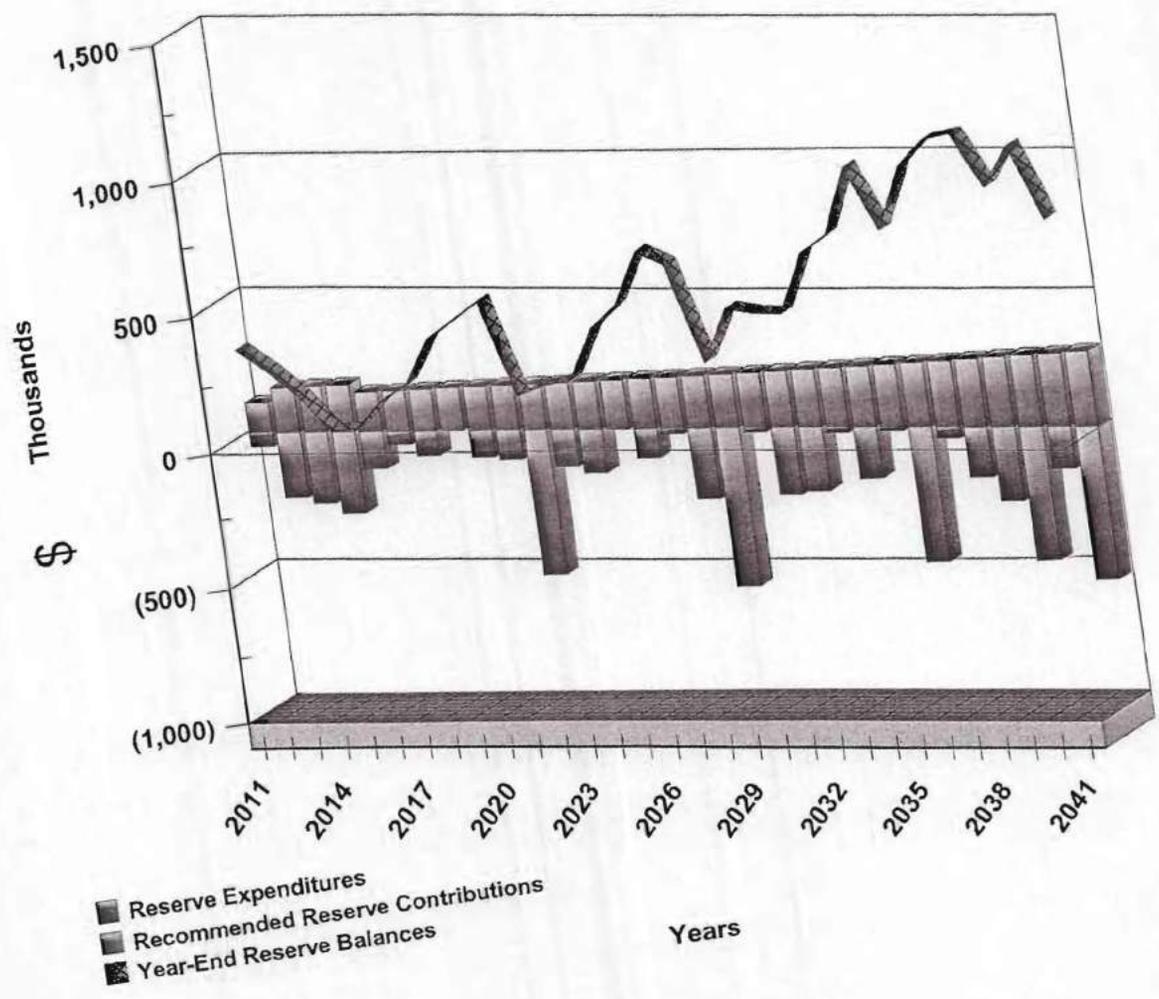
Recommended Reserve Contributions

Year	\$	Year	\$	Year	\$
2012	168,000	2022	177,000	2032	226,500
2013	172,200	2023	181,400	2033	232,200
2014	176,500	2024	185,900	2034	238,000
2015	149,000	2025	190,500	2035	244,000
2016	152,700	2026	195,300	2036	250,100
2017	156,500	2027	200,200	2037	256,400
2018	160,400	2028	205,200	2038	262,800
2019	164,400	2029	210,300	2039	269,400
2020	168,500	2030	215,600	2040	276,100
2021	172,700	2031	221,000	2041	283,000



This graph shows the Reserve Funding Plan based on the anticipated Reserve Expenditures during the next 30 years.

Recommended Reserve Funding Plan Aquavista of Panama City Owners Association, Inc.



The Reserve Funding Plan recommends 2041 year end accumulated reserves of approximately \$800,000. We judge this amount of accumulated reserves in 2041 desirable or necessary, in part, to fund the likely replacement of the pumps and controls for the hydraulic elevators and paint applications to the exterior stucco walls after 2041, and in consideration of the age, size and complexity of the property.

Ongoing reviews by the Board and additional Reserve Study Updates every two- to three-years 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 homeowner 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.

The Association can expense the fee for an Update from the reserve account. This fee is included in the Reserve Funding Plan. We base this budgetary amount on updating the same property components and quantities of this Reserve Study Update report. 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.

SUPPLEMENTARY INFORMATION FOR FINANCIAL STATEMENTS

The *Audit and Accounting Guide for Common Interest Realty Associations* presents recommendations on Supplementary Information on Future Major Repairs and Replacements in end of fiscal year Audits of Financial Statements for community associations³. Accountants use discretion and judgment on how to present the Supplementary Information on Future Major Repairs and Replacements. However, the Supplementary Information on Future Major Repairs and Replacements often references and includes excerpts from our Reserve Studies. The following table excerpts significant unaudited information from the Reserve Expenditures about Reserve Component categories and estimated current and future replacement costs based on inflation at an annual rate of 2.5%.

Unaudited Supplemental Information on Future Major Repairs and Replacements

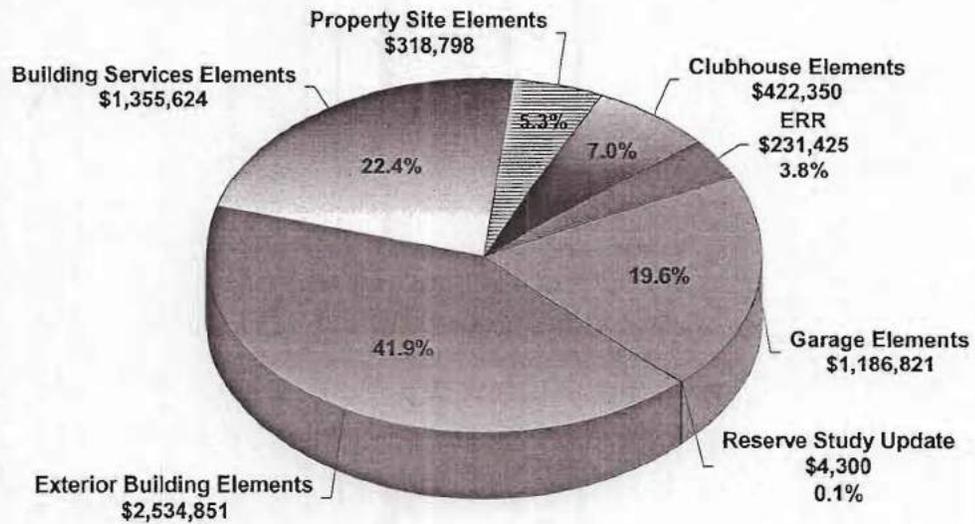
<i>Reserve Component Categories</i>	<i>Total Current Replacement Costs</i>	<i>Total Future or Inflated Replacement Costs</i>	<i>% of Total Future Replacements</i>	<i>Component of Projected 2011 YE Fund Balance</i>
Exterior Building Elements	\$1,751,375	\$2,534,851	41.9%	\$139,388
Building Services Elements	\$925,400	\$1,355,624	22.4%	\$74,544
Property Site Elements	\$215,520	\$318,798	5.3%	\$17,530
Clubhouse Elements	\$307,800	\$422,350	7.0%	\$23,224
ERR	\$146,200	\$231,425	3.8%	\$12,726
Garage Elements	\$742,153	\$1,186,821	19.6%	\$65,262
Reserve Study Update	\$4,300	\$4,300	0.1%	\$236
Totals	\$4,092,748	\$6,054,169	100%	\$332,911

The information included in the table above may be included as part of the Supplementary Information on Future Major Repairs and Replacements. *However, Reserve Advisors, Inc. does not certify that the information in the table will fully satisfy the recommendations of the AICPA guideline.*

³ American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide - *Common Interest Realty Associations*; American Institute of Certified Public Accountants, Inc.; 2003

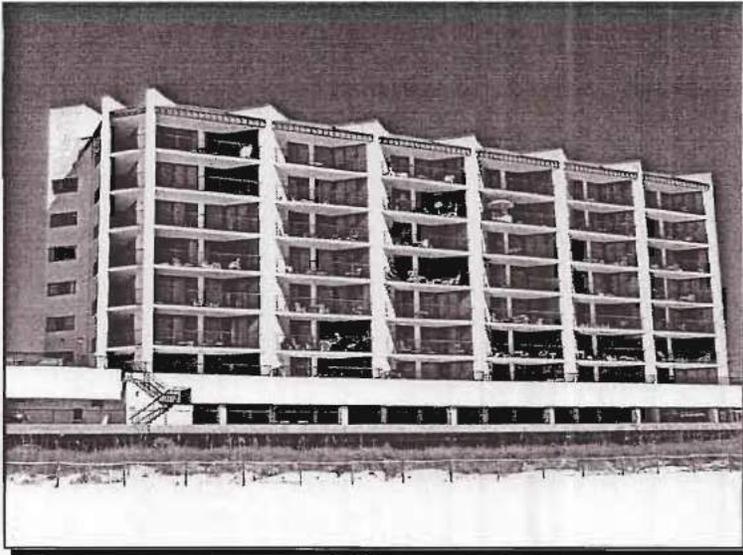
The following chart illustrates the relative importance of the reserve expenditures and relative funding during the next 30 years.

