RESERVE FUND STUDY

CLUB OCEAN VILLAS I
OCEAN CITY, MARYLAND 21842

Prepared for:

CLUB OCEAN VILLAS BOARD OF DIRECTORS

Prepared by:

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1.0 INTRODUCTION

Club Ocean Villas Board of Directors authorized Criterium-Harbor Engineers to conduct a Building Evaluation and Reserve Fund Study for Club Ocean Villas Condominium Association (the Association), located in Ocean City, Maryland. Studies of this nature are important to ensure that a community has sufficient funds for long-term, periodic capital expenditure requirements. Anticipating large expenditures over an extended period of time through a structured analysis and scheduling process assists the Association in meeting financial requirements without increasing the service fees above permitted maximums, borrowing the funds, or levying special financial assessments to the owners.

Typically, a community association has two broad cash requirements: the general operating reserves and the capital repair and replacement reserves. In this report, we will focus on those items falling under the capital repair and replacement reserve criteria. We have projected a capital repair and replacement reserve for thirty (30) years. The first ten years are the most reliable. Such a study should be updated every three to five years.

This report is structured to analyze components of the community for which the Association is responsible and to assess an expected useful life and remaining useful life to those components. The anticipated scheduled repair or replacement of the component and the anticipated expense for the activity are then analyzed in conjunction with the current capital reserves funding program for the community. Funding program recommendations are made with the objective of limiting substantial cash excesses while minimizing financial burdens that can result from significant cash inadequacies.

This report is intended to be used as a tool to determine reserve fund allocation requirements for the community, to manage future Association obligations, and to inform the community of future financial needs in general.

The report that follows has been prepared from the perspective of what an owner of this property would benefit from knowing. Some items, beyond those of immediate concern, may be discussed. Therefore, the report should be read in its entirety in order to fully understand all of the information that has been obtained.

2.0 EXECUTIVE SUMMARY

Club Ocean Villas I Condominiums includes eight buildings with a total of 80 individual condominium units. The development was completed in approximately 1983. The buildings are wood framed with wood board siding exteriors and asphalt/fiberglass shingled roof surfaces.

Asphalt paved, surface parking is provided for 160 vehicles. Common amenities include; a boardwalk with 24 boat slips, an outdoor swimming pool two sport courts. The Association is generally responsible for repair and/or replacement of the asphalt pavements, the building exteriors, common amenities, landscaped features and appurtenances.

We consider the buildings and grounds to be in average condition when compared to others of similar age and construction type. There are some deferred maintenance items and various components will require repair and replacement over the years. This work should be planned and prioritized in conjunction with the reserve analysis. For a detailed discussion of all of our findings of this study, refer to the appropriate sections of this report.

Based on our observations, we consider the primary deferred maintenance items to be the asphalt pavement, the sport courts and the masonry divider walls. Because the current reserve funds are limited, we have placed repair of the masonry divider walls in the sport courts at the top of the list (Years 1 & 2) until sufficient funds are accumulated for the complete resurfacing and repair of the asphalt pavement (Year 3).

Based on our evaluation, the current level of funding of the reserve for this community **is not adequate**. We recommend increasing the annual reserve fund contribution.

Our analysis incorporates an escalation of the projected expenses over the years, based on estimated, average rate of inflation. In addition we include an anticipated rate of return on the Association's invested reserve account funds. For this project we used an average inflation rate 3% and an average savings rate of return of 2.5%.

We have provided three representative alternatives for visualization of how the Association's budget would be affected by such increases. A more detailed analysis of the reserve fund has been provided in Appendix A.

For your convenience, we have prepared the following summary of the condition of the major systems of the property.

PROPERTY SUMMARY			
SYSTEM	CONDITION	ACTIVITY REQUIRED	ANTICIPATED YEAR OF ACTIVITY
SITE			
Storm Drainage	G-F	Address Erosion at SW Corner Re-Slope Asphalt for Proper Drainage	Maintenance Include with Resurfacing
Asphalt Pavements	G-F	Crack Repair & Seal / Resurface	Every 5 years / Every 20 years
Concrete Flatwork	G	Periodic Incremental Replacements	Every 5 years
Landscaping & Appurtenances Including; Landscaping Timbers, Signage, Fences, Light Poles and Trash Dumpsters	G	Replace Components based on EUL	Varies See Worksheet
STRUCTURE & EXTERIOR			
Structure	G	Maintenance of Crawl Spaces	Annual Maintenance
Exterior Siding	G	Replace / Paint	Every 50 years / Every 7 years
Masonry Divider Walls	G-F	Re-point & Re-Parge	Every 20 years
Wood Privacy Fences	G	Replace / Stain	Every 25 years / Every 7 years
Roofs	G	Replace Shingle Surfaces	Every 20 years
Gutters and Downspouts	G	Replace	Every 40 years
COMMON AMMENITIES			
Swimming Pool Including; Surface, Accessories, Equipment, Furniture and Bldg	G	Replace Components based on EUL	Varies See Worksheet
Sport Courts	F	Deferred Maintenance	Current Repairs Required
Bulkhead/Pier and Boat Slips	G	Replace Second Half of Bulkhead	5-7 years
MECHANICAL SYSTEMS			
Fire Alarm Systems	G	Maintenance	Annual Maintenance

Table 2.1: Summary

3.0 PURPOSE & SCOPE

3.1 Purpose

The purpose of this study is to perform a reserve fund analysis and to determine a capital needs plan. It is intended to be used as a tool for the Association in determining the allocation requirements into the reserve fund in order to meet future anticipated capital expenditures for the community.

This report forecasts obligations for the community thirty years into the future. It should be noted that events might occur that could have an effect on the underlying component or system useful life assumptions used in this study. Likewise, inevitable market fluctuations can have an impact on component or system replacement and repair costs. Therefore, a study such as this should be updated from time to time, usually on a three to five-year cycle, in order to reflect the most accurate needs and obligations of the community.

3.2 Scope

This study has been performed according to the scope as generally defined by the Association, Criterium-Harbor Engineers, and the standards of the Community Associations Institute (CAI). The findings and recommendations are based on interviews with individuals who have knowledge about the property; a review of available documentation; and a visual investigation of the building components, equipment and grounds.

This study estimates the funding levels required for maintaining the long term viability of the community. Our approach involves:

1. Visual inspection of the building components, equipment and grounds which are the responsibility of the Association.

2. Predicting their remaining service life and, approximating how frequently they may require repair or replacement.

3. Estimating the repair or replacement costs, in current dollars, for each capital item.

4. Using data developed in Steps 1, 2 and 3 to project Capital Reserve balances for the next 30 years.

The guidelines used to determine which physical components within the community are to be included in the component inventory are based on the following general criteria:

1. The component must be a common element, or otherwise noted to be the responsibility of the Association to replace.

2. The component must have an estimated remaining useful life of thirty years or less. As the site ages, additional components may need to be added.

3. The funding for replacement should be from one source only, not funded from another area of the budget or through a maintenance contract.

4. The cost of replacement should be high enough to make it financially unsound to fund it from the operating budget. (Typically at least $3,000)

5. Items such as periodic painting or landscape maintenance are generally not considered as capital expenditures by the IRS. For Association budgeting purposes however we may include some large, non-annual maintenance items in the Reserve Table. You should consult with your Accountant to verify the proper treatment of all components listed in this study for tax purposes. (Capital vs. Expense)

The statements in this report are opinions about the present condition of the subject community. They are based on visual evidence available during a diligent investigation of all reasonably accessible areas falling under the responsibility of the Association. We did not remove any surface materials, perform any destructive testing, or move any furnishings. This study is not an exhaustive technical evaluation. Such an evaluation would entail a significantly larger scope than this effort. For additional limitations refer to the Limitations Section of this report.

3.3 Sources of Information

Onsite inspection of the property occurred on the following date:

- January 23, 2012

The following people were interviewed during our study:

- Ms. Cynthia Mooney – Property Manager

The following documents were made available to us and reviewed:

- Association Budget and Financial Statements.
- Contractor Proposals for some completed and contemplated projects, including; foundation repairs, bulkhead replacement, roof surface replacement, asphalt resurfacing and various exterior painting and repairs.

We based our cost estimates on some or all of the following:

- R.S. Means
- Our data files on similar projects

3.4 Standards of Reference

For your reference, the following definitions may be helpful:

Average: Average compares the item to what is typical for construction in the geographic area in which the inspection occurs. It also compares it to buildings of similar age and construction type. Since construction practices vary from region to region, average is intended to be region specific.

Excellent: Component or system is in "as new" condition, requiring no rehabilitation and should perform in accordance with expected performance.

Good: Component or system is sound and performing its function, although it may show signs of normal wear and tear. Some minor rehabilitation work may be required.

Fair: Component or system falls into one or more of the following categories: a) Evidence of previous repairs not in compliance with commonly accepted practice, b) Workmanship not in compliance with commonly accepted standards, c) Component or system is obsolete, d) Component or system approaching end of expected performance. Repair or replacement is required to prevent further deterioration or to prolong expected life.

Poor: Component or system has either failed or cannot be relied upon to continue performing its original function as a result of having exceeded its expected performance, excessive deferred maintenance, or state of disrepair. Present condition could contribute to or cause the deterioration of other adjoining elements or systems. Repair or replacement is required.

Adequate: A component or system is of a capacity that is defined as enough for what is required, sufficient, suitable, and/or conforms to standard construction practices.

Repair/Replacement Reserves - Non-annual maintenance items that will require significant expenditure over the life of the buildings. Included are items that will reach the end of their estimated useful life during the course of this forecast, or, in the opinion of the investigator, will require attention during that time.

EUL – Expected Useful Life of a component

RUL – Remaining Useful Life of a component

All directions (left, right, rear, etc.), when used, are taken from the viewpoint of an observer standing in front of a building and facing it.

4.0 DESCRIPTION

Club Ocean Villas I Condominiums consists of eight, two-story buildings with a total of 80 individual condominium units. Four of the buildings contain eight units a piece (four on each level) and four buildings contain 12 units a piece (six on each level). The units are constructed in a back to back fashion. The upper units are accessed via exterior wood stairways.

The buildings are wood framed with painted, horizontal wood board siding on the exterior walls and asphalt/fiberglass shingles on the roof surfaces. There are crawl spaces under all of the buildings. The upper floor units have pressure-treated wood decks at the front of the units and the lower floor units have concrete patios enclosed by wood fences. Two-story, masonry divider walls are provided in between the units for separation of the exterior spaces.

The community is laid out in a rectangular arrangement with a center drive aisle that extends from 120th St. in the front (south) to a canal accessible from Assawoman Bay in the rear (north). There are four buildings located on each side of the center drive aisle and parking areas located in between each building. Two concrete surfaced, sport courts, partially enclosed with masonry walls, are provided near the front of the community. An in ground swimming pool is located near the center of the community and a wood boardwalk with 24 boat slips is provided at the rear of the community.

The community is identified with brick monuments and wood signs located at the entrance. The west boundary of the property has a metal chain-link fence and the east boundary has a wood board on board fence. A circular brick planter with benches is provided at the front of the property.

The Association is generally responsible for the repair and/or replacement of the common elements including; the asphalt pavements, building exteriors, common amenities, landscape features and appurtenances.

The individual unit owners are generally responsible for the interior of their units, as well as the exterior windows and doors, wood decks and stairways and their individual exterior HVAC equipment.

5.0 SITE IMPROVEMENTS

5.1 Storm Drainage

Description

The area is fairly level with slight slopes in the pavements for drainage. Storm water from the building roofs is drained by external gutters and downspouts which discharge at grade. The asphalt pavements located in between the buildings are sloped toward the center drive aisle which has a slight slope toward the front and rear of the community.

There is a storm drain with a catch basin located near the rear of the community and several located along the public street at the front of the community. These storm drains connect to underground municipal storm drainage systems.

Evaluation & Recommendations

The storm water management systems appear to be generally adequate for the site. However we observed two areas of concern; one at the southwest corner of the property and the other with the asphalt pavement located between the first and second buildings on the west side of the property.

At the southwest corner of the property we observed an area of erosion near an electrical transformer and the public sidewalk at 120th Street. It appears that discharge from rainwater downspouts is directed along a path behind the buildings, toward 120th Street. Some modifications to the discharges will be required in order to prevent further erosion.

The first area of asphalt pavement on the west side of the community, between the first and second buildings, appears to be sloped away from the center drive aisle. We observed standing water in this area during our site inspection. This slope will have to be reworked with the next asphalt resurfacing work.

We have included costs for replacement of the aluminum gutters and downspouts in the Reserve Table in the Building Exteriors section.

5.2 Paving & Curbing

COMMUNITY PAVING & CURBING	
Type of Paving	Asphalt Drive Aisles and Parking Concrete Entrance Apron and Dumpster Pads
Type of Curbing	Varies – Mostly Landscape Timbers
Number of Parking Spaces	160 (2 0 per unit)

Table 5.1: Parking Area

Description

The community is configured with a center drive aisle and parking areas located, in between the buildings, on either side of the center aisle. The drive aisles and parking areas are paved with asphalt. The perimeter of the pavement is generally lined with landscape timbers. Individual, concrete wheel stops are provided for each parking stall. There is a total of 160 striped parking stalls located perpendicular to the buildings.

The entrance apron to the community, from 120th Street and three trash dumpster pads located within the asphalt pavement, are paved with concrete.

Evaluation & Recommendations

Based on our observations the asphalt pavements are in fair condition. We observed many areas of uneven surfaces due to settlement and patching. In addition some areas are not properly sloped for water drainage and significant areas of ponding were present at the time of our inspection.

We recommend that a resurfacing of the asphalt pavement be accomplished within the next few years in order to prevent additional deterioration to the entire pavement system, including the sub-surface. This resurfacing work should include re-sloping areas of poor drainage and some full depth repairs, particularly in the center drive aisle where it appears that continued settlement and patching has occurred. This work may also include the replacement of some of the concrete wheel stops.

In addition to the resurface work, we recommend the application of an oil resistant sealant be applied to all asphalt paved surfaces on a five-year cycle. Coincident with this work all cracks should be properly sealed and the parking stalls should be re-striped. We have included a periodic cost in the Reserve Table for this work.

It appears that the concrete entrance apron has recently been partially replaced and is currently in good condition. The trash dumpster pads are also in good condition.

5.3 Flatwork

Description

Flatwork at this site consists of a few small sections of common area sidewalk, the pool deck, the sport court surface and concrete patios located in front of each lower level condominium unit.

There are two lead walks to the boat pier in the rear of the community and two short walks in front of the first two buildings. There is also some concrete pavement surrounding a brick planter at the front of the community. The sidewalk along 120th Street is maintained by the municipality.

Evaluation & Recommendations

The concrete flatwork is generally in good condition. We did not observe any significant areas of cracking or settlement. The concrete pool deck was recently extended to include the mailbox enclosure.

Concrete flatwork should last for 50 years or more, although its replacement typically occurs in small increments as required. We recommend that a replacement program be maintained in order to replace damaged or deteriorated sections of the flatwork as required. Our assumptions are included in the Reserve Table.

5.4 Landscaping & Appurtenances

Description

Landscaping in the community includes some bushes and shrubbery located next to the racquetball court and around a brick planter, located at the front of the site. Some small shrubbery is also located at the ends of some of the buildings. Mulched areas, defined with landscape timbers, are located next to the buildings throughout the community. Mulch colored stone is used in these areas.

The community is identified with brick monument signs located at either side of the main entrance. In addition, a painted wood sign mounted on wood posts has been recently added.

The site is separated from the development to the west with a metal, chain-link fence which runs along the entire boundary. On the east side a wood, board-on board fence separates the site from the adjacent property.

Exterior site lighting in the common areas is provided by metal pole-mounted fixtures with acrylic globe lenses located throughout the community. In addition, short, metal path lights are provided along the boat pier.

Trash collection is accomplished with three metal trash dumpsters placed on concrete pads located within the parking areas. These are owned by the Association. The Association has also constructed a wood fence enclosure for recycling collection which has subsequently been discontinued by the municipality.

Mail distribution is accomplished through one, central, cluster box unit located next to the swimming pool. The Association has purchased this unit and is responsible for its maintenance and eventual replacement.

Other minor appurtenances include two concrete benches with wood slats located near the brick planter and a pet waste station located in the same area.

Evaluation & Recommendations

The site landscaping is generally in good condition. On-going maintenance of the plantings should be manageable on the annual maintenance and operations budget. In addition the brick planter is currently in need of some minor repairs and maintenance.

The landscape timbers and stone chips are generally in good condition. However periodic replacement of these components will be required over the years. We have included these costs in the Reserve Tables.

The brick monument sign on the left side of the entrance has some current damage and both wood signs which are mounted within the brick monuments are worn and in fair condition. We have included a cost estimate in the Reserve Tables for repair of the brick and replacement of the signs.

The perimeter metal and wood fences are currently in good condition. Based on the EUL of these components we have included estimates for their eventual replacement in the Reserve Tables.

The exterior light fixtures are in good condition. Although we did not observe the site after dark, the light distribution appears to be adequate. We have included a cost estimate for the replacement of the pole lights in the Reserve Tables.

The trash containers are in good to fair condition with some rusting. We have included a cost estimate for their eventual replacement; however we recommend periodic scraping and painting with a rust inhibitive coating in order to prolong their useful lives.

The cluster mailbox unit is new and in good condition. If properly maintained we do not anticipate any required replacement through this evaluation period.

6.0 STRUCTURE & EXTERIOR

6.1 Structure

Description

The basic construction of these buildings consists of concrete block foundation walls with an interior pier and girder system for support of the first floor framing members. The buildings are primarily framed with wood.

Evaluation & Recommendations

We observed the building exteriors, the interior of one vacant unit and the interiors of a couple of the crawl spaces during our site inspection. Most of the structural elements of the buildings are concealed and were not visible for inspection. However, we did not observe any conditions which would indicate that any of the structural components are not performing adequately.

We reviewed a proposal / scope of work prepared by Ram Jack Foundation Repair in 2006. This work was reportedly accomplished in order to repair some settlement conditions that had developed prior to that time. A total of 160 helical piles were added to the interiors of the crawl spaces in order to provide additional bearing support for the buildings. Based on our limited observations it appears that this work was generally implemented as described.

Within the crawl spaces we observed some evidence of excess moisture on the concrete block walls and some rust developing on the new steel pier support brackets. Keeping these areas dry is important to prevent deterioration of the concrete block, rusting of steel components, or any rot in the wood framing members.

We recommend periodic preventative maintenance in the crawl spaces such as; maintaining grading away from all of the foundations and opening of all crawl space vents during the summer months. These vents must be kept clear of any landscape materials. We also recommend periodic scraping and painting of any rust on the structural support systems.

We also observed some hanging and displaced insulation on the underside of the first floors. We recommend periodic inspections and proper replacement of any displaced insulation in order to maximize the energy efficiency of the condominium units.

The foundation supports appear to be performing adequately and we do not anticipate any additional structural reserve costs at this time.

6.2 Exterior

Description

The exteriors of the buildings are finished with painted, horizontal, wood board, lap siding. The trim at the corners of the walls and along the rakes is also wood. The windows are aluminum, sliding type units without any trim. Each condominium unit has two sliding glass doors with wood trim.

All of the upper floor balconies have pressure-treated wood decks and stairways. There are also wood board fences surrounding the front of each lower floor unit. Two-story masonry walls are used as exterior dividers between the adjacent units.

All of the crawl spaces have corrugated metal window wells with removable metal access doors and additional metal louvers for ventilation.

Evaluation & Recommendations

Based on our conversations with the property manager, the exterior windows and doors are the responsibility of the individual unit owners for replacement. The wood decks are also the responsibility of the unit owners. The remainder of the exterior components, including the wood board siding, wood fences, masonry divider walls, crawlspace access doors and vents are the responsibility of the Association.

The wood board siding is generally in good condition however it appears that some boards have been replaced and/or repaired over the years. This material typically has an EUL of 40 to 50 years. Therefore we recommend that reserve funds be accumulated for the eventual replacement of all of the siding. We have also included periodic painting of the wood siding in the Reserve Tables because it is a large, non-annual expense.

With the Windows and doors being the responsibility of the individual unit owners we recommend that standard installation details and specifications be developed in order to provide proper watertight installations by the various contractors that the individual homeowners may employ.

The masonry divider walls are generally in good condition. We did not observe any areas of significant cracking or any structural instability. However we recommend that periodic maintenance be performed for these walls including; any minor crack repair, re-parging, or coating of the block surfaces and re-pointing of the brick trim. We have included a cost estimate for this work in the Reserve Tables.

The wood board fences are also in good condition and appear to be relatively new. Based on the EUL however we have included an estimate for their replacement in the Reserve Tables.

The crawl space window wells, access doors and vents are in good to fair condition we observed some of these components which are rusted and/or inoperable. We have included replacement cost estimates for these components in the Reserve Tables.

6.3 Roofing

Description

The roofs have pitched and shed configurations with gabled ends. The roofs are surfaced with asphalt/fiberglass shingles on a plywood substrate. The attics are ventilated with soffit vents only.

Evaluation & Recommendations

Based on our observations, the roof surfaces are generally in good condition, although showing some evidence of wear. Based on the age of the community we suspect that these may not be the original roof surfaces. We recommend that reserve funds be accumulated for replacement of the roof surfaces within the next five years or so.

Further, the existing amount of ventilation for the attics appears to be insufficient. Because these units are constructed back to back with a full height fire wall located at the peak of the roof, ridge vents are not possible. In addition, a lot of the soffit vents have been painted over. When it comes time for roof resurfacing we recommend that the Association consider providing additional attic ventilation, possibly with hood type vents located near the peaks in order to provide proper convective circulation to the attics are.

7.0 COMMON AMENITIES

7.1 Swimming Pool

Description

The community has an, in-ground swimming pool with a concrete deck, surrounded by a wood board fence. There is a small wood frame building which houses the pool equipment and also a small wood pavilion located within the pool fence.

The swimming pool has a concrete shell with a gunite surface. There is ceramic tile located at the water line with perimeter coping. Pool accessories include two metal ladders, at one end and a set of concrete steps at the opposite end. The pool is not heated. The pool equipment consists of one circulation pump and sand filter. The pool furniture includes plastic chairs, chaise lounges and tables.

Evaluation & Recommendations

The swimming pool and associated equipment and amenities are generally in good condition. The concrete deck was recently extended with the project for installation of the cluster mailbox unit. The pool equipment building was also extended to cover the mailboxes.

We have included cost estimates in the reserve tables for repair and/or replacement of these components based on their respective EUL's, including; white coating of the pool shell, replacement of the ceramic tile, coping, ladders, furniture and pool equipment. We have also included costs for eventual replacement of the pool building and pavilion. The concrete deck is included with other site flat work. The pool fence is included with replacement of other wood fencing.

7.2 Sport Courts

Description

The community has two sport courts located near the front entrance. The courts have a concrete surface. They are open ended, surrounded by concrete block walls on three sides. The block walls have parged surfaces and brick caps similar to the exterior condominium unit divider walls. The courts are enclosed at the open end with a metal chain-link fence. There is also a short metal chain-link fence located on top of the concrete block walls.

Evaluation & Recommendations

The concrete block walls are in fair condition. We observed several cracks which extend through the entire thickness of the wall. In addition, the surface parging is deteriorated in many areas. The metal chain-link fence is also in fair condition with considerable rusting of the steel support bars. We have included a cost estimate in the reserve tables for current necessary repairs for these two courts.

7.3 Bulkhead/Pier and Boat Slips

Description

The community has wood boardwalk with 24 boat slips located at the rear of the site. The boardwalk runs along a canal located at the rear the property. A bulkhead is provided at the edge of the water. The boat slips are constructed with short wood peers, supported by wood pilings, which extend perpendicular to the boardwalk.

Evaluation & Recommendations

The boardwalk, bulkhead and boat slips appear to be in good condition. Half of the bulkhead has recently been replaced with vinyl sheet pilings. The remaining half is constructed with pressure treated wood pilings. Ms. Mooney reported that a portion the bulkhead had failed and that this is why half of the bulkhead was replaced. We have included a cost estimate in the reserve tables for replacement of the remaining portion of bulkhead with sheet vinyl pilings within the next few years.

8.0 MECHANICAL SYSTEMS

8.1 Fire Alarm Systems

Description

Each building is equipped with a local fire alarm system, consisting of pull stations at the exterior of each condominium unit and an audible alarm at the exterior of each building.

Evaluation & Recommendations

The fire alarm systems are tested and maintain by a local contractor. Replacement of individual fire alarm system components, as required, can be accomplished on the operations and maintenance budget.

9.0 CONCLUSION

We consider the buildings and grounds to be in average condition when compared to others of similar age and construction type. There are some deferred maintenance items and various components will require repair and replacement over the years. This work should be planned and prioritized in conjunction with the reserve analysis. For a detailed discussion of all of our findings of this study, refer to the appropriate sections of this report.

Based on our evaluation, the current level of funding of the reserve for this community **is not adequate**. We recommend increasing the annual reserve fund contribution. We have provided a couple of representative alternatives for visualization of how the Association's budget would be affected by such increases. A more detailed analysis of the reserve fund has been provided in Appendix A.

10.0 LIMITATIONS

The observations described in this study are valid on the date of the investigation and have been made under the conditions noted in the report. We prepared this study for the exclusive use of the Club Ocean Villas Condominium Association. Criterium-Harbor Engineers does not intend any other individual or party to rely upon this study without our express written consent. If another individual or party relies on this study, they shall indemnify and hold Criterium-Harbor Engineers harmless for any damages, losses, or expenses they may incur as a result of its use.

This study is limited to the visual observations made during our inspection. We did not remove surface materials, conduct any destructive or invasive testing, move furnishings or equipment, or undertake any digging or excavation. Accordingly, we cannot comment on the condition of systems that we could not see, such as buried structures and utilities, nor are we responsible for conditions that could not be seen or were not within the scope of our services at the time of the investigation. We did not undertake to completely assess the stability of the buildings or the underlying foundation soil since this effort would require excavation and destructive testing. Likewise, this is not a seismic assessment.

We did not investigate the following areas:

- The interiors of the individual condominium units and attics
- Most of the crawl spaces
- Underground utilities and manholes

We do not render an opinion on uninvestigated portions of the community.

We did not perform any computations or other engineering analysis as part of this evaluation, nor did we conduct a comprehensive code compliance investigation. This study is not to be considered a warranty of condition, and no warranty is implied. The appendices are an integral part of this report and must be included in any review.

In our Reserve Fund Analysis, we have provided estimated costs. These costs are based on our general knowledge of building systems and the contracting and construction industry. When appropriate, we have relied on standard sources, such as Means Building Construction Cost Data, to develop estimates. However, for items that we have developed costs (e.g.: structural repairs), no standard guide for developing such costs exists. Actual costs can vary significantly, based on the availability of qualified contractors to do the work, as well as many other variables. We cannot be responsible for the specific cost estimates provided.

We have performed no design work as part of this study, nor have we obtained competitive quotations or estimates from contractors as this also is beyond the scope of the project. The actual cost to remedy deficiencies and deferred maintenance items that we have identified may vary significantly from estimates and competitive quotations from contractors.

If you have any questions about this study or the reserve fund analysis, please feel free to contact us. Thank-you for the opportunity to be of assistance to you.

Respectfully submitted,

Mr. Craig D. Smith, PE
Criterium-Harbor Engineers

Appendix A: RESERVE FUND PROJECTIONS

INTRODUCTION

The following is a projected reserve fund analysis for non-annual items as discussed in the report. This projection takes into consideration a reasonable return on invested moneys and inflation. Please review this thoroughly and let us know of any changes that may be desired.

The intent of this reserve fund projection is to help the Association develop a reserve fund to provide for anticipated repair or replacements of various system components during the next thirty years.

The capital items listed are those that are typically the responsibility of the Association and are derived from our review of the Public Offering Statements and conversations with members of the Association. The Association should confirm that the items listed should be financed by the Association reserve fund.

This projection provides the following:

- An input worksheet that defines all the criteria used for the financial alternatives, including the assumed inflation rate and rate of return on deposited reserve funds.

- An itemized worksheet that lists anticipated replacement and/or repair items complete with estimated remaining life expectancies, projected costs of replacement and/or repair, a frequency in years of when these items require replacement and/or repair, and a projection based on this frequency.

- A table and graph that represent end of year balances versus capital expenditures based on your current funding program and reserve balances, and alternatives to your current program. The provided graphs illustrate what effects the funding methods will have over the presented thirty year period versus the anticipated capital expenditures. Care should be taken in analyzing the graphs due to varying graphic scales that occur within each graph and between graphs.

Based on our developed list of capital items and taking inflation into account; the current general reserve funding **is not adequate**. Significant increases to the annual reserve contribution will be required in the coming years.

The Association should bear in mind that unanticipated expenditures can always arise and maintenance of a significant reserve fund balance can be viewed as a way to avoid special assessments.

We have provided two representative alternatives for visualization of how the Association's budget would be affected by such increases. We recommend that the board adopt an alternative that best reflects the objectives of the community:

- **Alternative 1:** Increase the current reserve contribution of $500 per unit, per year by 100 percent to $1,000 and maintain this level of contribution for the next 30 years. Based on our assumptions, this alternative will maintain a positive balance for approximately 25 years.

- **Alternative 2:** Increase the current reserve contribution of $500 per unit, per year by 20 percent per year for the next four years and then maintain this level of contribution for the remainder of our 30 year evaluation period. Based on our assumptions, this alternative will maintain a positive balance for approximately 25 years.

- **Alternative 3:** Increase the current reserve contribution of $500 per unit, per year by 3 percent per year every year for the next 30 years. In addition, add two special assessments of $250,000 in years 6 and 23 (2017 and 2034). Based on our assumptions, this alternative will also maintain a positive balance for approximately 25 years.

Please note that the reserve fund study does not include typical annual maintenance items. Our assumption is that you already have an annual operating budget that provides for these typical, repetitive items. This includes miscellaneous repairs, lawn and grounds maintenance, routine minor painting, etc. We have focused on those significant, non-annual items where careful financial planning is important.