**Future Expenditures Relative Cost Illustration
Aquavista of Panama City
Owners Association, Inc.**



EXHIBITS

Photographs,
Reserve Expenditures,
Reserve Funding Plan,
Definitions,
Assumptions and Professional Service Conditions,
Credentials



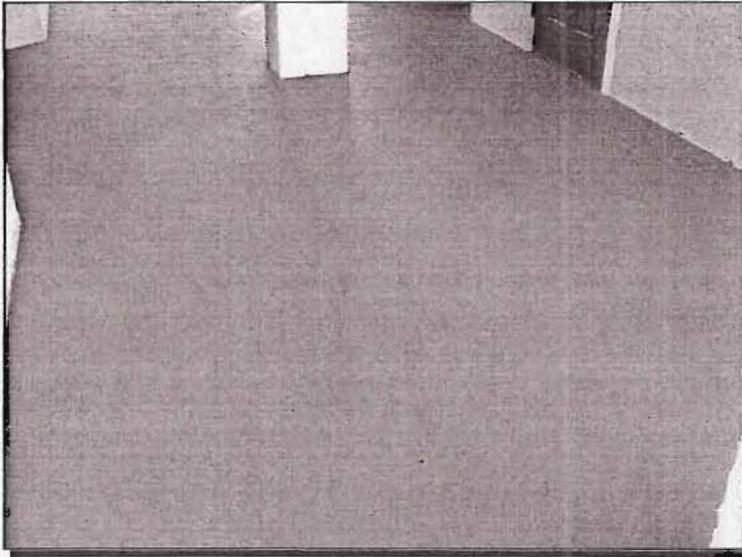
Exterior of east building - beach side



Exterior of west building

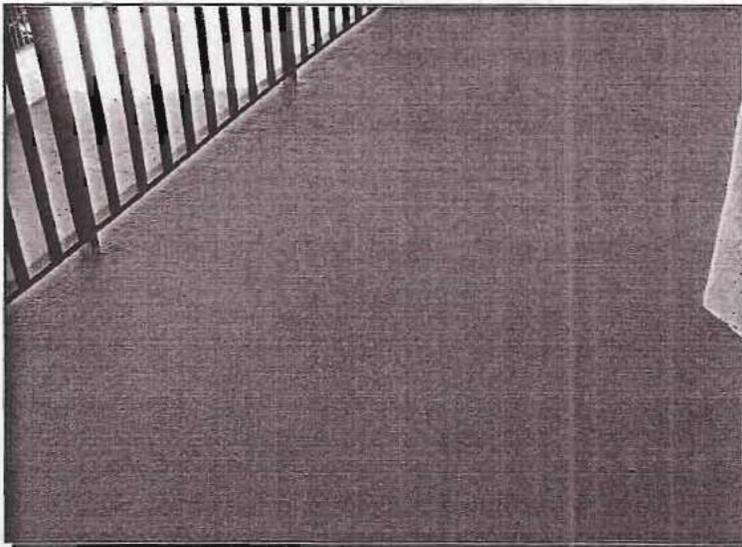


Exterior of east building - street side



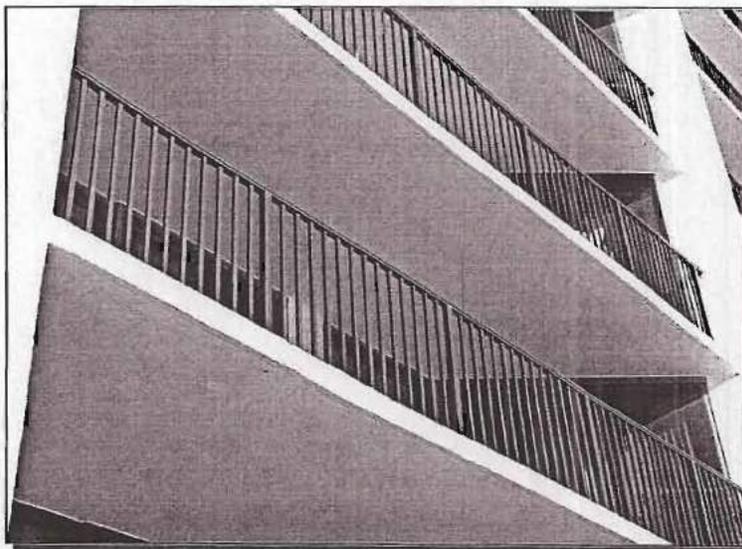
Concrete breezeway

Note: Coated in 2010 through the operating budget

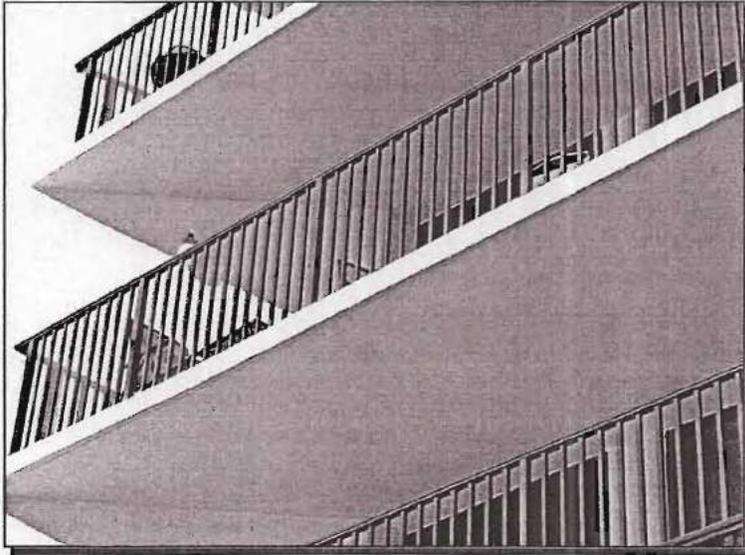


Concrete breezeway

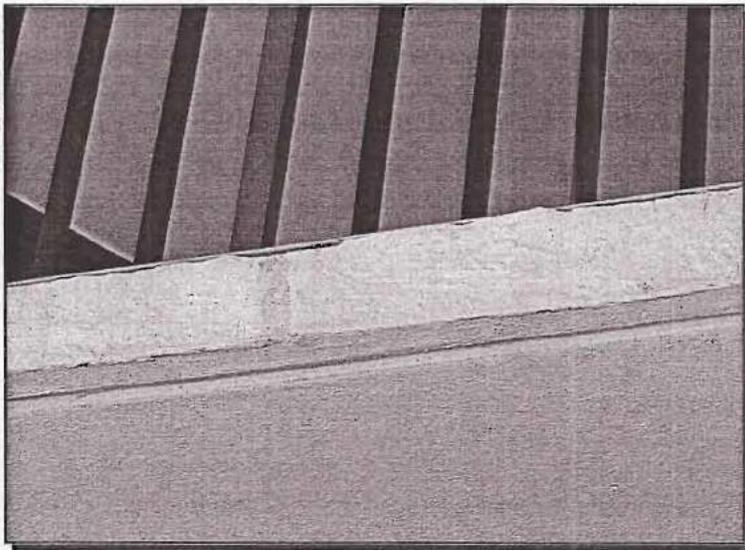
Note: Coated in 2010 through the operating budget



Concrete balconies and aluminum railings

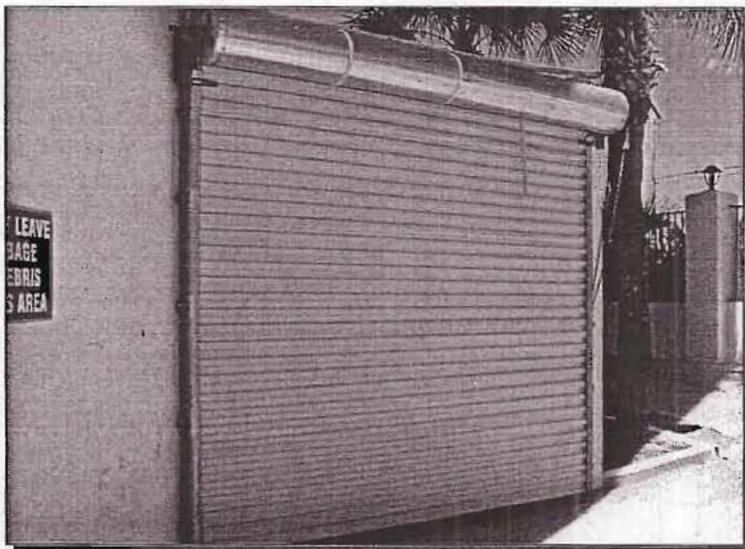


Concrete balconies and aluminum railings



Concrete balcony

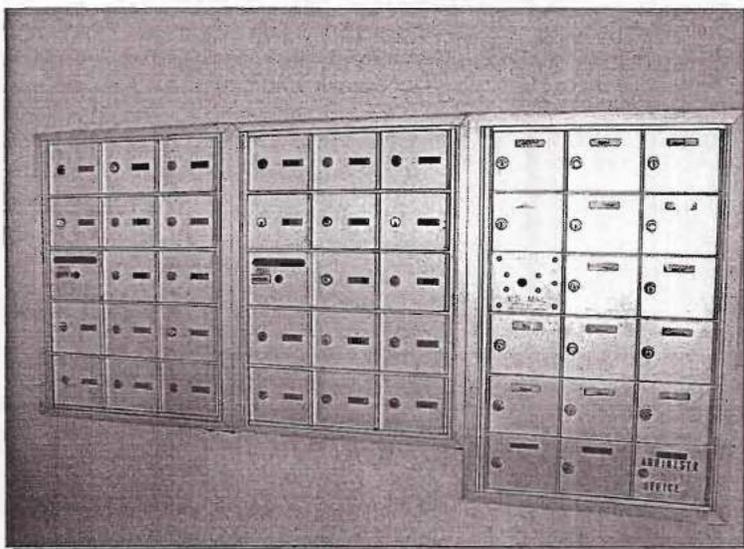
Note: Minor spalling at top side



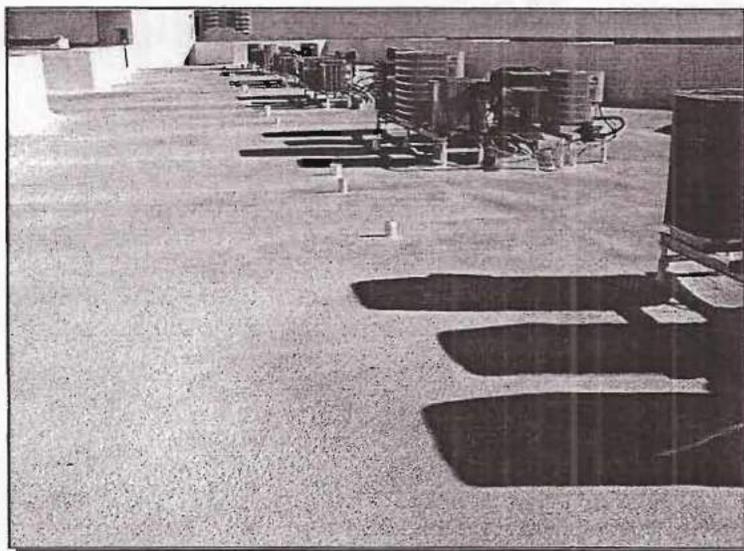
Rolling steel door



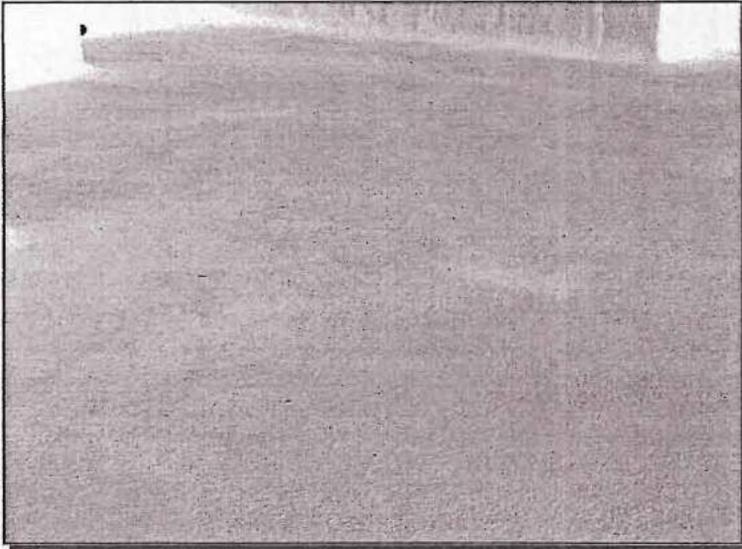
Light fixture at breezeway



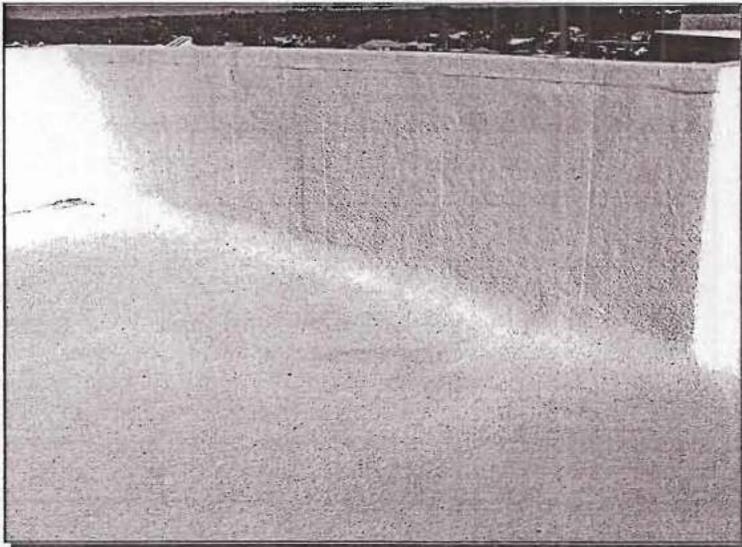
Mailboxes



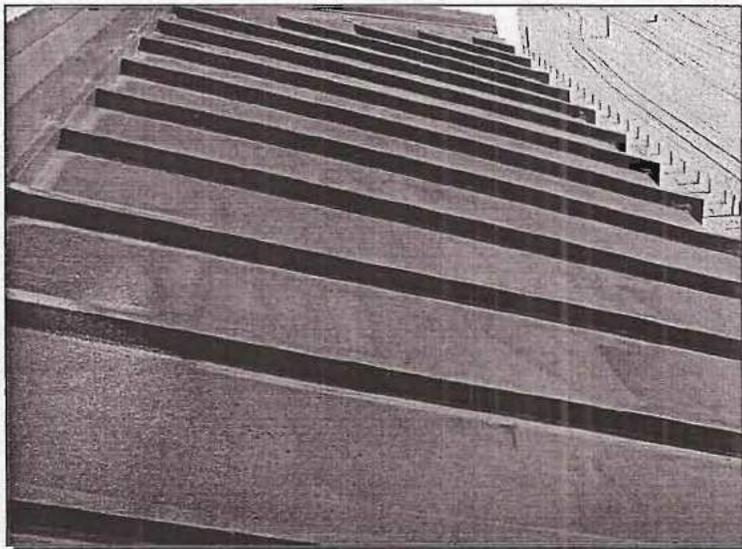
Polyurethane foam roof



Polyurethane foam roof

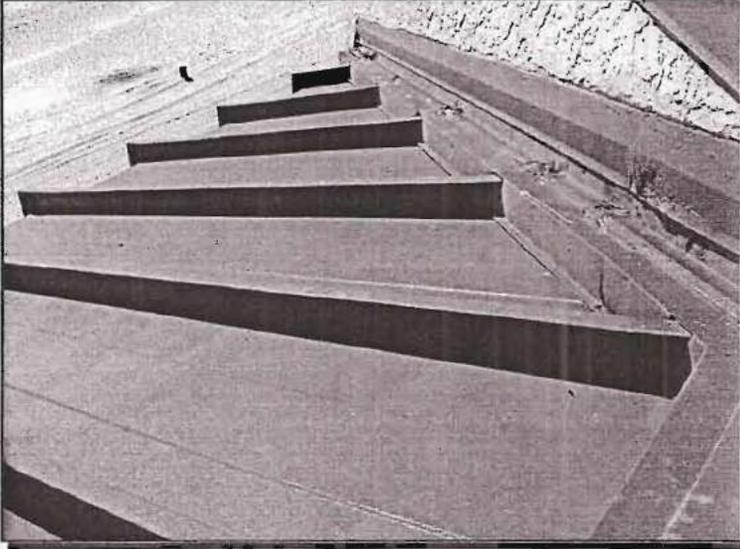


Polyurethane foam roof

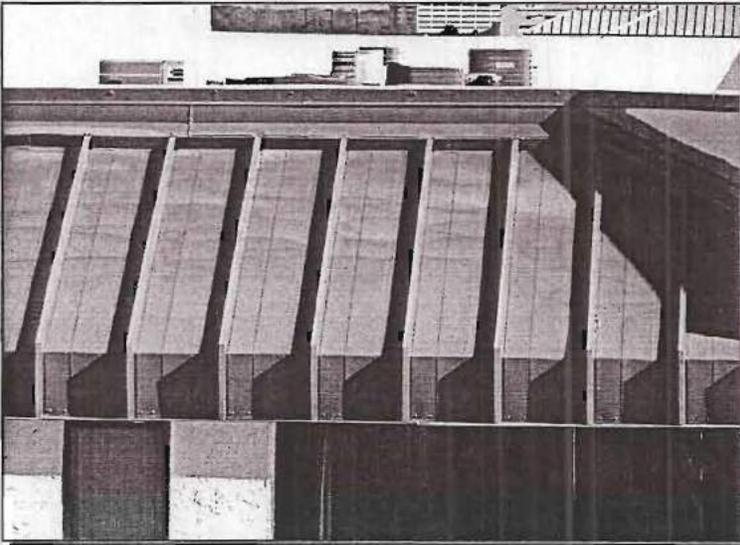


Metal mansard roof