Finally, please note that the estimates we have developed are based on 2012 dollars. Our reserve fund study does adjust for an estimated annual inflation and a given return on investment assuming that the indicated fund balances are maintained.

Reserve Study Worksheet

CRITERIUM ENGINEERS

General Information:

1 Organization: **Club Ocean Villas I Condominium Association**

2 Address: **108 120th Street**
Ocean City, MD 21842

3	Number of Units	80
4	Age of Building (in years)	29
5a	Study Period (in years)	30
5b	Normal Fiscal Year starts:	January 1, 2012
5c	Partial Fiscal Year starts:	January 1, 2012
5d	Partial Year Length:	12 months
6	Site Inspection Date	January 23, 2012
7	Reserve Funds at start	$70,000
8	Rate of Return on invested Reserve Funds (%)	2.5%
9	Inflation Rate (%)	3.0%

10 Current Funding Levels

Existing Funding Levels

	Total/Month	Total Annual	Per Unit/Month	Per Unit/Year
Reserve Fund Contribution	$3,333	$40,000	$41.67	$500.00

	Years Out	Total Annual	Per Unit
Planned Special Assessment	0	$0	$0
Balance Computed	($1,289,496)		

11 Alternative Reserve Fund Contribution

Alternative 1 Raise by 100% (Double) and Maintain at That Level for 30 Years

	Total/Month	Total Annual	Per Unit/Month	Per Unit/Year
Monthly Amount, (First Year)	$3,333	$40,000	$41.67	$500.00
Monthly Amount, (Last Year)	$6,667	$80,000	$83.33	$1,000.00
Balance Required Final Year	$85,727			

Special Assessments:	Years Out	Total/Year	Per Unit
First Assessment	0	$0	$0
Second Assessment	0	$0	$0
Balance Computed	$65,357		

Alternative 2 Raise by 20% per Year for 4 Years and Maintain at That Level

	Total/Month	Total Annual	Per Unit/Month	Per Unit/Year
Monthly Amount, (First Year)	$3,333	$40,000	$41.67	$500.00
Monthly Amount, (Last Year)	$6,912	$82,944	$86.40	$1,036.80
Balance Required Final Year	$85,727			
Base Escalation %	20.00%			

Special Assessments:	Years Out	Total/Year	Per Unit
First Assessment	0	$0	$0
Second Assessment	0	$0	$0
Balance Computed	$44,125		

Alternative 3 Raise by 3% Every Year for 30 Years Plus Two Large Special Assessments

	Total/Month	Total Annual	Per Unit/Month	Per Unit/Year
Monthly Amount, (First Year)	$3,333	$40,000	$41.67	$500.00
Monthly Amount, (Last Year)	$7,855	$94,263	$98.19	$1,178.28
Balance Required Final Year	$85,727			
Base Escalation %	3.00%			

Special Assessments:	Years Out		Total/Year	Per Unit
First Assessment	6	Jan 2017	$250,000	$3,125
Second Assessment	23	Jan 2034	$250,000	$3,125
Balance Computed	$23,145			

CRITERIUM ENGINEERS

Itemized Worksheet

Capital Item To Be Replaced	Quantity		Unit cost	Reserve Requirement (*)	Beginning Balance	Frequency (yrs**)	Remaining Life (yrs)	Reserve Funding Required Monthly	Reserve Funding Required Annual	Full Funding Balance
Site										
Asphalt Pavements - Resurface	7,800	SY	$14.00	$109,200.00	$12,573.61	20	2	$4,026.10	$48,313.19	$98,280.00
Asphalt - Periodic Crack Repair and Seal Coating	7,800	SY	$1.80	$14,040.00	($718.49)	5	7	$175.70	$2,108.36	($5,616.00)
Concrete Flatwork - Periodic Replacements (@7%)	1,680	SF	$8.00	$13,440.00	$343.89	5	4	$272.84	$3,274.03	$2,688.00
Perimeter Landscape Timbers - Replace	2,500	FT	$4.00	$10,000.00	$639.68	20	10	$78.00	$936.03	$5,000.00
Brick Monuments - Repair / Wood Signs - Replace	1	LS	$2,000.00	$2,000.00	$255.87	30	0	$0.00	$0.00	$2,000.00
Metal Chain-Link Fence (West Side) - Replace	560	SF	$30.00	$16,800.00	$1,612.00	40	10	$126.57	$1,518.80	$12,600.00
Wood Board Fence (East Side) - Replace	500	LS	$25.00	$12,500.00	$639.68	25	15	$65.89	$790.69	$5,000.00
Exterior Pole Lights - Replace	30	EA	$600.00	$18,000.00	$1,842.29	35	7	$192.35	$2,308.24	$14,400.00
Trash Dumpsters - Replace	3	EA	$1,500.00	$4,500.00	$414.51	25	7	$48.64	$583.64	$3,240.00
Building Exterior										
Wood Board Siding - Replace	48,000	SF	$4.50	$216,000.00	$16,027.90	50	21	$793.54	$9,522.48	$125,280.00
Wood Board Siding - Periodic Painting	48,000	SF	$1.00	$48,000.00	$1,754.56	7	5	$770.76	$9,249.09	$13,714.29
Masonry Divider Walls - Re-Parge & Re-Point	24	EA	$1,500.00	$36,000.00	$4,375.43	20	1	$2,635.38	$31,624.57	$34,200.00
Wood Fences (Condos & Pool) - Replace	2,100	FT	$25.00	$52,500.00	$2,686.67	25	15	$276.74	$3,320.89	$21,000.00
Wood Fences (Condos & Pool) - Periodic Staining	25,200	SF	$0.50	$12,600.00	$460.57	7	5	$202.32	$2,427.89	$3,600.00
Window Wells, Access Doors and Vents - Replace	40	Unit	$800.00	$32,000.00	$2,046.99	20	10	$249.61	$2,995.30	$16,000.00
Roof Surfaces - Replace	770	SQ	$250.00	$192,500.00	$17,239.46	20	6	$2,434.17	$29,210.09	$134,750.00
Aluminum Gutters and Downspouts - Replace	2,000	FT	$10.00	$20,000.00	$1,919.05	40	10	$150.67	$1,808.10	$15,000.00
Building Interior										
Mechanical										
Amenities										
Swimming Pool - White Coat	1,500	SF	$5.00	$7,500.00	$274.15	7	5	$120.43	$1,445.17	$2,142.86
Pool Tile, Coping, Ladders - Replace	1	LS	$10,000.00	$10,000.00	$213.23	12	10	$81.56	$978.68	$1,666.67
Pool Pump and Sand Filter - Replace	1	LS	$5,000.00	$5,000.00	$319.84	10	5	$78.00	$936.03	$2,500.00
Pool Building and Pavillion - Renovate / Replace	1	LS	$10,000.00	$10,000.00	$319.84	20	15	$53.78	$645.34	$2,500.00
Pool Furniture - Replace	1	LS	$3,000.00	$3,000.00	$76.76	5	4	$60.90	$730.81	$600.00
Sport Court - Current Repairs	1	LS	$3,000.00	$3,000.00	$383.81	20	0	$0.00	$0.00	$3,000.00
Bulkhead - Replace Second Half	120	FT	$350.00	$42,000.00	$4,298.67	35	7	$448.83	$5,385.90	$33,600.00
Other										
			Totals	$890,580.00	$70,000.00			$13,342.78	$160,113.31	$547,145.81
			Total Over Term	$1,593,940.00						

* Costs are typically 10%±

** Reserve study is based on a 30 year projection of non-annual maintenance

Annual Expense By Year

Year:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Year Number:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Site																
Asphalt Pavements - Resurface	0	0	109,200	0	0	0	0	0	0	0	0	0	0	0	0	0
Asphalt - Periodic Crack Repair and Seal Coating	0	0	0	0	0	0	0	14,040	0	0	0	0	14,040	0	0	0
Concrete Flatwork - Periodic Replacements (@7%)	0	0	0	0	13,440	0	0	0	0	13,440	0	0	0	0	13,440	0
Perimeter Landscape Timbers - Replace	0	0	0	0	0	0	0	0	0	0	10,000	0	0	0	0	0
Brick Monuments - Repair / Wood Signs - Replace	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Metal Chain-Link Fence (West Side) - Replace	0	0	0	0	0	0	0	0	0	0	16,800	0	0	0	0	0
Wood Board Fence (East Side) - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12,500
Exterior Pole Lights - Replace	0	0	0	0	0	0	0	18,000	0	0	0	0	0	0	0	0
Trash Dumpsters - Replace	0	0	0	0	0	0	0	4,500	0	0	0	0	0	0	0	0
Building Exterior																
Wood Board Siding - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wood Board Siding - Periodic Painting	0	0	0	0	0	48,000	0	0	0	0	0	0	48,000	0	0	0
Masonry Divider Walls - Re-Parge & Re-Point	0	36,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wood Fences (Condos & Pool) - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	52,500
Wood Fences (Condos & Pool) - Periodic Staining	0	0	0	0	0	12,600	0	0	0	0	0	0	12,600	0	0	0
Window Wells, Access Doors and Vents - Replace	0	0	0	0	0	0	0	0	0	0	32,000	0	0	0	0	0
Roof Surfaces - Replace	0	0	0	0	0	0	192,500	0	0	0	0	0	0	0	0	0
Aluminum Gutters and Downspouts - Replace	0	0	0	0	0	0	0	0	0	0	20,000	0	0	0	0	0
Building Interior																
Mechanical																
Amenities																
Swimming Pool - White Coat	0	0	0	0	0	7,500	0	0	0	0	0	0	7,500	0	0	0
Pool Tile, Coping, Ladders - Replace	0	0	0	0	0	0	0	0	0	0	10,000	0	0	0	0	0
Pool Pump and Sand Filter - Replace	0	0	0	0	0	5,000	0	0	0	0	0	0	0	0	0	5,000
Pool Building and Pavillion - Renovate / Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,000
Pool Furniture - Replace	0	0	0	0	3,000	0	0	0	0	3,000	0	0	0	0	3,000	0
Sport Court - Current Repairs	3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bulkhead - Replace Second Half	0	0	0	0	0	0	0	42,000	0	0	0	0	0	0	0	0
Other																
Total Costs	5,000	36,000	109,200	0	16,440	73,100	192,500	78,540	0	16,440	88,800	0	82,140	0	16,440	80,000
Total Costs Adjusted For 3% Inflation	5,000	37,080	115,850	0	18,503	84,743	229,855	96,594	0	21,450	119,340	0	117,112	0	24,867	124,637

Annual Expense By Year

Year:	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Year Number:	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Site														
Asphalt Pavements - Resurface	0	0	0	0	0	0	109,200	0	0	0	0	0	0	0
Asphalt - Periodic Crack Repair and Seal Coating	0	14,040	0	0	0	0	14,040	0	0	0	0	14,040	0	0
Concrete Flatwork - Periodic Replacements (@7%)	0	0	0	13,440	0	0	0	0	13,440	0	0	0	0	13,440
Perimeter Landscape Timbers - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Brick Monuments - Repair / Wood Signs - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Metal Chain-Link Fence (West Side) - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wood Board Fence (East Side) - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exterior Pole Lights - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trash Dumpsters - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Building Exterior														
Wood Board Siding - Replace	0	0	0	0	0	216,000	0	0	0	0	0	0	0	0
Wood Board Siding - Periodic Painting	0	0	0	48,000	0	0	0	0	0	0	48,000	0	0	0
Masonry Divider Walls - Re-Parge & Re-Point	0	0	0	0	0	36,000	0	0	0	0	0	0	0	0
Wood Fences (Condos & Pool) - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wood Fences (Condos & Pool) - Periodic Staining	0	0	0	12,600	0	0	0	0	0	0	12,600	0	0	0
Window Wells, Access Doors and Vents - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Roof Surfaces - Replace	0	0	0	0	0	0	0	0	0	0	192,500	0	0	0
Aluminum Gutters and Downspouts - Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Building Interior														
Mechanical														
Amenities														
Swimming Pool - White Coat	0	0	0	7,500	0	0	0	0	0	0	7,500	0	0	0
Pool Tile, Coping, Ladders - Replace	0	0	0	0	0	0	10,000	0	0	0	0	0	0	0
Pool Pump and Sand Filter - Replace	0	0	0	0	0	0	0	0	0	5,000	0	0	0	0
Pool Building and Pavillion - Renovate / Replace	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pool Furniture - Replace	0	0	0	3,000	0	0	0	0	3,000	0	0	0	0	3,000
Sport Court - Current Repairs	0	0	0	0	3,000	0	0	0	0	0	0	0	0	0
Bulkhead - Replace Second Half	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other														
Total Costs	0	14,040	0	84,540	3,000	252,000	133,240	0	16,440	5,000	260,600	14,040	0	16,440
Total Costs Adjusted For 3% Inflation	0	23,206	0	148,241	5,418	468,794	255,302	0	33,419	10,469	562,008	31,187	0	38,742

Existing Funding Levels

CRITERIUM ENGINEERS

Year	Year Number	Beginning Reserve Fund Balance	Fee Revenue	Special Assessments	Investment Earnings	Capital Expenditures	Ending Balance
2012	1	$70,000	$40,000	$0	$2,625	$5,000	$107,625
2013	2	$107,625	$40,000	$0	$2,764	$37,080	$113,309
2014	3	$113,309	$40,000	$0	$936	$115,850	$38,395
2015	4	$38,395	$40,000	$0	$1,960	$0	$80,355
2016	5	$80,355	$40,000	$0	$2,546	$18,503	$104,398
2017	6	$104,398	$40,000	$0	$1,491	$84,743	$61,146
2018	7	$61,146	$40,000	$0	$0	$229,855	($128,709)
2019	8	($128,709)	$40,000	$0	$0	$96,594	($185,303)
2020	9	($185,303)	$40,000	$0	$0	$0	($145,303)
2021	10	($145,303)	$40,000	$0	$0	$21,450	($126,754)
2022	11	($126,754)	$40,000	$0	$0	$119,340	($206,094)
2023	12	($206,094)	$40,000	$0	$0	$0	($166,094)
2024	13	($166,094)	$40,000	$0	$0	$117,112	($243,206)
2025	14	($243,206)	$40,000	$0	$0	$0	($203,206)
2026	15	($203,206)	$40,000	$0	$0	$24,867	($188,073)
2027	16	($188,073)	$40,000	$0	$0	$124,637	($272,710)
2028	17	($272,710)	$40,000	$0	$0	$0	($232,710)
2029	18	($232,710)	$40,000	$0	$0	$23,206	($215,916)
2030	19	($215,916)	$40,000	$0	$0	$0	($175,916)
2031	20	($175,916)	$40,000	$0	$0	$148,241	($284,157)
2032	21	($284,157)	$40,000	$0	$0	$5,418	($249,576)
2033	22	($249,576)	$40,000	$0	$0	$468,794	($678,370)
2034	23	($678,370)	$40,000	$0	$0	$255,302	($893,672)
2035	24	($893,672)	$40,000	$0	$0	$0	($853,672)
2036	25	($853,672)	$40,000	$0	$0	$33,419	($847,091)
2037	26	($847,091)	$40,000	$0	$0	$10,469	($817,560)
2038	27	($817,560)	$40,000	$0	$0	$562,008	($1,339,567)
2039	28	($1,339,567)	$40,000	$0	$0	$31,187	($1,330,754)
2040	29	($1,330,754)	$40,000	$0	$0	$0	($1,290,754)
2041	30	($1,290,754)	$40,000	$0	$0	$38,742	($1,289,496)