Note: Deterioration of finish

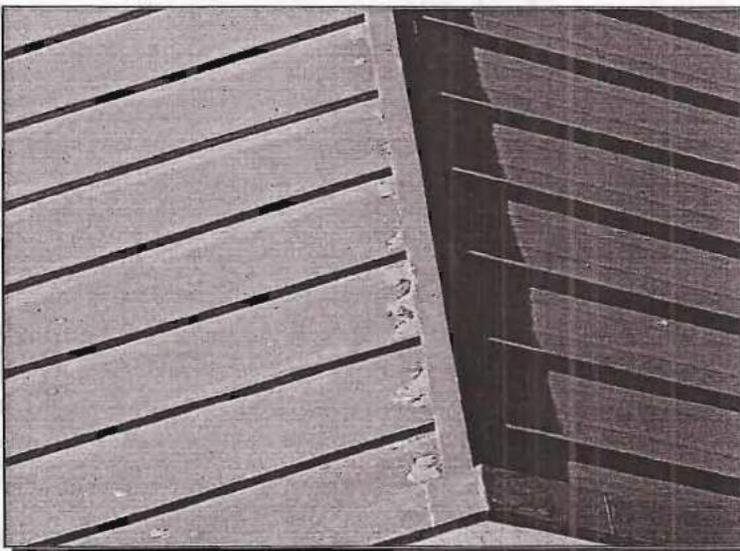


Metal mansard roof



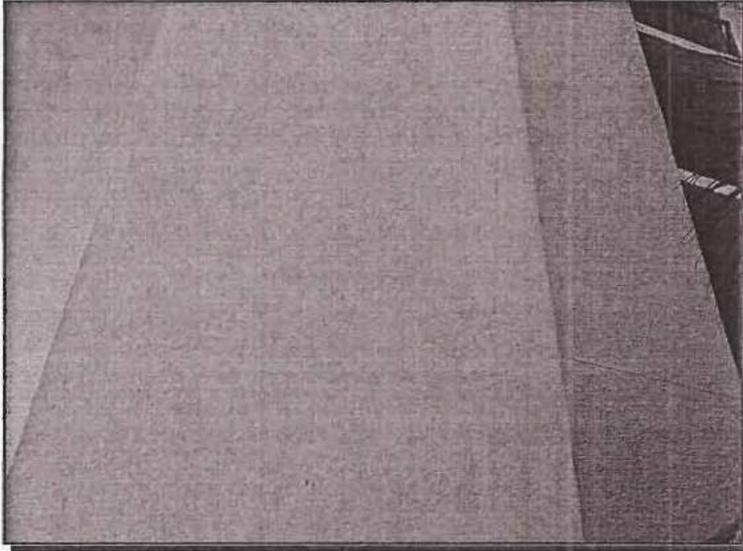
Metal mansard roof

Note: Deterioration of finish

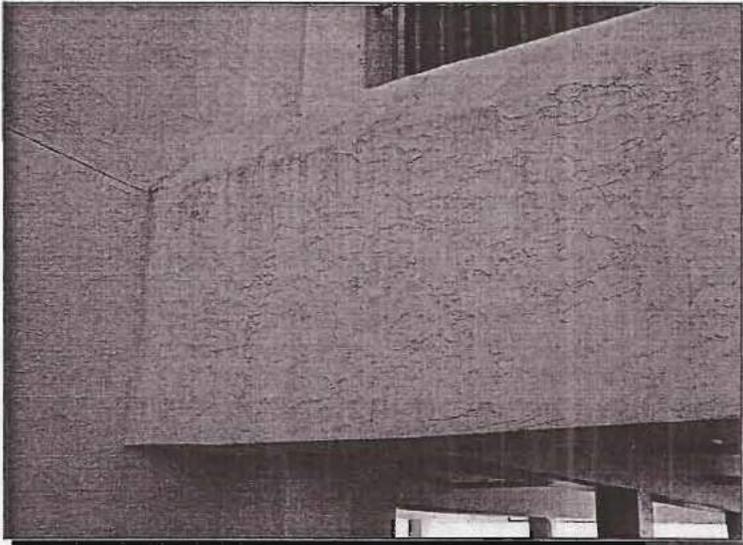


Metal mansard roof

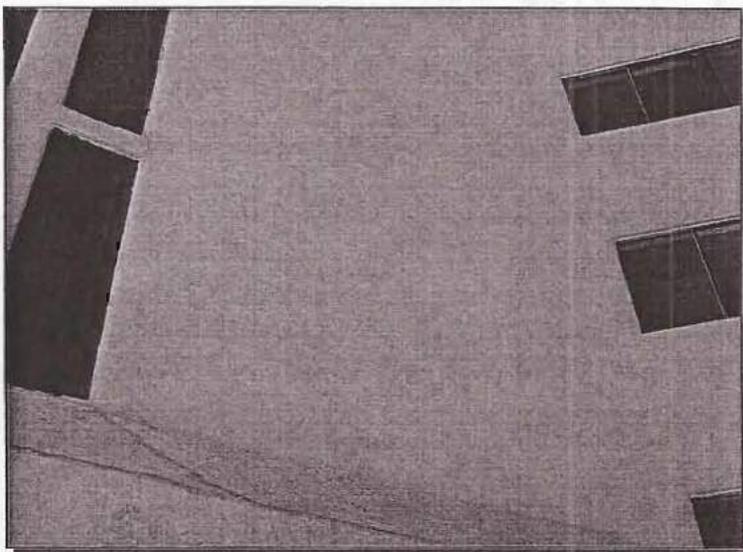
Note: Deterioration of finish



Exterior stucco wall



Exterior stucco wall



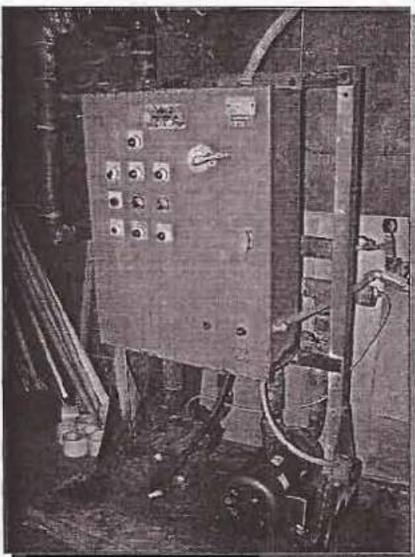
Exterior stucco wall



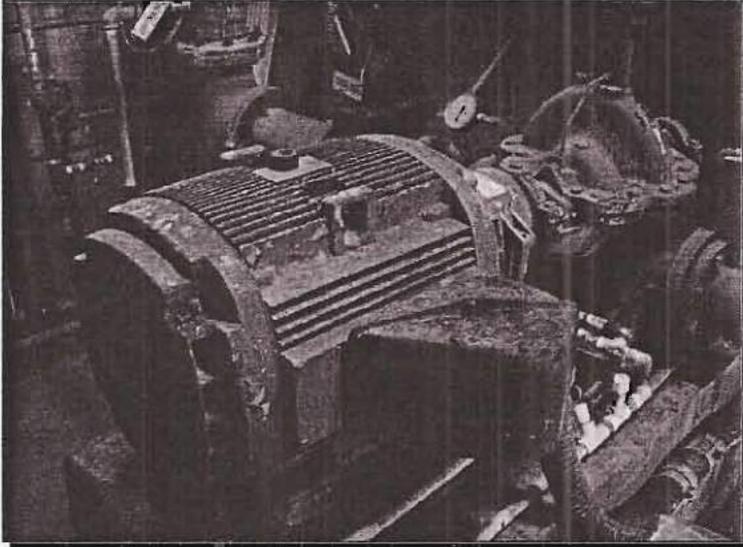
Exterior stucco wall



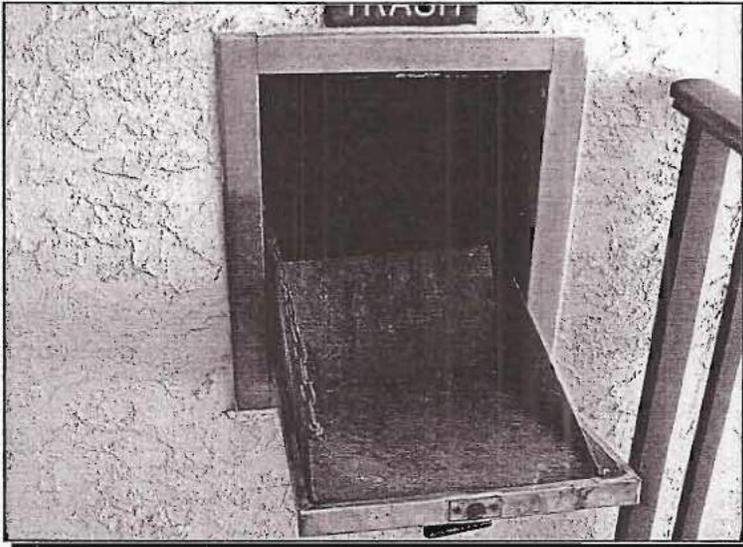
Fire control panel



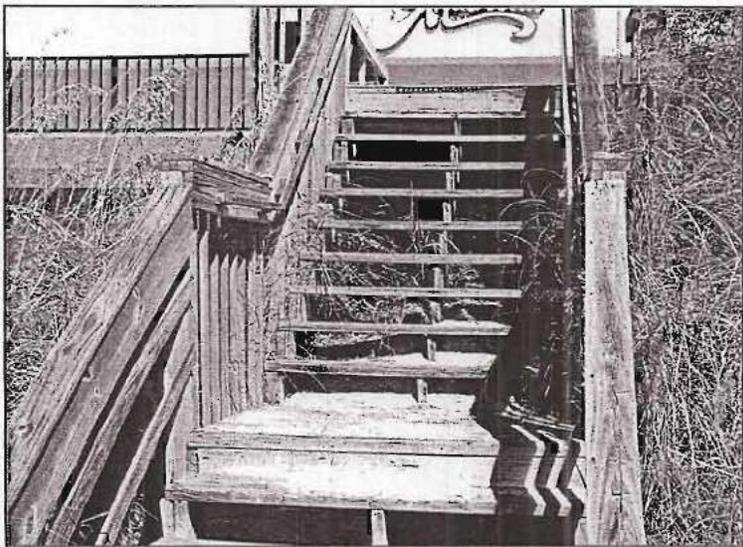
Domestic booster pumps and control panel