CRITERIUM ENGINEERS

Existing Funding Levels

Beginning Balance as of start of year beginning Jan 2012: $70,000

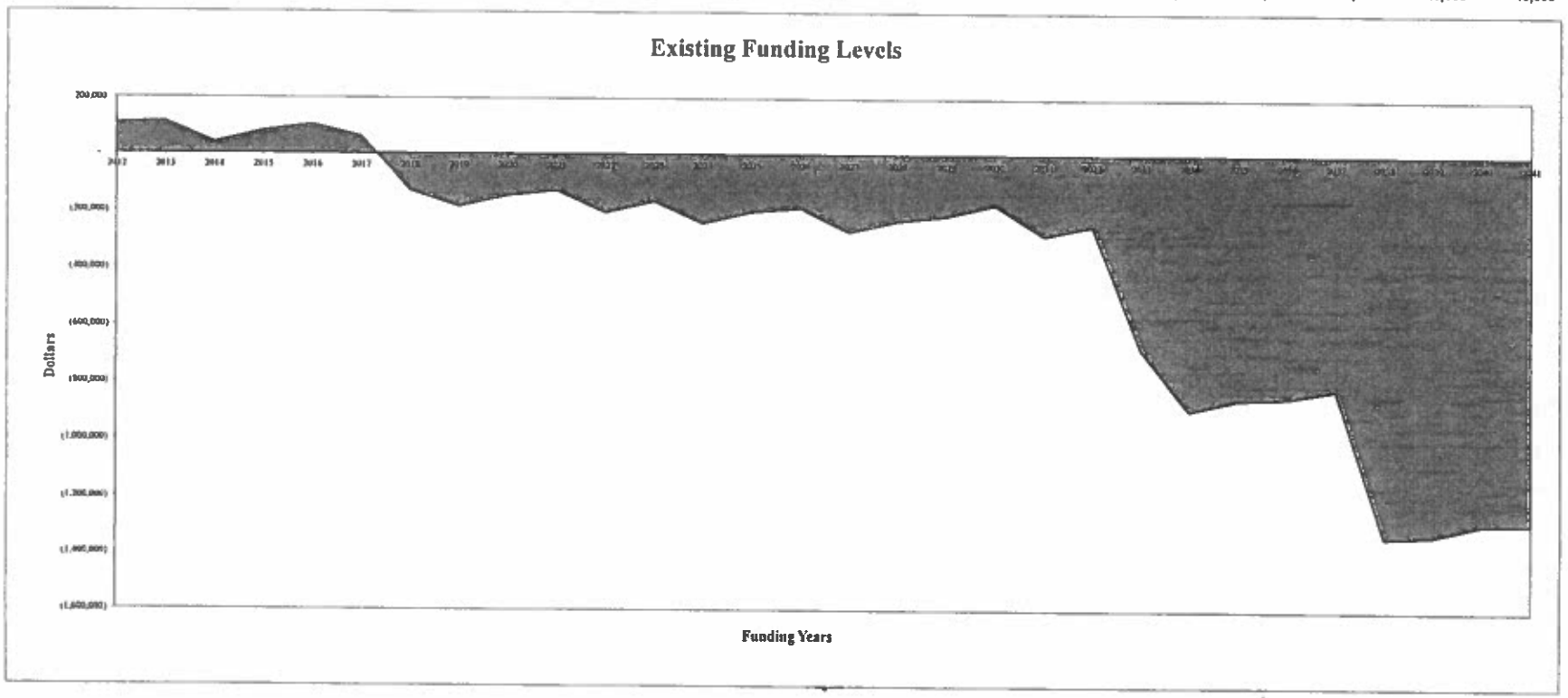
CONTRIBUTIONS	
AMOUNT	
$40,000.00	per year
$500.00	per unit per year
$3,333.33	per month
$41.67	per unit per month

SPECIAL ASSESSMENTS			
Totals			
Per Year	$0	Per Unit	$0

Projected Annual Funding and Expenditures:

Year:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Year Number:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
End of Year Reserve Fund Balance	107,625	113,309	38,395	80,355	104,398	61,146	(128,709)	(185,303)	(145,303)	(126,754)	(206,094)	(166,094)	(243,206)	(203,206)	(188,073)
Capital Expenditures:	5,000	37,080	115,850	-	18,503	84,743	229,855	96,594	-	21,450	119,340	-	117,112	-	24,867
Total Revenue (all sources)	42,625	42,764	40,936	41,960	42,546	41,491	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000

Year:	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Year Number:	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
End of Year Reserve Fund Balance	(272,710)	(232,710)	(215,916)	(175,916)	(284,157)	(249,576)	(678,370)	(893,672)	(853,672)	(847,091)	(817,560)	(1,339,567)	(1,330,754)	(1,290,754)	(1,289,496)
Capital Expenditures:	124,637	-	23,206	-	148,241	5,418	468,794	255,302	-	33,419	10,469	562,008	31,187	-	38,742
Total Revenue (all sources)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000



Alternative 1: Raise by 100% (Double) and Maintain at That Level for 30 Years

Year	Year Number	Beginning Reserve Fund Balance	Fee Revenue	Special Assessments 1	Special Assessments 2	Investment Earnings	Capital Expenditures	Ending Balance
2012	1	$70,000	$40,000	$0	$0	$2,625	$5,000	$107,625
2013	2	$107,625	$80,000	$0	$0	$3,764	$37,080	$154,308
2014	3	$154,308	$80,000	$0	$0	$2,961	$115,850	$121,420
2015	4	$121,420	$80,000	$0	$0	$5,035	$0	$206,455
2016	5	$206,455	$80,000	$0	$0	$6,699	$18,503	$274,650
2017	6	$274,650	$80,000	$0	$0	$6,748	$84,743	$276,655
2018	7	$276,655	$80,000	$0	$0	$3,170	$229,855	$129,970
2019	8	$129,970	$80,000	$0	$0	$2,834	$96,594	$116,210
2020	9	$116,210	$80,000	$0	$0	$4,905	$0	$201,115
2021	10	$201,115	$80,000	$0	$0	$6,492	$21,450	$266,156
2022	11	$266,156	$80,000	$0	$0	$5,670	$119,340	$232,487
2023	12	$232,487	$80,000	$0	$0	$7,812	$0	$320,299
2024	13	$320,299	$80,000	$0	$0	$7,080	$117,112	$290,266
2025	14	$290,266	$80,000	$0	$0	$9,257	$0	$379,523
2026	15	$379,523	$80,000	$0	$0	$10,866	$24,867	$445,522
2027	16	$445,522	$80,000	$0	$0	$10,022	$124,637	$410,907
2028	17	$410,907	$80,000	$0	$0	$12,273	$0	$503,180
2029	18	$503,180	$80,000	$0	$0	$13,999	$23,206	$573,973
2030	19	$573,973	$80,000	$0	$0	$16,349	$0	$670,322
2031	20	$670,322	$80,000	$0	$0	$15,052	$148,241	$617,133
2032	21	$617,133	$80,000	$0	$0	$17,293	$5,418	$709,007
2033	22	$709,007	$80,000	$0	$0	$8,005	$468,794	$328,218
2034	23	$328,218	$80,000	$0	$0	$3,823	$255,302	$156,739
2035	24	$156,739	$80,000	$0	$0	$5,918	$0	$242,658
2036	25	$242,658	$80,000	$0	$0	$7,231	$33,419	$296,470
2037	26	$296,470	$80,000	$0	$0	$9,150	$10,469	$375,151
2038	27	$375,151	$80,000	$0	$0	$0	$562,008	($106,857)
2039	28	($106,857)	$80,000	$0	$0	$0	$31,187	($58,044)
2040	29	($58,044)	$80,000	$0	$0	$549	$0	$22,505
2041	30	$22,505	$80,000	$0	$0	$1,594	$38,742	$65,357

Alternative 1: Raise by 100% (Double) and Maintain at That Level for 30 Years

Beginning Balance as of start of year beginning Jan 2012: $70,000

CONTRIBUTIONS		
FIRST YR	LAST YR	
$39,999.94	$79,999.93	per year
$500.00	$1,000.00	per unit per year
$3,333.33	$6,666.66	per month
$41.67	$83.33	per unit per month

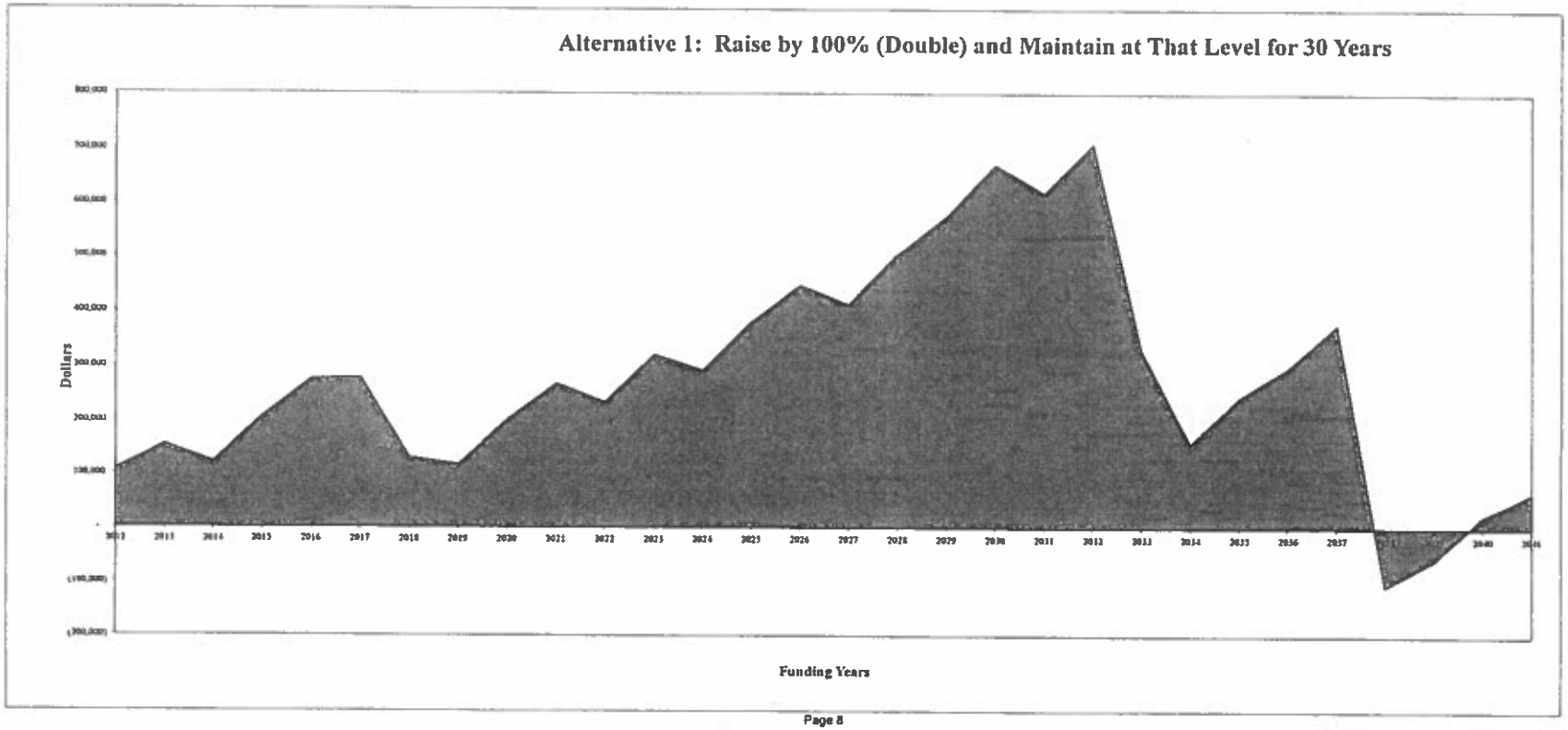
SPECIAL ASSESSMENTS					
		Totals			
First	Per Year	$0	Per Unit	$0	
Second	Per Year	$0	Per Unit	$0	

SETTINGS (analyzed by unit/month)		
Starting amount ($):	41.6666	
Increment by ($):	41.66666	
Every	1	year
Frequency:	1	time

Projected Annual Funding and Expenditures:

Year:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Year Number:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
End of Year Reserve Fund Balance	107,625	154,308	121,420	206,455	274,650	276,655	129,970	116,210	201,115	266,156	232,487	320,299	290,266	379,523	445,522
Capital Expenditures:	5,000	37,080	115,850	-	18,503	84,743	229,855	96,594	-	21,450	119,340	-	117,112	-	24,867
Total Revenue (all sources)	42,625	83,764	82,961	85,035	86,699	86,748	83,170	82,834	84,905	86,492	85,670	87,812	87,080	89,257	90,866

Year:	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Year Number:	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
End of Year Reserve Fund Balance	410,907	503,180	573,973	670,322	617,133	709,007	328,218	156,739	242,658	296,470	375,151	(106,857)	(58,044)	22,505	65,357
Capital Expenditures:	124,637	-	23,206	-	148,241	5,418	468,794	255,302	-	33,419	10,469	562,008	31,187	-	38,742
Total Revenue (all sources)	90,022	92,273	93,999	96,349	95,052	97,293	88,005	83,823	85,918	87,231	89,150	80,000	80,000	80,549	81,594



Alternative 2: Raise by 20% per Year for 4 Years and Maintain at That Level

Year	Year Number	Beginning Reserve Fund Balance	Fee Revenue	Special Assessments 1	Special Assessments 2	Investment Earnings	Capital Expenditures	Ending Balance
2012	1	$70,000	$40,000	$0	$0	$2,625	$5,000	$107,625
2013	2	$107,625	$48,000	$0	$0	$2,964	$37,080	$121,509
2014	3	$121,509	$57,600	$0	$0	$1,581	$115,850	$64,840
2015	4	$64,840	$69,120	$0	$0	$3,349	$0	$137,309
2016	5	$137,309	$82,944	$0	$0	$5,044	$18,503	$206,793
2017	6	$206,793	$82,944	$0	$0	$5,125	$84,743	$210,119
2018	7	$210,119	$82,944	$0	$0	$1,580	$229,855	$64,788
2019	8	$64,788	$82,944	$0	$0	$1,278	$96,594	$52,416
2020	9	$52,416	$82,944	$0	$0	$3,384	$0	$138,744
2021	10	$138,744	$82,944	$0	$0	$5,006	$21,450	$205,244
2022	11	$205,244	$82,944	$0	$0	$4,221	$119,340	$173,069
2023	12	$173,069	$82,944	$0	$0	$6,400	$0	$262,414
2024	13	$262,414	$82,944	$0	$0	$5,706	$117,112	$233,952
2025	14	$233,952	$82,944	$0	$0	$7,922	$0	$324,818
2026	15	$324,818	$82,944	$0	$0	$9,572	$24,867	$392,468
2027	16	$392,468	$82,944	$0	$0	$8,769	$124,637	$359,544
2028	17	$359,544	$82,944	$0	$0	$11,062	$0	$453,550
2029	18	$453,550	$82,944	$0	$0	$12,832	$23,206	$526,120
2030	19	$526,120	$82,944	$0	$0	$15,227	$0	$624,290
2031	20	$624,290	$82,944	$0	$0	$13,975	$148,241	$572,968
2032	21	$572,968	$82,944	$0	$0	$16,262	$5,418	$666,756
2033	22	$666,756	$82,944	$0	$0	$7,023	$468,794	$287,928
2034	23	$287,928	$82,944	$0	$0	$2,889	$255,302	$118,460
2035	24	$118,460	$82,944	$0	$0	$5,035	$0	$206,439
2036	25	$206,439	$82,944	$0	$0	$6,399	$33,419	$262,363
2037	26	$262,363	$82,944	$0	$0	$8,371	$10,469	$343,209
2038	27	$343,209	$82,944	$0	$0	$0	$562,008	($135,855)
2039	28	($135,855)	$82,944	$0	$0	$0	$31,187	($84,097)
2040	29	($84,097)	$82,944	$0	$0	$0	$0	($1,153)
2041	30	($1,153)	$82,944	$0	$0	$1,076	$38,742	$44,125

Alternative 2: Raise by 20% per Year for 4 Years and Maintain at That Level

Beginning Balance as of start of year beginning Jan 2012: $70,000

CONTRIBUTIONS		
FIRST YR	LAST YR	
$40,000.00	$82,944.00	per year
$500.00	$1,036.80	per unit per year
$3,333.33	$6,912.00	per month
$41.67	$86.40	per unit per month

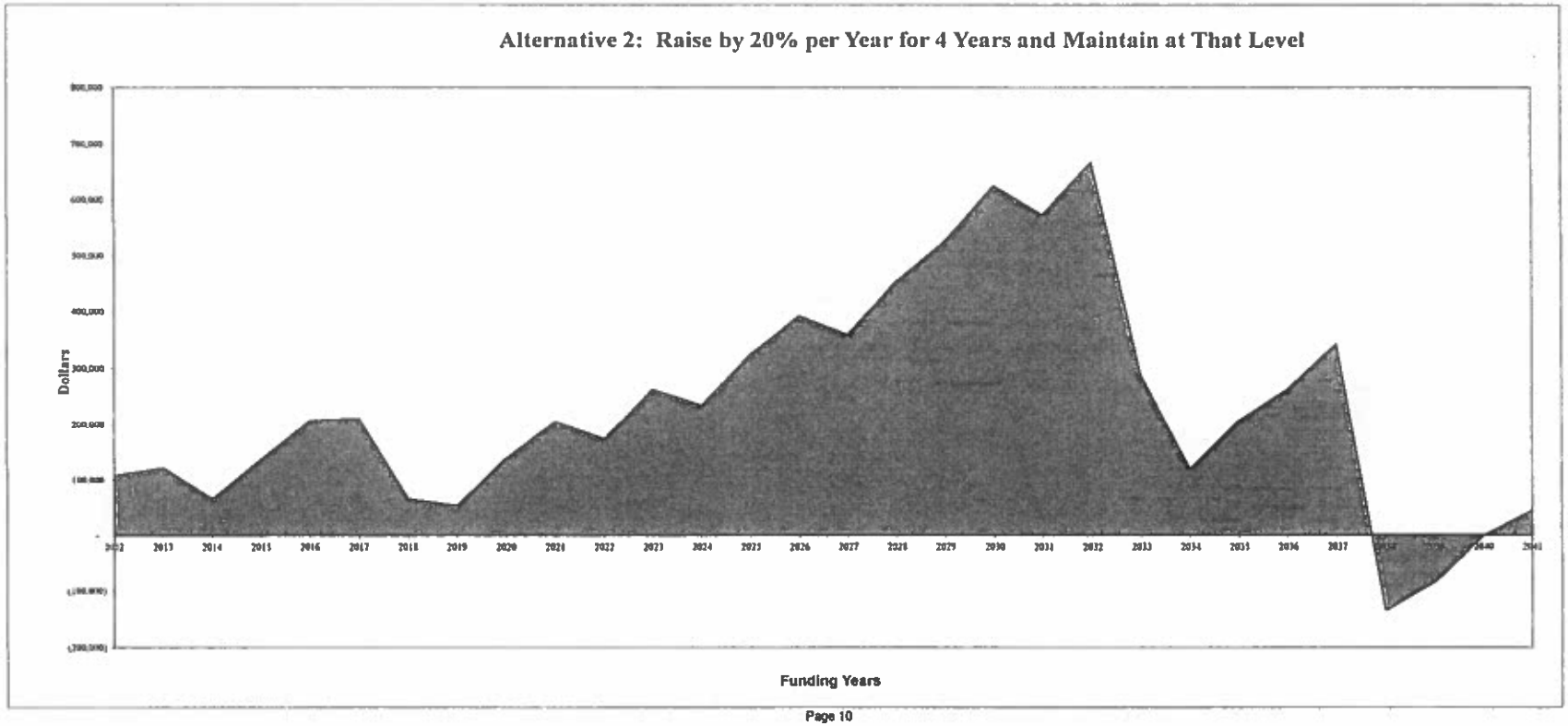
SPECIAL ASSESSMENTS					
	Totals				
First	Per Year	$0	Per Unit	$0	
Second	Per Year	$0	Per Unit	$0	

SETTINGS (analyzed by unit/month)		
Starting amount ($):	41.666666	
Increment by (%):	20	
Step (%):		
Every	1	year
Frequency:	4	time

Projected Annual Funding and Expenditures:

Year:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Year Number:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
End of Year Reserve Fund Balance	107,625	121,509	64,840	137,309	206,793	210,119	64,788	52,416	138,744	205,244	173,069	262,414	233,952	324,818	392,468
Capital Expenditures:	5,000	37,080	115,850	-	18,503	84,743	229,855	96,594	-	21,450	119,340	-	117,112	-	24,867
Total Revenue (all sources)	42,625	50,964	59,181	72,469	87,988	88,069	84,524	84,222	86,328	87,950	87,165	89,344	88,650	90,866	92,516

Year:	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Year Number:	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
End of Year Reserve Fund Balance	359,544	453,550	526,120	624,290	572,968	666,756	287,928	118,460	206,439	262,363	343,209	(135,855)	(84,097)	(1,153)	44,125
Capital Expenditures:	124,637	-	23,206	-	148,241	5,418	468,794	255,302	-	33,419	10,469	562,008	31,187	-	38,742
Total Revenue (all sources)	91,713	94,006	95,776	98,171	96,919	99,206	89,967	85,833	87,979	89,343	91,315	82,944	82,944	82,944	84,020



Alternative 3: Raise by 3% Every Year for 30 Years Plus Two Large Special Assessments

CRITERIUM ENGINEERS

Year	Year Number	Beginning Reserve Fund Balance	Fee Revenue	Special Assessments 1	Special Assessments 2	Investment Earnings	Capital Expenditures	Ending Balance
2012	1	$70,000	$40,000	$0	$0	$2,625	$5,000	$107,625
2013	2	$107,625	$41,200	$0	$0	$2,794	$37,080	$114,539
2014	3	$114,539	$42,436	$0	$0	$1,028	$115,850	$42,152
2015	4	$42,152	$43,709	$0	$0	$2,147	$0	$88,008
2016	5	$88,008	$45,020	$0	$0	$2,863	$18,503	$117,388
2017	6	$117,388	$46,371	$250,000	$0	$8,225	$84,743	$337,242
2018	7	$337,242	$47,762	$0	$0	$3,879	$229,855	$159,027
2019	8	$159,027	$49,195	$0	$0	$2,791	$96,594	$114,419
2020	9	$114,419	$50,671	$0	$0	$4,127	$0	$169,217
2021	10	$169,217	$52,191	$0	$0	$4,999	$21,450	$204,956
2022	11	$204,956	$53,757	$0	$0	$3,484	$119,340	$142,857
2023	12	$142,857	$55,369	$0	$0	$4,956	$0	$203,182
2024	13	$203,182	$57,030	$0	$0	$3,578	$117,112	$146,678
2025	14	$146,678	$58,741	$0	$0	$5,135	$0	$210,555
2026	15	$210,555	$60,504	$0	$0	$6,155	$24,867	$252,346
2027	16	$252,346	$62,319	$0	$0	$4,751	$124,637	$194,778
2028	17	$194,778	$64,188	$0	$0	$6,474	$0	$265,441
2029	18	$265,441	$66,114	$0	$0	$7,709	$23,206	$316,057
2030	19	$316,057	$68,097	$0	$0	$9,604	$0	$393,759
2031	20	$393,759	$70,140	$0	$0	$7,891	$148,241	$323,549
2032	21	$323,549	$72,244	$0	$0	$9,759	$5,418	$400,134
2033	22	$400,134	$74,412	$0	$0	$144	$468,794	$5,896
2034	23	$5,896	$76,644	$0	$250,000	$0	$255,302	$77,238
2035	24	$77,238	$78,943	$0	$0	$3,905	$0	$160,086
2036	25	$160,086	$81,312	$0	$0	$5,199	$33,419	$213,178
2037	26	$213,178	$83,751	$0	$0	$7,162	$10,469	$293,622
2038	27	$293,622	$86,264	$0	$0	$0	$562,008	($182,122)
2039	28	($182,122)	$88,852	$0	$0	$0	$31,187	($124,457)
2040	29	($124,457)	$91,517	$0	$0	$0	$0	($32,940)
2041	30	($32,940)	$94,263	$0	$0	$565	$38,742	$23,145

Alternative 3: Raise by 3% Every Year for 30 Years Plus Two Large Special Assessments

Beginning Balance as of start of year beginning Jan 2012: $70,000

CONTRIBUTIONS		
FIRST YR	LAST YR	
$39,999.99	$94,262.61	per year
$500.00	$1,178.28	per unit per year
$3,333.33	$7,855.22	per month
$41.67	$98.19	per unit per month

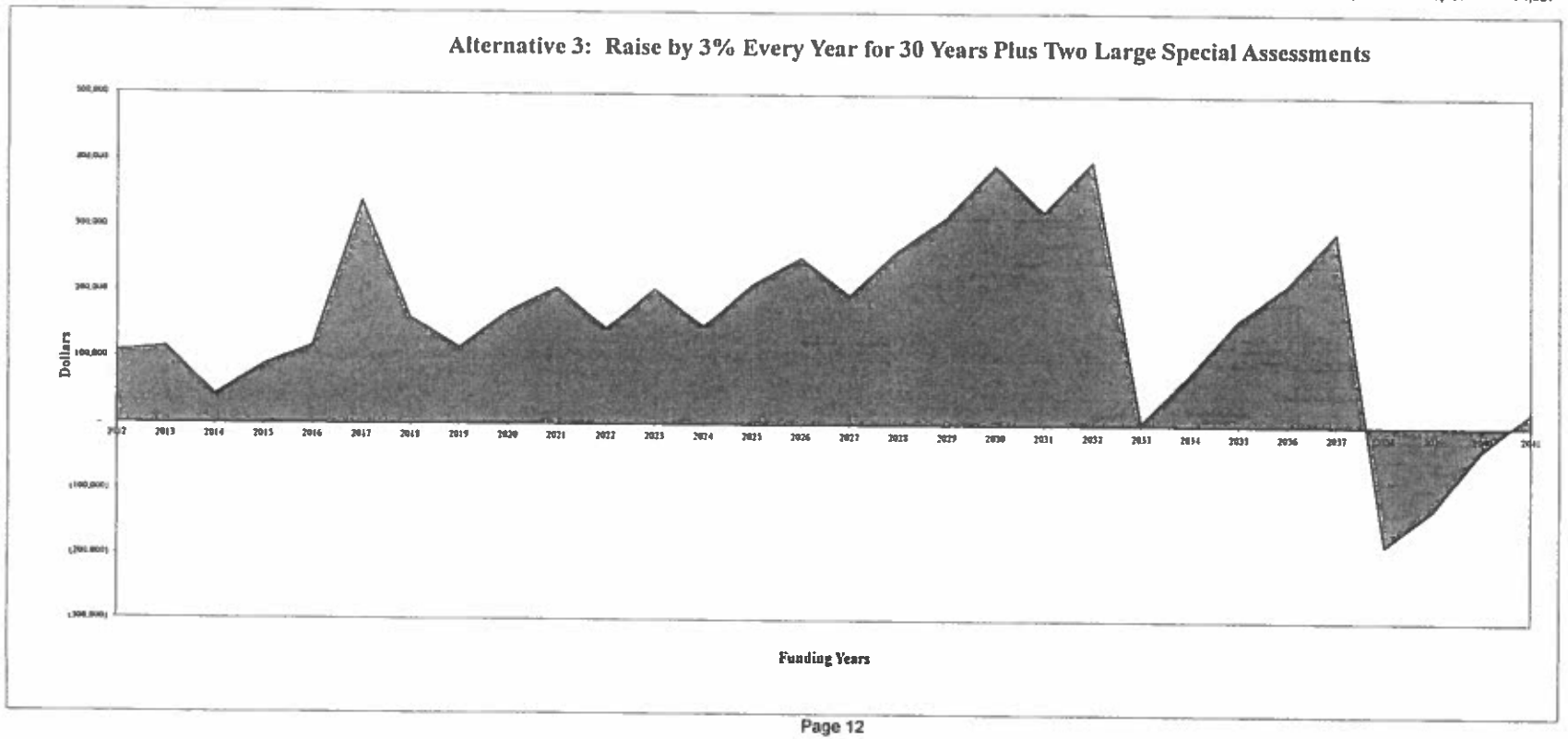
SPECIAL ASSESSMENTS				
	Totals			
First Jan 2017	Per Year	$250,000	Per Unit	$3,125
Second Jan 2034	Per Year	$250,000	Per Unit	$3,125

SETTINGS (analyzed by unit/month)		
Starting amount ($):	41.66666	
Increment by (%):	3	
Step (%):	0	
Every	1	year
Frequency:	29	time

Projected Annual Funding and Expenditures:

Year:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Year Number:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
End of Year Reserve Fund Balance	107,625	114,539	42,152	88,008	117,388	337,242	159,027	114,419	169,217	204,956	142,857	203,182	146,678	210,555	252,346
Capital Expenditures:	5,000	37,080	115,850	-	18,503	84,743	229,855	96,594	-	21,450	119,340	-	117,112	-	24,867
Total Revenue (all sources)	42,625	43,994	43,464	45,856	47,883	304,596	51,641	51,986	54,798	57,190	57,241	60,325	60,608	63,877	66,658

Year:	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Year Number:	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
End of Year Reserve Fund Balance	194,778	265,441	316,057	393,759	323,549	400,134	5,896	77,238	160,086	213,178	293,622	(182,122)	(124,457)	(32,940)	23,145
Capital Expenditures:	124,637	-	23,206	-	148,241	5,418	468,794	255,302	-	33,419	10,469	562,008	31,187	-	38,742
Total Revenue (all sources)	67,069	70,662	73,823	77,701	78,032	82,004	74,556	326,644	82,848	86,511	90,913	86,264	88,852	91,517	94,827