Fire suppression pump



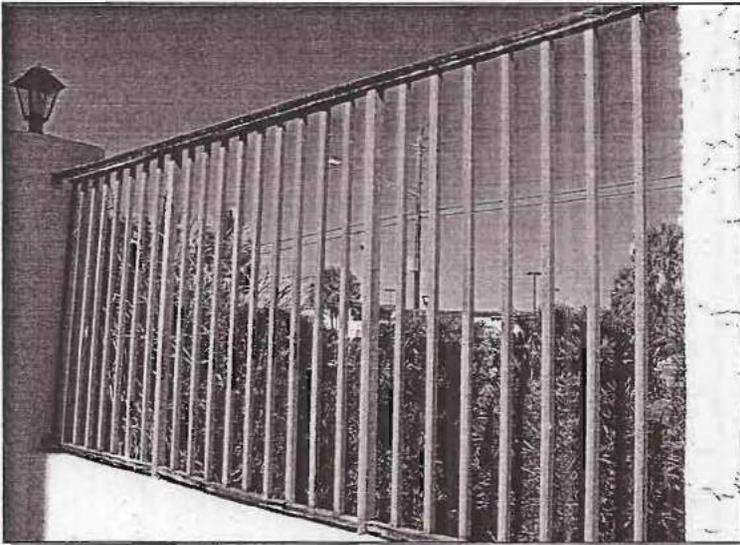
Trash chute door



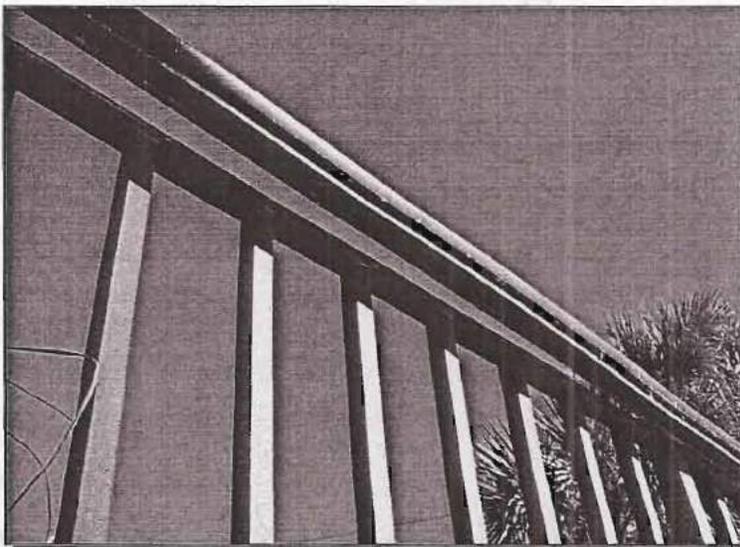
Wood stairs to access beach



Swing arm operator

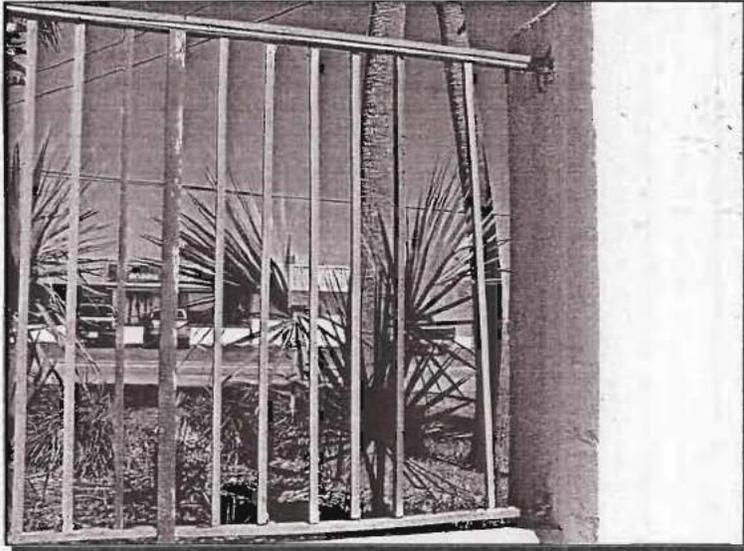


Perimeter fence at front of property



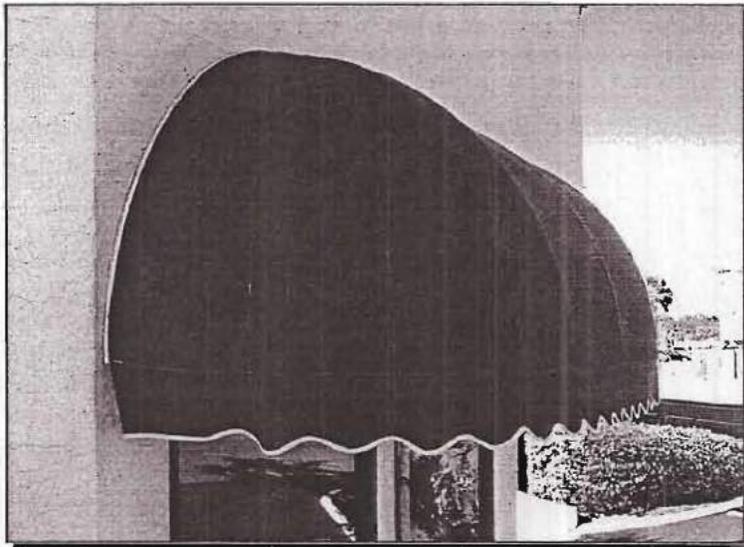
Perimeter fence at front of property

Note: Detachment

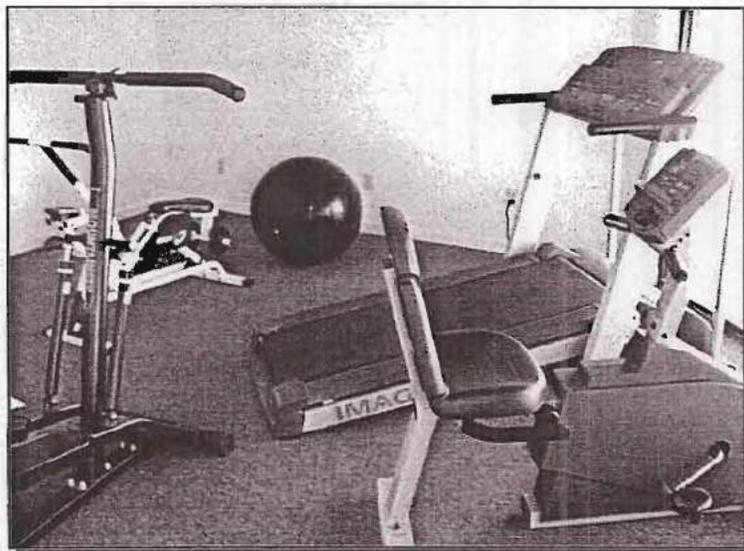


Perimeter fence at front of property

Note: Poor condition of fence



Awning at clubhouse



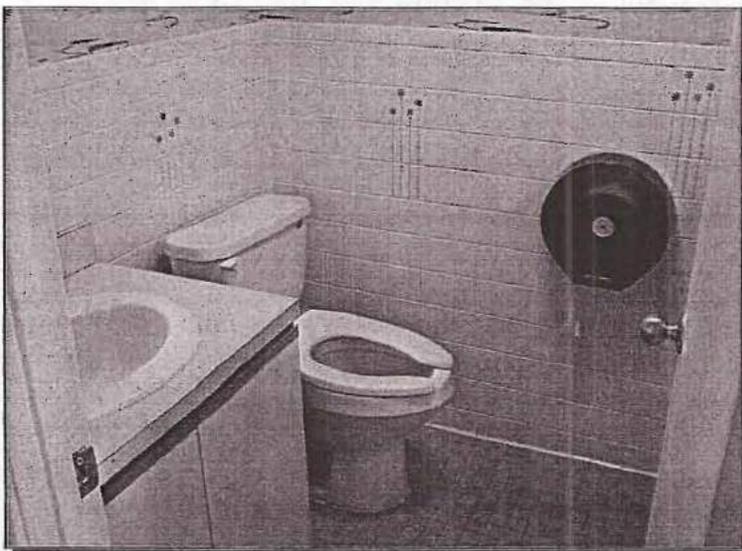
Exercise equipment



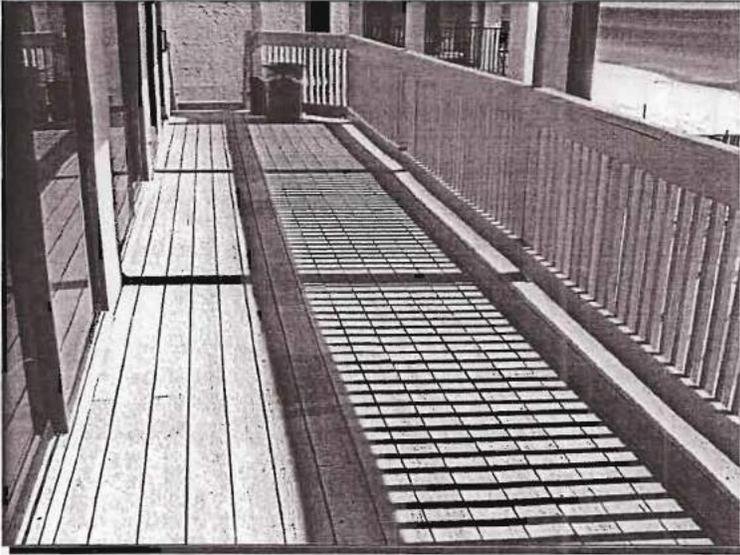
Clubhouse interior



Kitchen at clubhouse



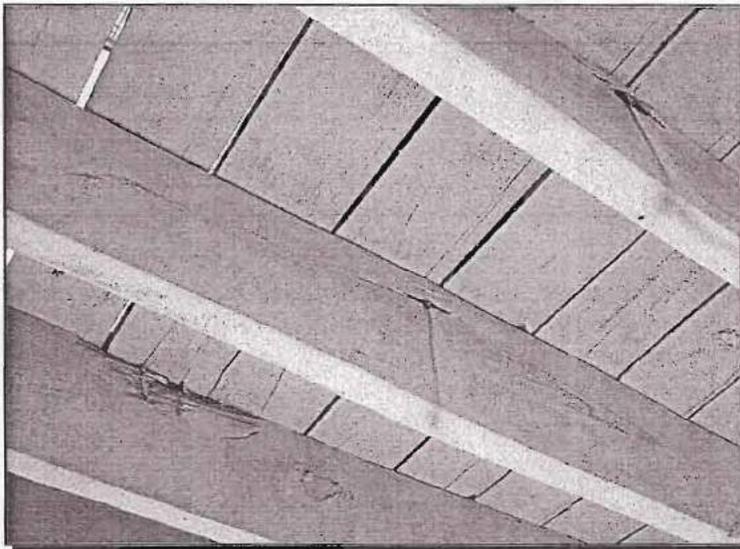
Rest room at clubhouse



Wood deck at clubhouse



Wood stairs at clubhouse



Wood deck at clubhouse

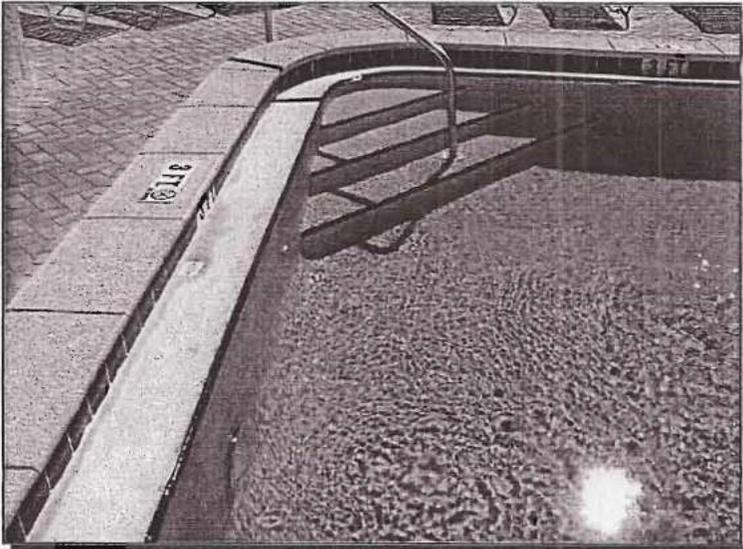
Note: Wood deterioration



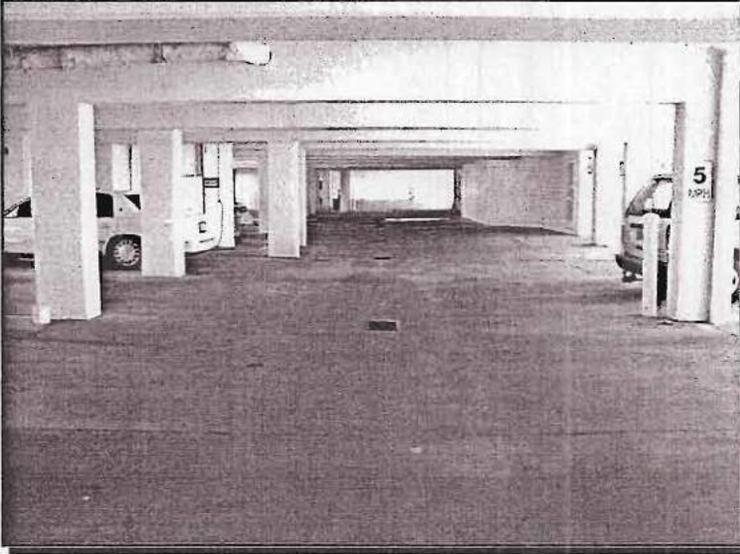
Pool overview



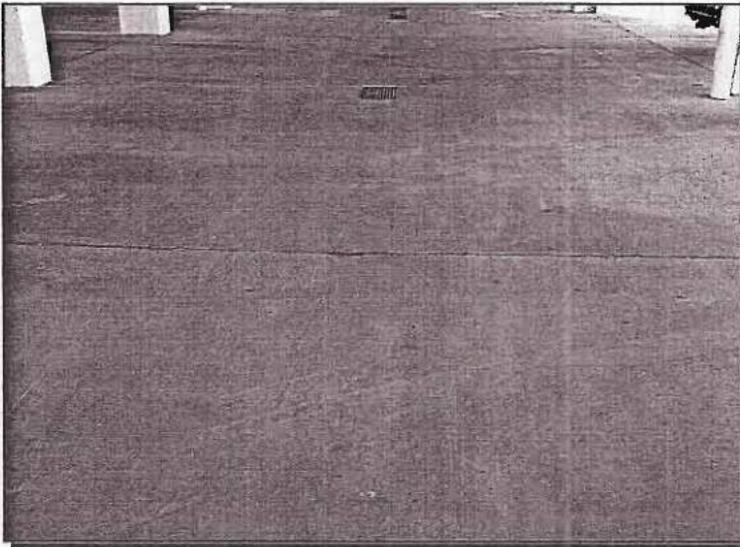
Pavers at pool deck



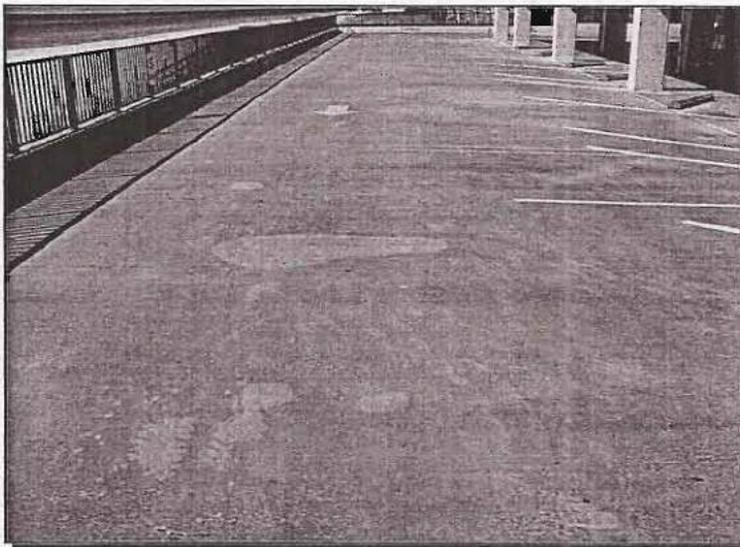
Pool plaster finish



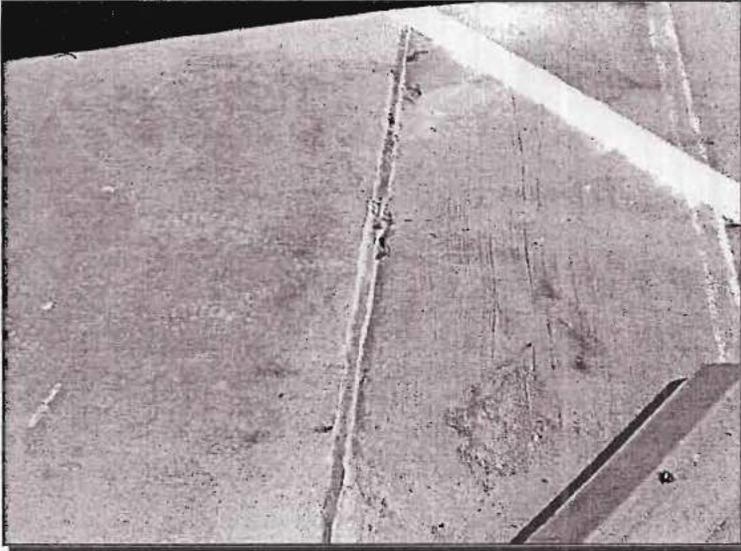
Garage overview



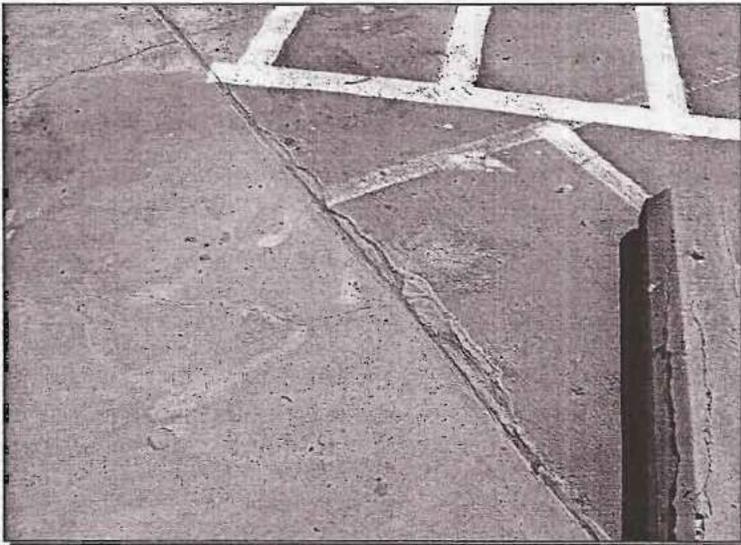
On-grade concrete at garage



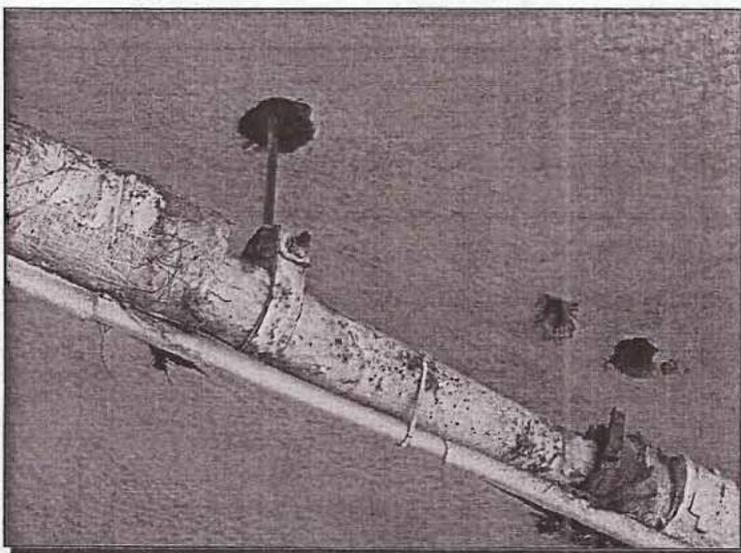
Elevated concrete at rear of garage



Expansion joint at meeting of
elevated and on-grade concrete



Expansion joint at meeting of
elevated and on-grade concrete



Pipe and pipe hangers at garage

Note: Displaced hanger

RESERVE EXPENDITURES

for
Aquavista of Panama City
Owners Association, Inc.
 Panama City Beach, Florida

Explanatory Notes:
 1) 2.5% is the estimate
 2) FY 2011 is Fiscal Year begin

Line Item	Quantities:			Reserve Component Inventory	Estimated 1st Year of Replacement	Life Analysis, Years		Unit Cost, \$	2011 Cost of Replacement, \$ per Phase, \$	Total Future Costs of Replacement, \$	(See Notes 1 & 2)		
	30-Year Total	Per Phase	Units			Useful	Remaining				FY2011	2012	2013
Exterior Building Elements													
1	193,300	36,700	Square Feet	Driveways and Sidewalks, Concrete, Repairs	2011	5 to 6	0	1.25	46,375	323,895	43,375		
2	2,243	1,120	Linear Feet	Driveways, Railings, Pinned Replacement	2015	to 30	4	46.00	44,900	106,136			
3	5,350	2,675	Linear Feet	Driveways and Balconies, Railings, Subsequent Phased Replacement	2038	to 50	27	40.00	107,000	422,840			
4	36	36	Each	Doors, Metal, Common	2014	to 30	3	1,100.00	39,600	42,648			
5	4	2	Each	Doors, Floating Steel	2015	to 16	4	1,800.00	3,600	9,720			
6	500	500	Each	Light Fixtures (Includes Emergency and Exit)	2028	to 20	17	85.00	48,000	60,885			
7	90	90	Each	Mailboxes	2013	to 10	2	100.00	9,000	9,495		9,495	
8	219	210	Squares	Roads, Paved	2020	to 20	19	650.00	136,950	210,216			
9	55	55	Squares	Roofs, Mansard, Metal	2013	to 30	2	1,200.00	114,000	119,771		119,771	
10	553,000	142,250	Square Feet	Walls, Stucco, Paint Finishes and Capital Repairs	2014	6 to 8	3	1.40	198,150	1,132,630			
11	1,400	1,400	Square Feet	Windows, Common Area	2028	to 45	17	45.00	63,000	95,892			
Building Services Elements													
12	1	1	Each	Elevators, Traction, Modernization	2041	to 35	30	105,000.00	105,000	220,245			