Appendix B: PROJECT PHOTOGRAPHS

Location:
Club Ocean Villas I
Ocean City, Maryland

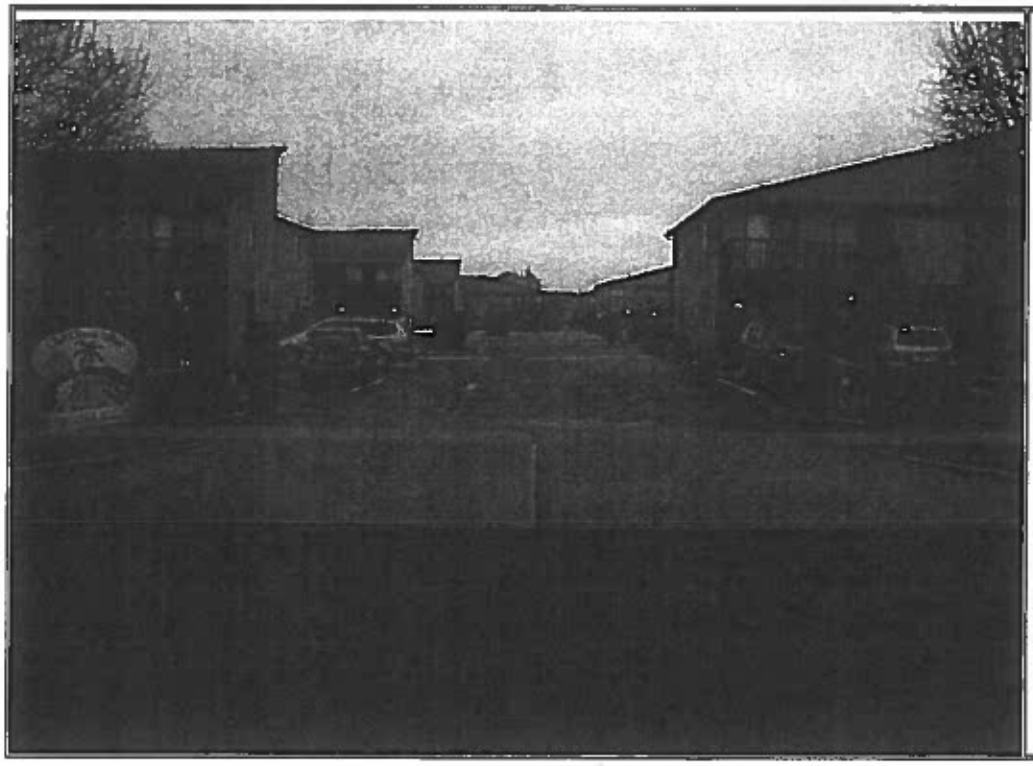
Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

CRITERIUM ENGINEERS

Description:
Brick entrance monument with wood signage

Photo Number
1



Description:
Overview of the community entrance from 120th St.

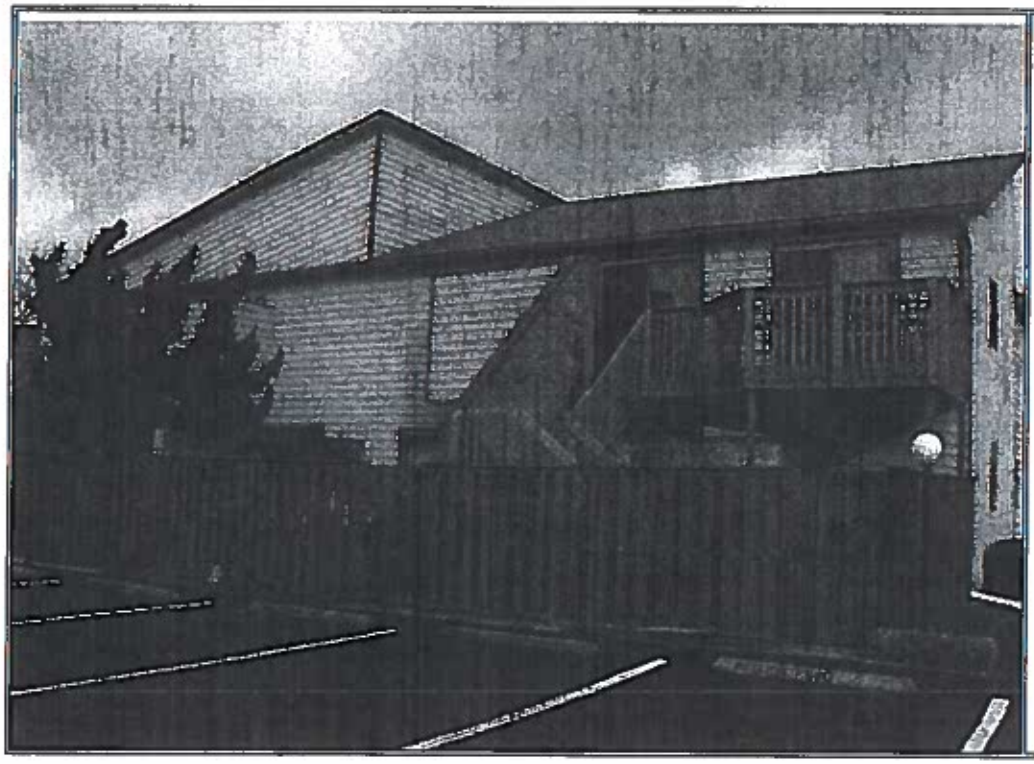
Photo Number
2

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

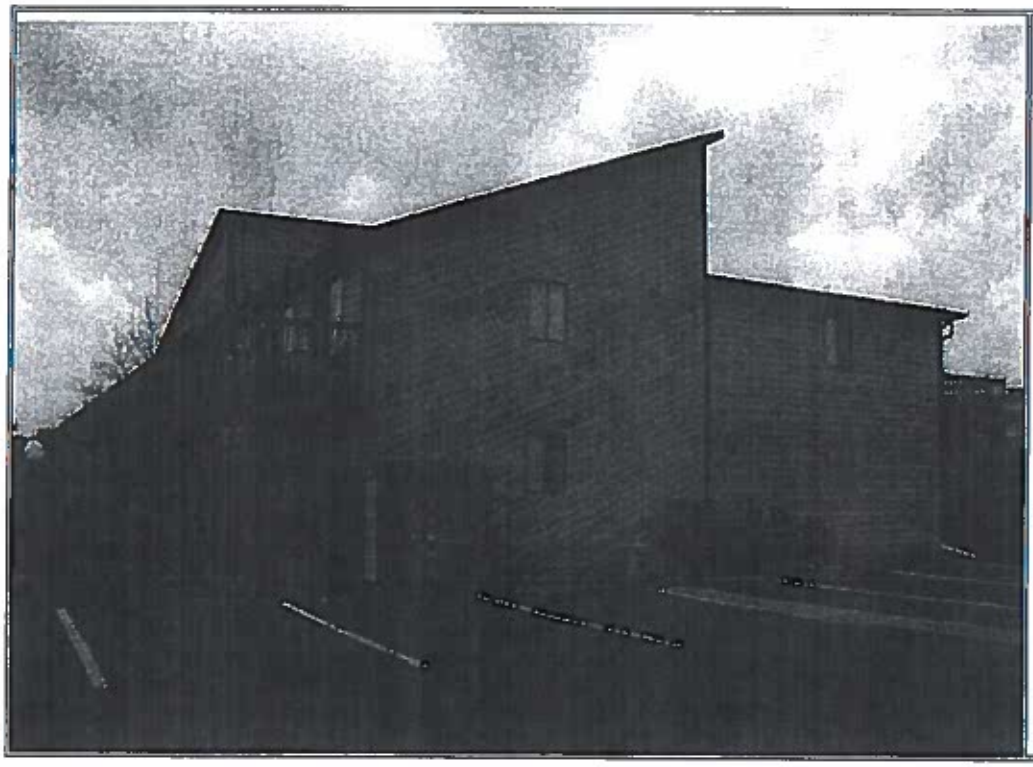
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Front view of a typical 8-unit building

Photo Number
3



Description:
Side view of a typical 8-unit building

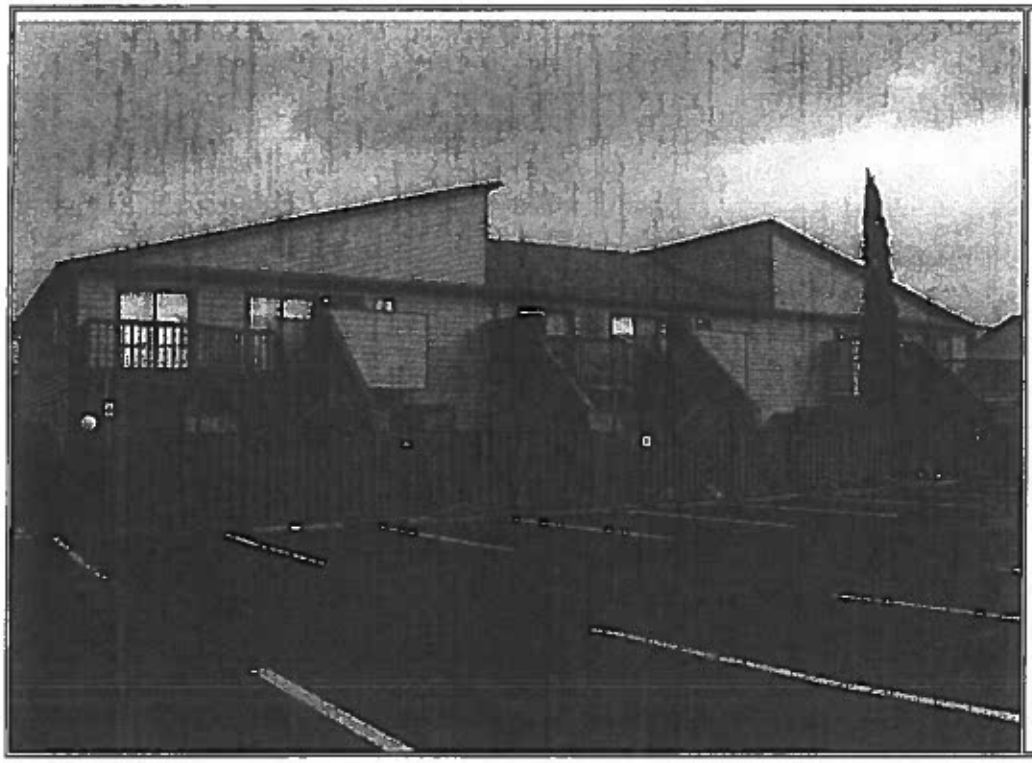
Photo Number
4

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

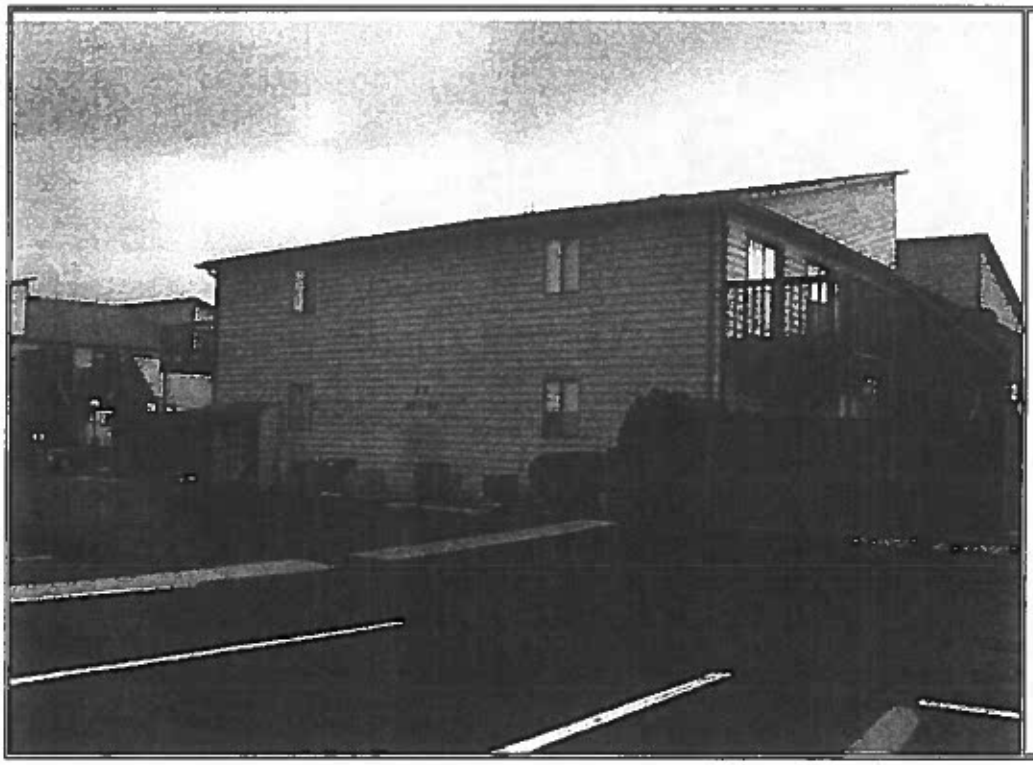
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Front view of a typical 12-unit building

Photo Number
5



Description:
Side view of a typical 12-unit building

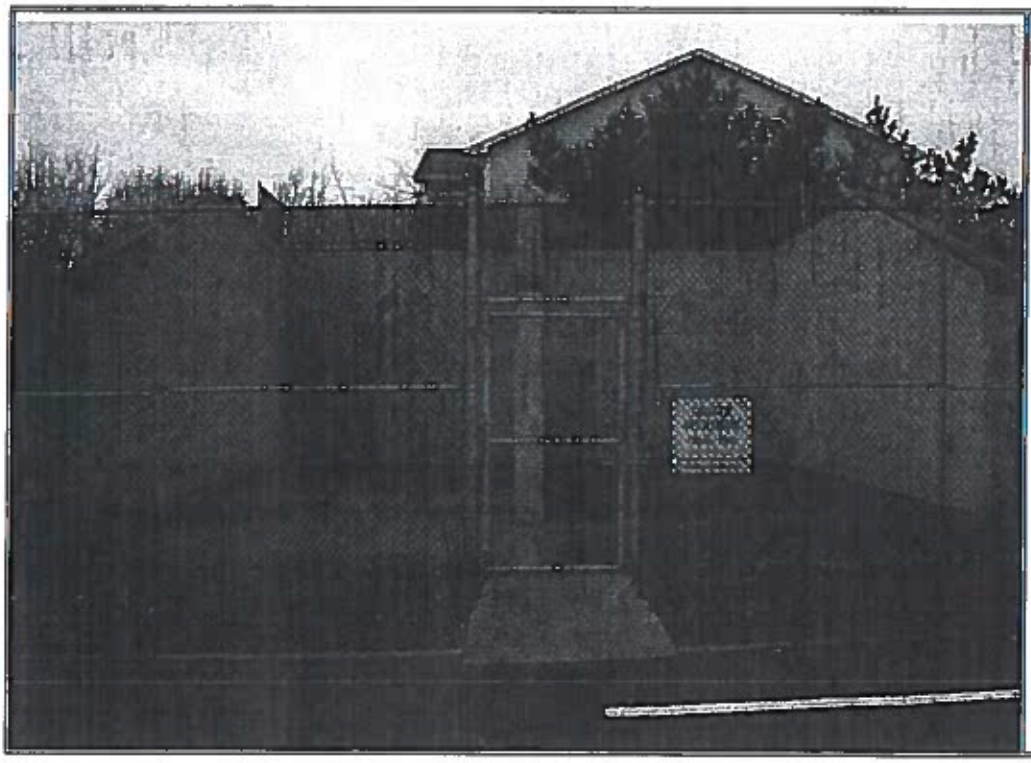
Photo Number
6

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

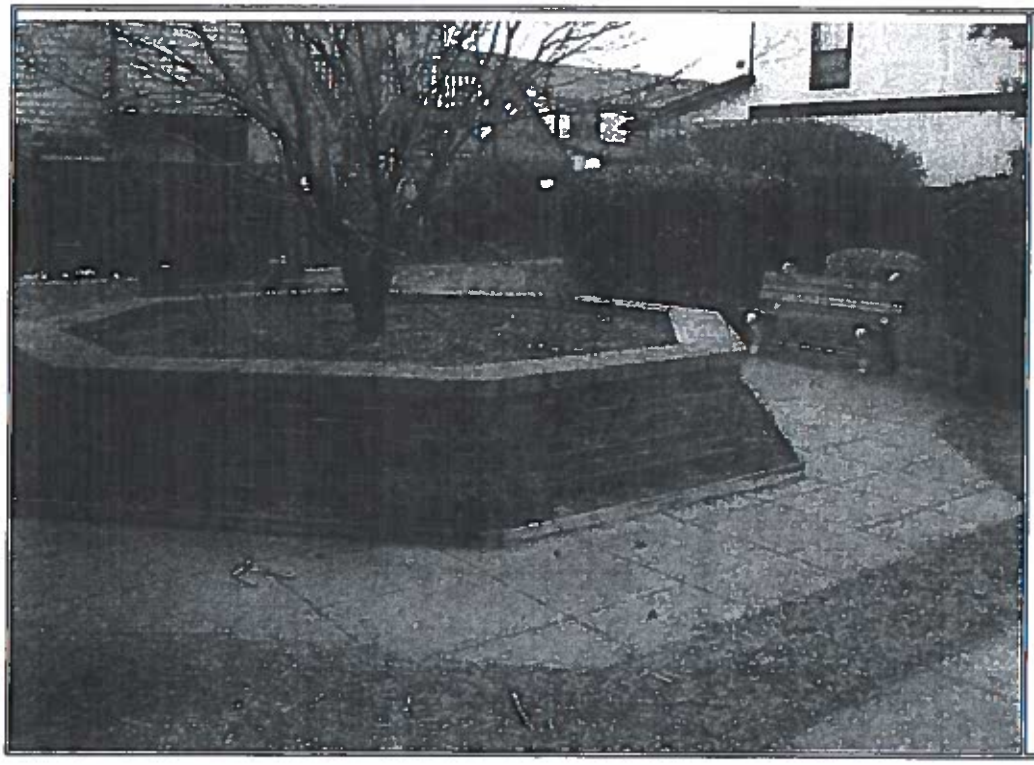
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Two sport courts

Photo Number
7



Description:
Brick planter and benches

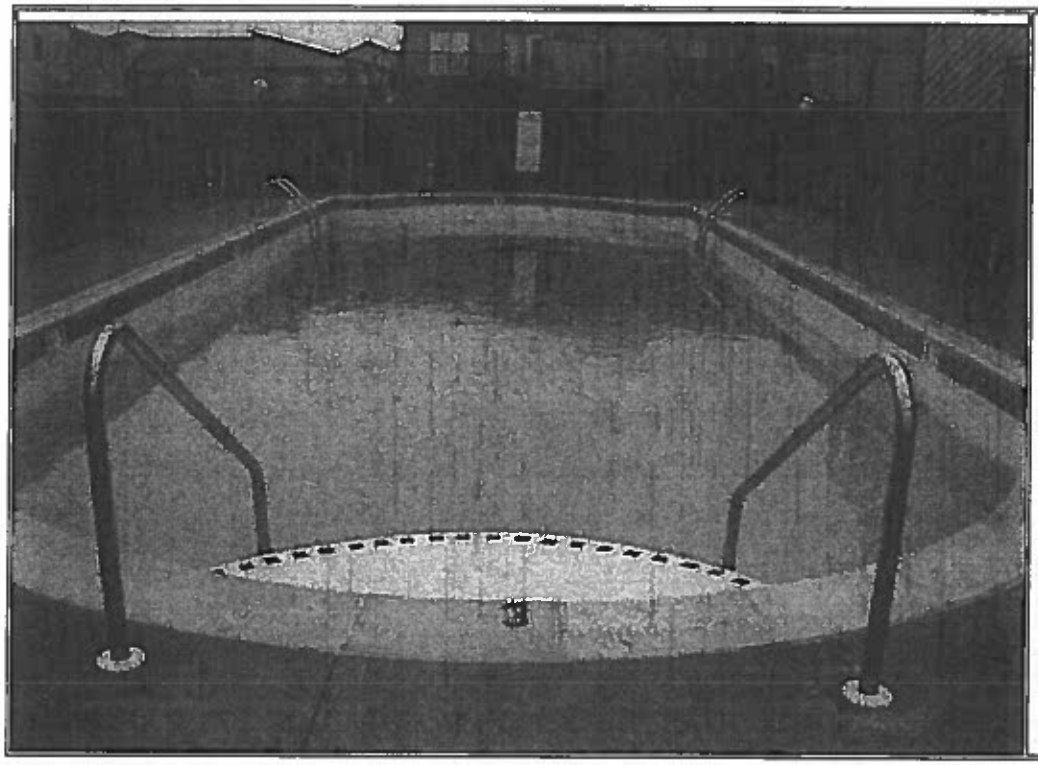
Photo Number
8

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

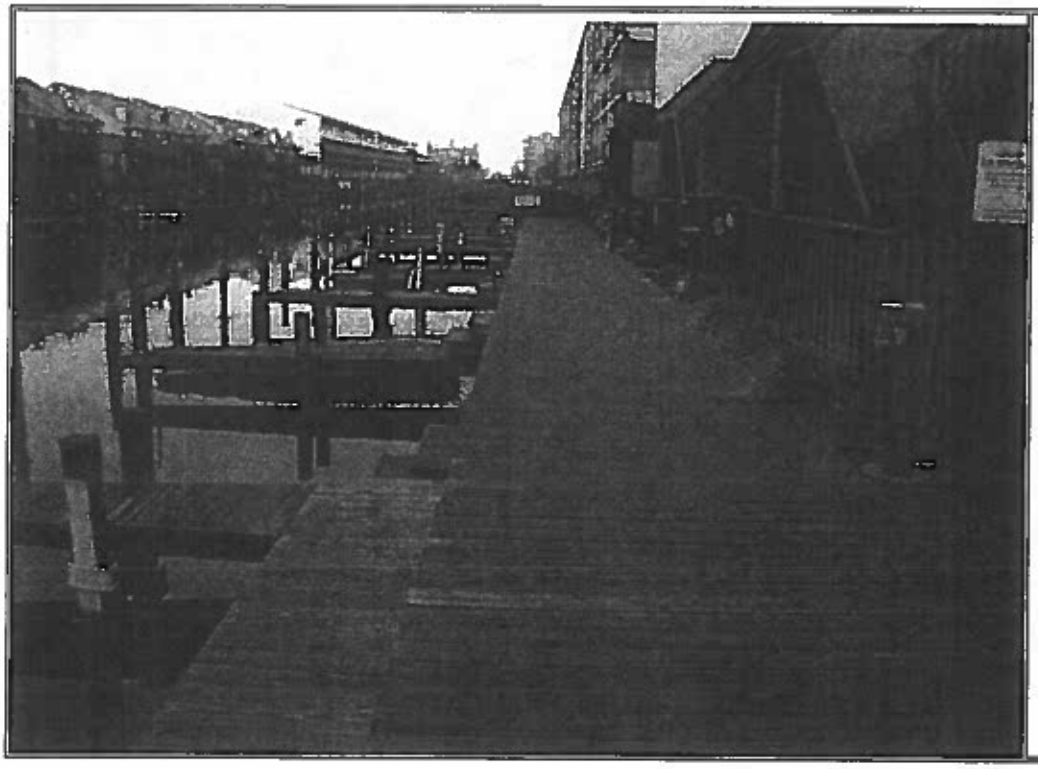
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Swimming pool

Photo Number
9



Description:
Wood boardwalk with 24 boat slips

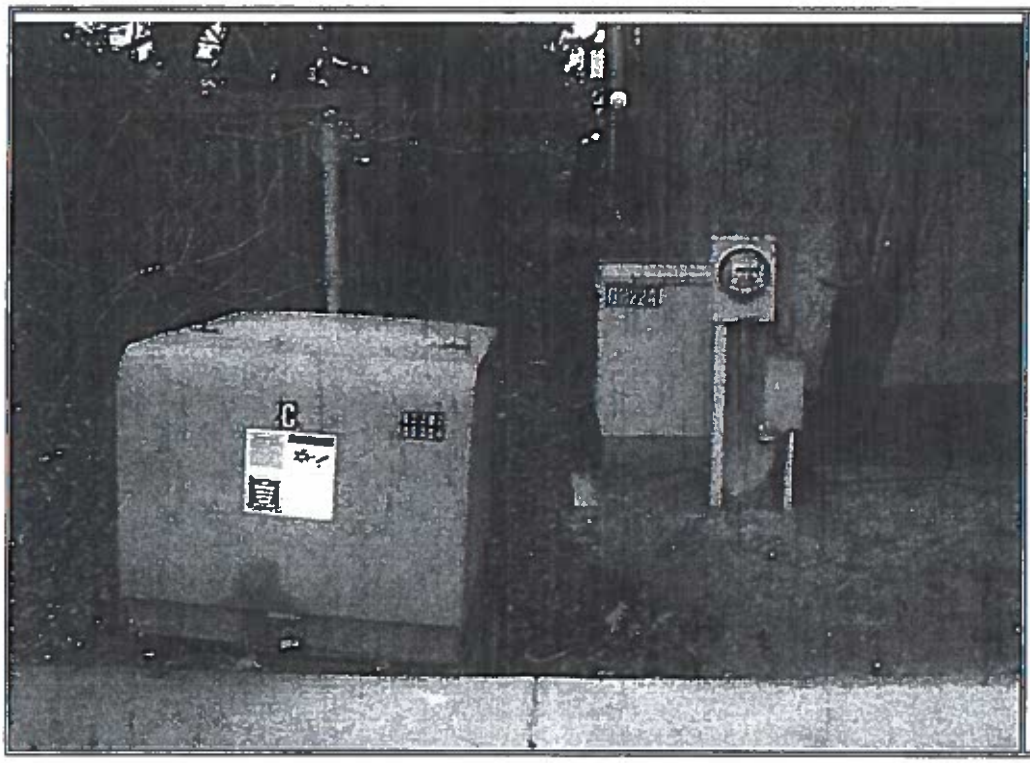
Photo Number
10

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

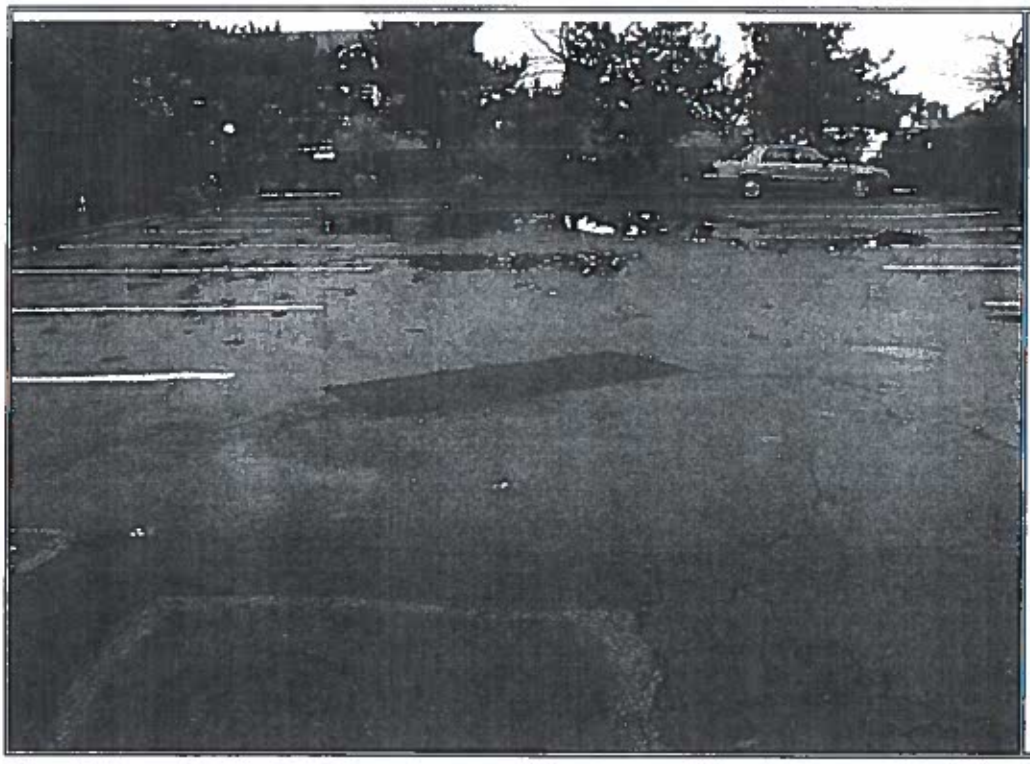
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Area of erosion the southwest corner of the property

Photo Number
11



Description:
Area of ponding due to lack of proper slope in the asphalt pavement

Photo Number
12

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

CRITERIUM ENGINEERS

Description:
Overview of asphalt pavement in the center drive aisle with settlement and patching

Photo Number
13

Description:
Cracking and some ponding near the area drain located at the rear of the site