13	10	2	Pair	Elevators, Hydraulic, Doors	2012	to 60	1	3,200.00	6,400	50,507		5,560	
14	2	2	Each	Elevators, Hydraulic, Pumps and Controls	2022	to 20	11	48,000.00	96,000	125,960			
15	2	1	Each	Elevators, Hydraulic, Cylinders, Phased Replacement	2017	to 35	6	65,000.00	65,000	187,262			
16	1	1	Allowance	Life Safety System (Control Panel and Emergency Devices)	2023	to 25	12	40,000.00	40,000	53,706			
17	1	1	Each	Pump and Controls, Fire Suppression	2023	to 40	12	50,000.00	50,000	67,344			
18	4	2	Allowance	Pumps and Controls, Domestic Water	2012	to 15	1	7,920.00	14,900	35,433		14,390	
19	143	37	Each	Riser Sections, Partial Replacements	2018	to 25	6	1,800.00	65,000	410,941			
20	4	2	Each	Split Systems, Elevator Mechanical Rooms	2015	to 15	4	2,500.00	5,000	13,512			
21	50	28	Floors	Trash Chutes and Doors	2012	to 40	1	3,000.00	61,000	191,004		88,100	
Property Site Elements													
22	400	240	Square Feet	Beach Walk and Stairs, Wood	2012	to 25	1	34.00	8,160	73,123		8,304	
23	9	3	Each	Gates, Swing Arm (Includes Card Readers)	2012	to 10	1	4,000.00	12,000	48,290		12,300	
24	2,400	1,200	Linear Feet	Perimeter Fences, Replacement	2012	to 30	1	50.00	60,000	184,284		61,500	
25	3,600	1,800	Linear Feet	Perimeter Fences and Walls, Paint Finishes and Repairs	2018	6 to 8	6	12.00	14,400	63,181			
Clubhouse Elements													
26	500	250	Square Feet	Awnings	2025	to 15	14	25.00	6,250	31,621			
27	5	1	Allowance	Building Services Equipment, Phased Replacements	2013	12 to 18	2	7,500.00	7,500	57,347		7,880	
28	4	1	Allowance	Exercise Equipment	2013	5 to 10	2	10,000.00	10,000	57,967		10,500	
29	2,800	2,800	Square Feet	Interior Renovations, Complete	2013	to 30	2	33.00	92,400	57,878		97,878	
30	5,000	2,500	Recessed Feet	Interior Renovations, Partial	2025	to 10	12	10.00	26,000	35,861			
31	600	600	Square Feet	Windows and Doors	2028	to 35	17	12.00	25,200	38,245			
32	1,300	650	Square Feet	Wood Decks and Stairs	2013	20 to 25	2	34.00	22,100	64,191		23,219	
33	4,700	4,700	Square Feet	Deck, Pressure	2038	to 30	27	6.00	28,200	54,828			
34	3	1	Allowance	Furniture	2015	to 12	4	9,000.00	9,000	41,263			
35	8	1	Allowance	Mechanical Equipment, Phased Replacements	2011	12 to 15	0	5,000.00	5,000	57,977		5,000	
39	3,100	1,700	Square Feet	Plaster Finish Replacement and Tile Repairs	2017	8 to 12	6	10.00	17,000	77,297			
Garage Elements													
37	13,750	13,250	Square Feet	Concrete, Elevated Floors, Inspectors and Capital Repairs	2021	10 to 15	10	1.15	17,538	87,972			
38	14,100	4,720	Square Feet	Concrete, On grade, Partial Replacements	2021	to 25	19	11.00	51,900	246,445			
39	400	200	Linear Feet	Expansion Joints	2021	to 20	10	425.00	85,000	287,140			
40	189,800	56,000	Square Feet	Paint Finishes	2015	to 12	4	1.10	62,260	281,450			
41	141,800	47,200	Square Feet	Plies and Hangings, Paint Finishes and Repairs	2012	12 to 15	1	1.25	38,000	263,654		60,478	
			1 Allowance	Reserve Study Update with Site Visit	2013	2	2	4,300.00	4,300	4,300		4,300	
Anticipated Expenditures, By Year										56,054,169	53,375	248,645	272,210

RESERVE EXPENDITURES

for
Aquavista of Panama City
Owners Association, Inc.
Panama City Beach, Florida

Line Item	Reserve Component Inventory	21 2032	22 2033	23 2034	24 2035	25 2036	26 2037	27 2038	28 2039	29 2040	30 2041
Exterior Building Elements											
1	Breezeways and Balconies, Concrete, Repairs				87,497						
2	Breezeways, Railings, Phased Replacement										
3	Breezeways and Balconies, Railings, Subsequent Phased Replacement							208,415	213,625		
4	Doors, Metal, Common										
5	Doors, Rolling Steel										
6	Light Fixtures (Includes Emergency and Exit)										
7	Mailboxes										
8	Roofs, Flat										
9	Roofs, Mansard, Metal										
10	Walls, Stucco, Paint Finishes and Capital Repairs				360,208						
11	Windows, Common Area										
Building Services Elements											
12	Elevators, Traction, Modernization										220,245
13	Elevators, Hydraulic, Doors				11,576					13,097	
14	Elevators, Hydraulic, Pumps and Controls										
15	Elevators, Hydraulic, Cylinders, Phased Replacement		111,902								
16	Life Safety System (Control Panel and Emergency Devices)										
17	Pump and Controls, Fire Suppression										
18	Pumps and Controls, Domestic Water										
19	Riser Sections, Partial Replacements						126,559				
20	Split Systems, Elevator Mechanical Rooms										
21	Trash Chutes and Doors										
Property Site Elements											
22	Beach Walk and Stairs, Wood				14,759						
23	Gates, Swing Arm (Includes Card Readers)	20,155									
24	Perimeter Fences, Replacement									122,784	
25	Perimeter Fences and Walls, Paint Finishes and Repairs		24,791								
Clubhouse Elements											
26	Awnings									12,790	
27	Building Services Equipment, Phased Replacements			13,235							15,732
28	Exercise Equipment						19,003				
29	Interior Renovations, Complete										
30	Interior Renovations, Partial		48,204								

RESERVE EXPENDITURES

for
**Aquavista of Panama City
 Owners Association, Inc.**
 Panama City Beach, Florida

Line Item	Reserve Component Inventory	21 2032	22 2033	23 2034	24 2035	25 2036	26 2037	27 2038	28 2039	29 2040	30 2041
31	Windows and Doors										
32	Wood Decks and Stairs					40,972					
33	Deck, Pavers							54,928			
34	Furniture								17,968		
35	Mechanical Equipment, Phased Replacements				9,044				9,982		
36	Plaster Finish Replacement and Tile Repairs						32,305				
Garage Elements											
37	Concrete, Elevated Floors, Inspections and Capital Repairs										36,786
38	Concrete, On-grade, Partial Replacements										108,906
39	Expansion Joints										178,293
40	Paint Finishes								124,302		
41	Pipes and Hangers, Paint Finishes and Repairs								117,793		
Reserve Study Update with Site Visit											
Anticipated Expenditures, By Year		20,155	184,897	13,235	483,084	40,972	177,867	263,343	483,670	148,671	559,962

RESERVE FUNDING PLAN

CASH FLOW ANALYSIS
Aquavista of Panama City
Owners Association, Inc.
Panama City Beach, Florida

		<u>Individual Reserve Budgets & Cash Flows for the Next 3</u>				
		FY2011	2012	2013	2014	2015
	Reserves at Beginning of Year (Note 1)	268,752	332,911	257,104	161,236	30,431
	Total Recommended Reserve Contributions (Note 2)	111,577	168,000	172,200	176,500	149,000
Plus	Estimated Interest Earned, During Year (Note 3)	5,957	5,842	4,142	1,898	667
Less	Anticipated Expenditures, By Year	(53,375)	(249,649)	(272,210)	(309,203)	(143,120)
	Anticipated Reserves at Year End	<u>\$332,911</u>	<u>257,104</u>	<u>161,236</u>	<u>30,431</u>	<u>36,978</u>

(NOTE 4)

(continued)

		<u>Individual Reserve Budgets & Cash Flows for the Next 3</u>			
		2027	2028	2029	2030
	Reserves at Beginning of Year	678,993	634,246	276,756	478,941
	Total Recommended Reserve Contributions	200,200	205,200	210,300	215,600
Plus	Estimated Interest Earned, During Year	13,002	9,020	7,482	9,313
Less	Anticipated Expenditures, By Year	(257,949)	(571,710)	(15,597)	(242,195)
	Anticipated Reserves at Year End	<u>634,246</u>	<u>276,756</u>	<u>478,941</u>	<u>461,659</u>

Explanatory Notes:

- 1) Year 2011 starting reserves are as of January 1, 2011; FY 2011 starts January 1 and ends December 31.
- 2) Reserve Contributions for 2011 are budgeted; 2012 is the first year of recommended contributions.
- 3) 2.0% is the estimated annual rate of return on invested reserves.
- 4) Threshold Funding Year (reserve balance at critical point).
- 5) Accumulated year 2041 ending reserves consider the need to fund for replacement of the pumps and controls for the hydraulic elevators and pai

30 Years

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
36,978	140,751	205,585	371,701	439,348	502,907	154,746	193,489	213,498	405,527	492,945
152,700	156,500	160,400	164,400	168,500	172,700	177,000	181,400	185,900	190,500	195,300
1,760	3,429	5,716	8,030	9,329	6,511	3,448	4,030	6,129	8,896	11,603
(50,687)	(95,095)	0	(104,783)	(114,270)	(527,372)	(141,705)	(165,421)	0	(111,978)	(20,855)
<u>140,751</u>	<u>205,585</u>	<u>371,701</u>	<u>439,348</u>	<u>502,907</u>	<u>154,746</u>	<u>193,489</u>	<u>213,498</u>	<u>405,527</u>	<u>492,945</u>	<u>678,993</u>

30 Years, Continued

2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
461,659	460,652	678,273	739,614	981,419	759,573	985,984	1,085,022	1,106,174	911,885	1,058,826
221,000	226,500	232,200	238,000	244,000	250,100	256,400	262,800	269,400	276,100	283,000
9,132	11,276	14,038	17,040	17,238	17,283	20,505	21,695	19,981	19,512	18,407
(231,139)	(20,155)	(184,897)	(13,235)	(483,084)	(40,972)	(177,867)	(263,343)	(483,670)	(148,671)	(559,962)
<u>460,652</u>	<u>678,273</u>	<u>739,614</u>	<u>981,419</u>	<u>759,573</u>	<u>985,984</u>	<u>1,085,022</u>	<u>1,106,174</u>	<u>911,885</u>	<u>1,058,826</u>	<u>800,271</u>

(NOTE 5)

int applications to the exterior stucco walls shortly after 2041, and the age, size, overall condition and complexity of the property.

DEFINITIONS¹

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.

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 in the cost of replacement where applicable.

Funding Goal - The stated purpose of this Reserve Study to determine the adequate, not excessive, future annual, reasonable *Reserve Contributions* to fund future *Reserve Expenditures*.

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 components of Aquavista 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.

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) Association 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 the *Exhibit of 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.

¹ Definitions are derived from the standards set forth by the Community Associations Institute (CAI) representing America's 286,000 condominium and homeowners associations and cooperatives, and the Association of Professional Reserve Analysts, setting the standards of care for reserve study practitioners.



ASSUMPTIONS

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, we make no guarantee nor assume liability for the accuracy of any data, opinions, or estimates identified as furnished by others that we used in formulating this analysis.

We did not make any soil analysis or geological study with this report; nor were any water, oil, gas, coal, or other subsurface mineral and use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, environmental mold or other potentially hazardous materials could, if present, adversely affect the validity of this study. Unless otherwise stated in this report, the existence of hazardous substance, that may or may not be present on or in the property, was not considered. Our opinions are predicated on the assumption that there are no hazardous materials on or in the property. We assume no responsibility for any such conditions. We are not qualified to detect such substances, quantify the impact, or develop the remedial cost.

We have made a visual inspection of the property and noted visible physical defects, if any, in our report. Our inspection and analysis was made by employees generally familiar with real estate and building construction; however, we did not do any invasive testing. Accordingly, we do not opine on, nor are we responsible for, the structural integrity of the property including its conformity to specific governmental code requirements, such as fire, building and safety, earthquake, and occupancy, or any physical defects that were not readily apparent during the inspection.

Our opinions of the remaining useful lives of the property elements do not represent a guarantee or warranty of performance of the products, materials and workmanship.

PROFESSIONAL SERVICE CONDITIONS

Our Services - Reserve Advisors, Inc. will perform its service as an independent contractor in accordance with our professional practice standards. Our compensation is not contingent upon our conclusions.

Our inspection and analysis of the subject property is limited to visual observations and is noninvasive. We will inspect sloped roofs from the ground. We will inspect flat roofs where safe access (stairs or ladder permanently attached to the structure) is available. Reserve Advisors does not investigate, nor assume any responsibility for any existence or impact of any hazardous materials, structural, latent or hidden defects which may or may not be present on or within the property. Our opinions of estimated costs and remaining useful lives are not a guarantee of the actual costs of replacement, a warranty of the property elements, or guarantee of remaining useful lives.

We assume, without independent verification, the accuracy of all data provided to us. You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement, because of any false, misleading or incomplete information which we have relied upon as 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. Your obligation for indemnification and reimbursement shall extend to any controlling person of Reserve Advisors, Inc., including any director, officer, employee, affiliate, or agent. Liability of Reserve Advisors, Inc. and its employees, affiliates, and agents for errors and omissions, if any, in this work is limited to the amount of its compensation for the work performed in this engagement.

Report - Reserve Advisors, Inc. will complete this Study in accordance with the Proposal. In the event our service includes a Preliminary Report, we will consider any additional information made available to us in the interest of promptly issuing a Final Report to your satisfaction. However, the Preliminary Report represents a valid opinion of our findings and recommendations and is deemed complete and final if no Final Report or changes are requested within six months of our inspection. We retain the right to withhold the Preliminary or Final Reports if payment for services is not rendered in a timely manner. All files, work papers or documents developed by us during the course of the engagement remains our property.

Your Obligations - You agree to provide us access to the subject property during our on site visual inspection and tour. You will provide to us to the best of your ability and if reasonably available, historical and budgetary information, the governing documents, and other information that we request and deem necessary to complete our Study. You agree to abide by the payment schedule for our services in accordance with the Reserve Study Proposal.

Use of Our Report and Your Name - Use of our Report is limited to only the stated purpose stated herein. Any use or reliance for any other purpose, by you or third parties, is invalid. The Report in whole or part **is not and can not be used as a design specification, design engineering services or an appraisal.** You may show our report in its entirety to those third parties who need to review the information contained herein. You may show our report in its entirety to those third parties who need to review the information contained herein but can not reference our name or our report, in whole or in part, in any document prepared and/or distributed to third parties without our written consent. **This report** contains intellectual property developed by Reserve Advisors, Inc. specific to this engagement and **can not be reproduced or distributed to those who conduct reserve studies without the written consent of Reserve Advisors, Inc.**

We reserve the right to include your property's name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.



CREDENTIALS

FIRM'S QUALIFICATIONS

HISTORY AND DEPTH OF SERVICE TO AMERICA

Founded in 1991, Reserve Advisors, Inc. is the leading provider of reserve studies and independent property consulting services, serving community associations, clubs, non-profit organizations, apartment building owners, religious institutions and educational facilities, office and commercial building owners, and other entities in over 40 states and Canada.

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 has the **largest staff of Reserve Specialists** with bachelors degrees in engineering dedicated to Reserve Study services. Our principals are founders of Community Associations Institute's (CAI) Reserve Committee. Also, one of our principals 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 a historical analyses are keys to our determining accurate remaining useful life estimates of building components.

No Conflict of Interest - As 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 Peer Review, exclusive to Reserve Advisors, Inc., and by utilizing the experience of other staff gained from serving hundreds of other clients. A peer review is an internal quality assurance review of an assignment including the inspection, costing, lifing and technical report phases of the assignment. Each peer review requires the attendance of at least four staff including a Principal of the Firm, a Review Coordinator and other participatory peers. 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, Inc. has conducted reserve studies for a variety of different communities and building types. Our clients include institutional governmental entities, master associations, clubs, schools and religious organizations. We've analyzed thousands of buildings, from as small as a 3,500 square-foot day care center to the 100-story John Hancock Center in Chicago. We also routinely inspect buildings with various types of mechanical systems such as simple electric heat, to complex systems with air handlers, chillers, boilers, elevators, and life safety 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.



THEODORE J. SALGADO, P.E., PRA
Principal



CURRENT CLIENT SERVICES

Theodore J. Salgado is a co-founder of Reserve Advisors, Inc., which is dedicated to serving community associations, city and country clubs, religious organizations, educational facilities, and public and private entities throughout the United States. He is responsible for the production, management, review, and consulting services for a nationwide portfolio of more than 4,000 clients. Under his direction, the firm conducts reserve study services for apartment complexes, churches, hotels, resorts, office towers and vintage architecturally ornate buildings.

PRIOR RELEVANT EXPERIENCE

Before founding Reserve Advisors, Inc. in 1991, Mr. Salgado, a professional engineer registered in the State of Wisconsin, served clients for over 15 years through American Appraisal Associates, the world's largest full service valuation firm. Mr. Salgado conducted facilities analyses of hospitals, steel mills and various other large manufacturing and petrochemical facilities and casinos.

He has served clients throughout the United States and in foreign countries, and frequently acted as project manager on complex valuation, and federal and state tax planning assignments. His valuation studies led to negotiated settlements on property tax disputes between municipalities and property owners.

Mr. Salgado has authored articles on the topic of reserve studies and facilities maintenance. He also co-authored "Reserves", an educational videotape produced by Reserve Advisors on the subject of Reserve Studies and maintaining appropriate reserves. Mr. Salgado has also written in-house computer applications manuals and taught techniques relating to valuation studies.

EXPERT WITNESS

Mr. Salgado has testified successfully before the Butler County Board of Tax Revisions in Ohio. His depositions in pretrial discovery proceedings relating to reserve studies of Crestview Estates Condominium Association in Wauconda, Illinois and the North Shore Club Associations in South Bend, Indiana have successfully assisted the parties in arriving at out of court settlements.

EDUCATION - Milwaukee School of Engineering - B.S. Architectural Engineering

PROFESSIONAL AFFILIATIONS/DESIGNATIONS

American Association of Cost Engineers - Past President, Wisconsin Section
Association of Construction Inspectors - Senior Designated Member and Certified Construction Inspector
Association of Professional Reserve Analysts - Past President, and Professional Reserve Analyst (PRA).
Community Associations Institute - Member and Volunteer Leader of multiple chapters throughout USA
Concordia Seminary, St. Louis - Member, National Steering Committee
Milwaukee School of Engineering - Member, Corporation Board
Professional Engineer, Wisconsin, Registered in 1982.



JOHN P. POEHLMANN, RS
Principal



CURRENT CLIENT SERVICES

John P. Poehlmann is a co-founder of Reserve Advisors, Inc. He is responsible for the finance, accounting, marketing, and overall administration of Reserve Advisors, Inc. He also regularly participates in internal Quality Control Peer Reviews of Reserve Study reports.

Mr. Poehlmann directs corporate marketing, including advertising, press releases, conference exhibiting, and direct mail promotions. He frequently speaks throughout the country at seminars and workshops on the benefits of future planning and budgeting for capital repairs and replacements of building components and other assets.

Mr. Poehlmann also served on the national Board of Trustees of Community Associations Institute. Community Associations Institute (CAI) is a national, nonprofit 501(c)(6) trade association created in 1973 to provide education and resources to America's nearly 286,000 residential condominium, cooperative and homeowner associations and related professionals and service providers. The Institute is dedicated to fostering vibrant, responsive, competent community associations that promote harmony, community, and responsible leadership.

He is a founding member of the Institute's Reserve Committee. The Reserve Committee developed national standards and the Reserve Specialist (RS) Designation Program for Reserve Study Providers. Mr. Poehlmann has authored numerous articles on the topic of Reserve Studies, including Planning for Replacement of Property Doesn't Have to Be Like a Trip to the Dentist, Reserve Studies for the First Time Buyer, Sound Association Planning Parallels Business Concepts, and Reserve Studies Minimize Liability. He has worked with a variety of publications, including the Chicago Tribune, The Milwaukee Journal/Sentinel, Common Ground, Common Interest, and Condo Management. He also co-authored "Reserves", an educational videotape produced by Reserve Advisors on the subject of Reserve Studies and the benefits of maintaining appropriate reserves. The videotape is available through Reserve Advisors or CAI's website, www.caionline.org. It is also available in all libraries in the State of Virginia.

INDUSTRY SERVICE AWARDS

CAI National Rising Star Award, 2002 - To an individual whose leadership abilities and professional contributions have earmarked them for even greater accomplishments in the future.

CAI Michigan Chapter Award, 2003 - "Given to the individual who contributed their time, expertise, and resources toward improving the quality of services offered by the chapter. Mr. Poehlmann was unanimously selected as the winner of the 2002 CAI Michigan Chapter Award."

EDUCATION

University of Wisconsin-Milwaukee - Master of Science;
University of Wisconsin - Bachelor of Business Administration

PROFESSIONAL AFFILIATIONS

Community Associations Institute (CAI): Serving national Board of Trustees; Reserve Professionals Committee, founding member; Reserve Specialist (RS) designation; Member of multiple chapters

Association of Condominium, Townhouse, & Homeowners Associations (ACTHA), member

United Condominium Owners of Michigan (UCOM), member

Reserve Advisors, Inc.

QUALIFICATIONS
Jeffrey B. Dow, P.E.
Responsible Advisor

CURRENT CLIENT SERVICES

Jeffrey B. Dow, a Civil engineer, is an Advisor for *Reserve Advisors, Inc.* Mr. Dow 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. Mr. Dow frequently participates in the Peer Review Meetings for Recreational, Townhome and Mid Rise communities.

The following is a partial list of clients served by Jeffrey Dow demonstrating his breadth of experiential knowledge of community associations in construction and related buildings systems.

Alson Court Condominium Owners Association, Inc. This historic Charlotte, NC building was constructed in 1939 and comprises all-brick construction and a clay tile roof. The unique layout of the building, which includes a number of entrances and lobbies, allows for two picturesque courtyards. The property includes two detached garages.

Charleston Oceanfront Villas Homeowners Association This oceanfront condominium offers spectacular views of Folly Beach, SC and the Atlantic Ocean. The four-story stucco building contains 96 luxury residential units. Significant amenities include private balconies, large garage on the first floor and two pools.

Le Club at Old Cutler Condominium Association, Inc. This condominium community comprises 334 units in 14 buildings in Miami, FL. Amenities of this property include a large pond with a lighted lake walk, large clubhouse with fitness room, pool, sauna, playground and tennis courts.

Marco Towers Club, Inc. Located on exclusive Marco Island just south of Naples, FL, this 8-story mid-rise features solid concrete construction and was the designated hurricane shelter for its community for many years. It houses 57 condominiums with balconies offering views of the adjacent intercoastal waterway. The property also includes a party room, office and detached garages.

Mountaintop Community Association This mountain golf community is located in Highlands, NC and comprises high-end residential units. The community includes a wastewater treatment plant, lift stations, two domestic water wells, three bridges and asphalt pavement roadways.

The Academy at Ocean Reef Located in Key Largo, FL, this private institution serves kindergarten through the eighth grade and includes offices, a science lab, a music room, a television production room, six classrooms, an atrium and other learning facilities.

PRIOR RELEVANT EXPERIENCE

Before joining Reserve Advisors, Inc., Mr. Dow successfully completed the bachelors program in Civil Engineering from Florida State University. He also has four years of experience as a land development engineer in the Washington, D.C. area and Tampa, FL, where he gained knowledge in the design of residential and commercial property, utility layout and stormwater detention.

EDUCATION

Florida State University - *B.S. Civil Engineering, Cum Laude*

PROFESSIONAL AFFILIATIONS

Professional Engineer (P.E.) - *State of Florida, 2008*



RESOURCES WE USE IN OUR ANALYSIS

Reserve Advisors, Inc. 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 <http://www.iami.org>. Several advisors and a Principal of Reserve Advisors, Inc. hold Senior Memberships with ACI.

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 <http://www.ashrae.org>. Reserve Advisors, Inc. actively participates in its local chapter and holds individual memberships.

Community Associations Institute, 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 <http://www.msbinfo.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 <http://www.rsmeans.com>

Reserve Advisors, Inc. 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.