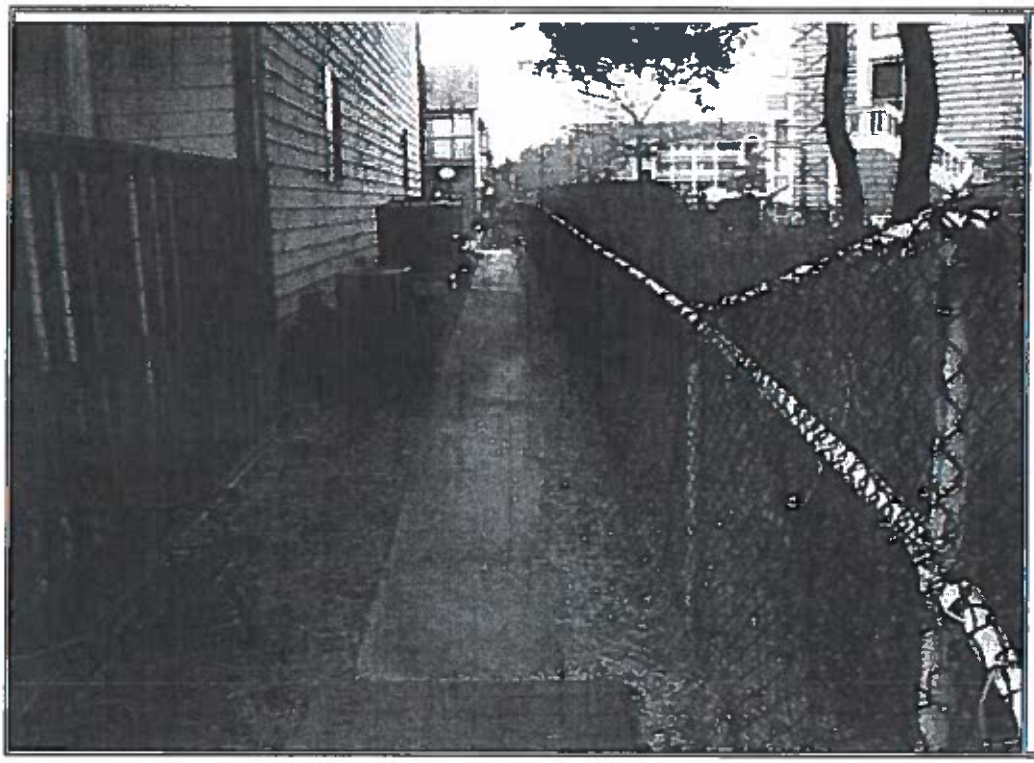
Photo Number
14

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

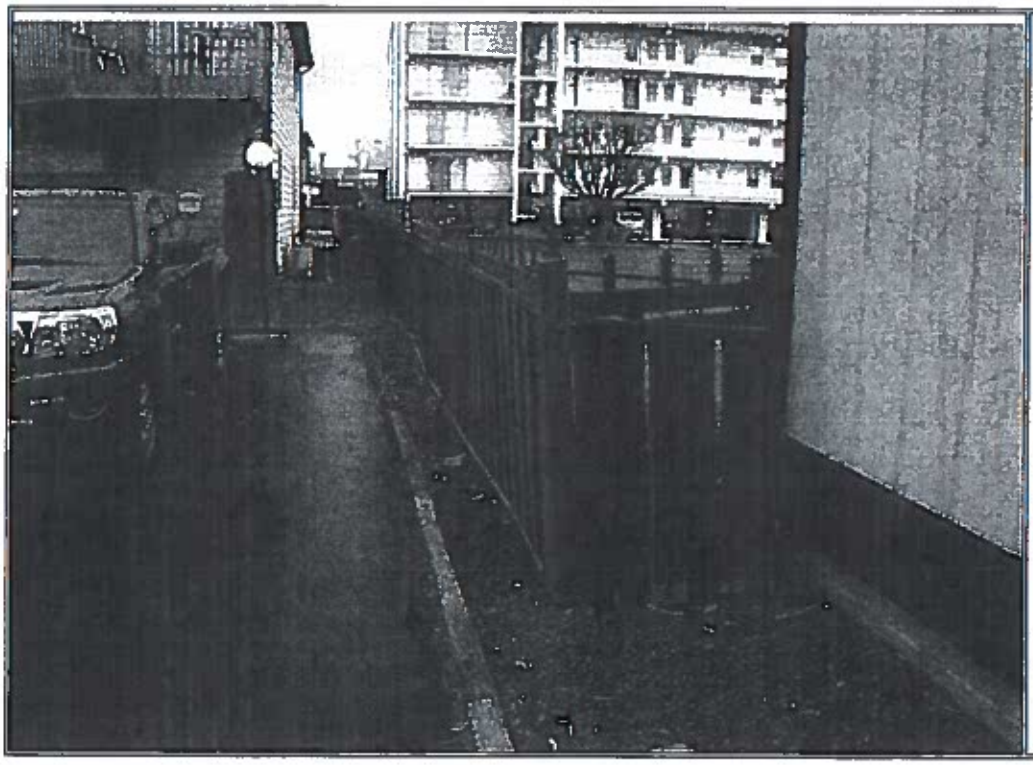
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Concrete sidewalk for access to the boardwalk and metal chain-link fence located along the west boundary of the property

Photo Number
15



Description:
Wood board fence located along the east boundary of the property

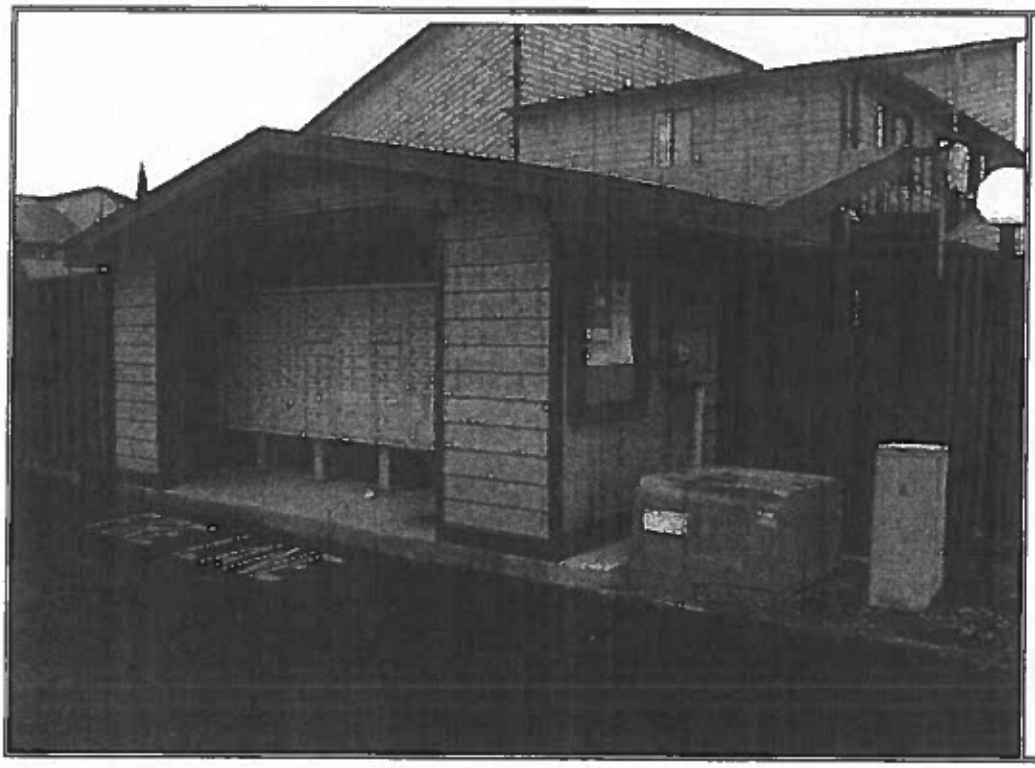
Photo Number
16

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

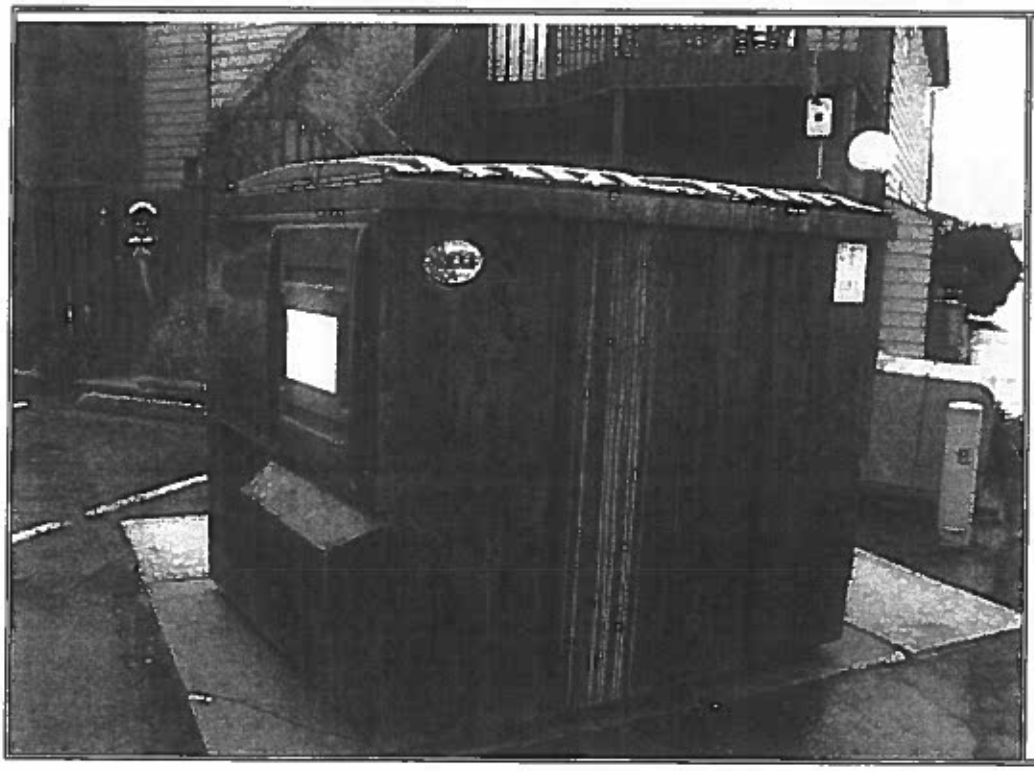
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Cluster mailbox unit with enclosure

Photo Number
17



Description:
Typical trash dumpster placed on a concrete pad within the asphalt pavement

Photo Number
18

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

CRITERIUM ENGINEERS

Description:
Typical crawlspace access door with window well

Photo Number
19

Description:
Typical crawlspace vent partially covered with landscaping material

Photo Number
20

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

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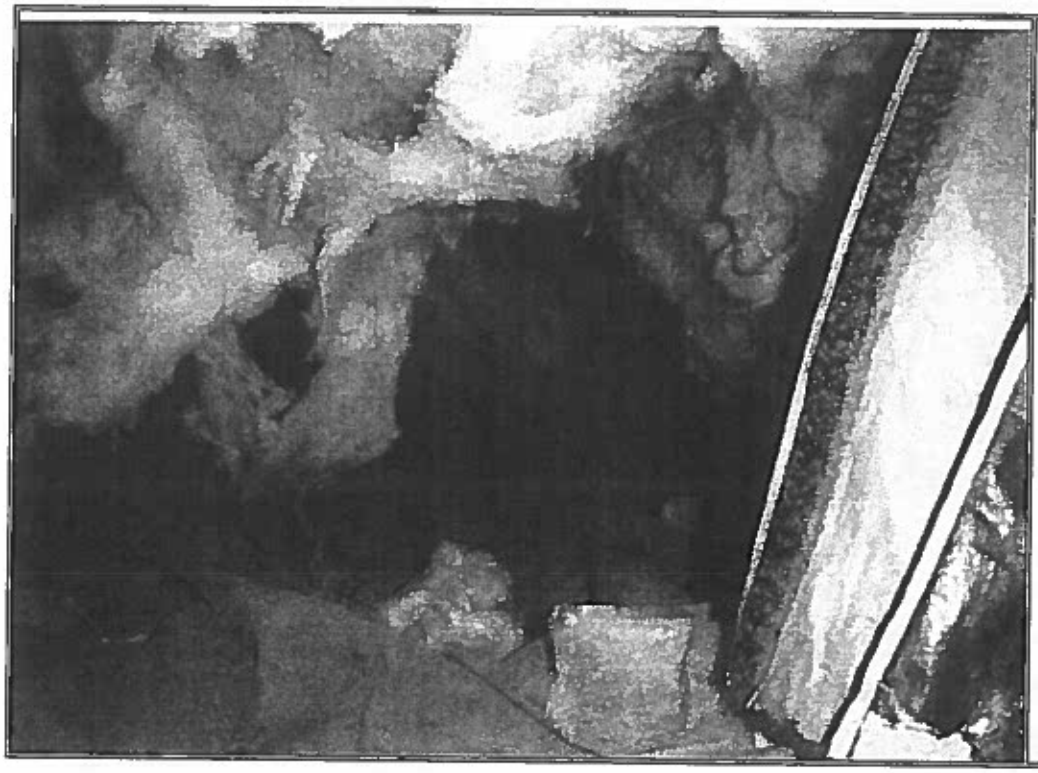
Description:
Typical new helical pier support installed within the crawl space

Some rusting at the base

Photo Number
21



Description:
Displaced insulation within the crawl space

Photo Number
22

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

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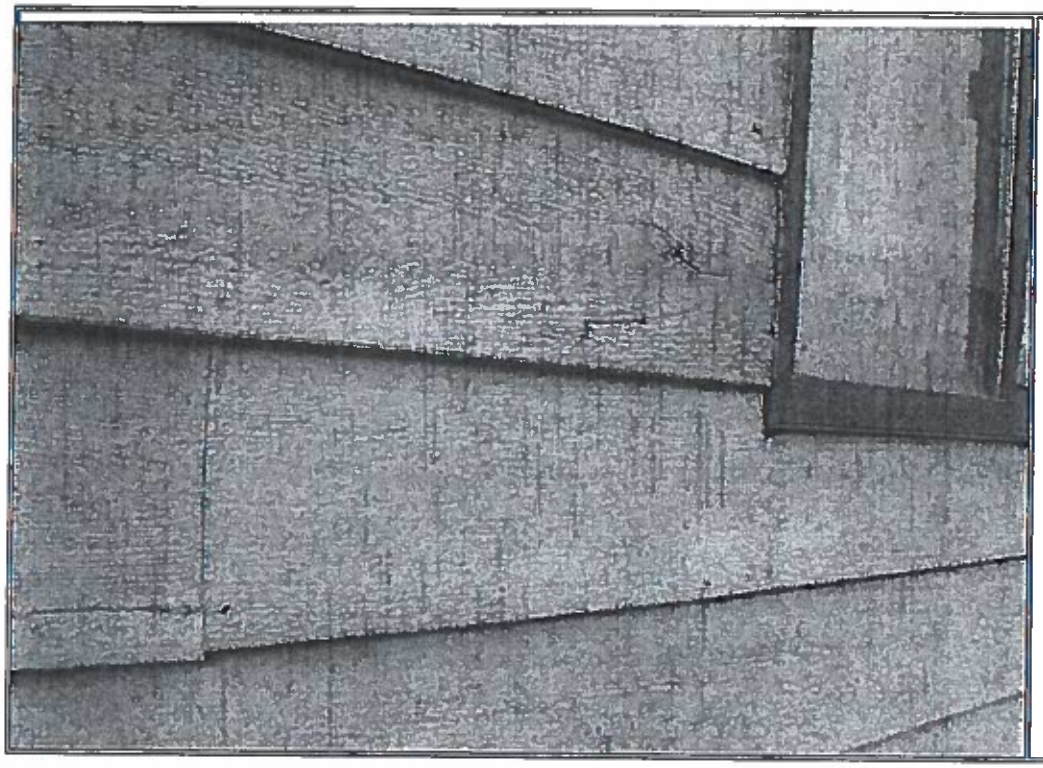
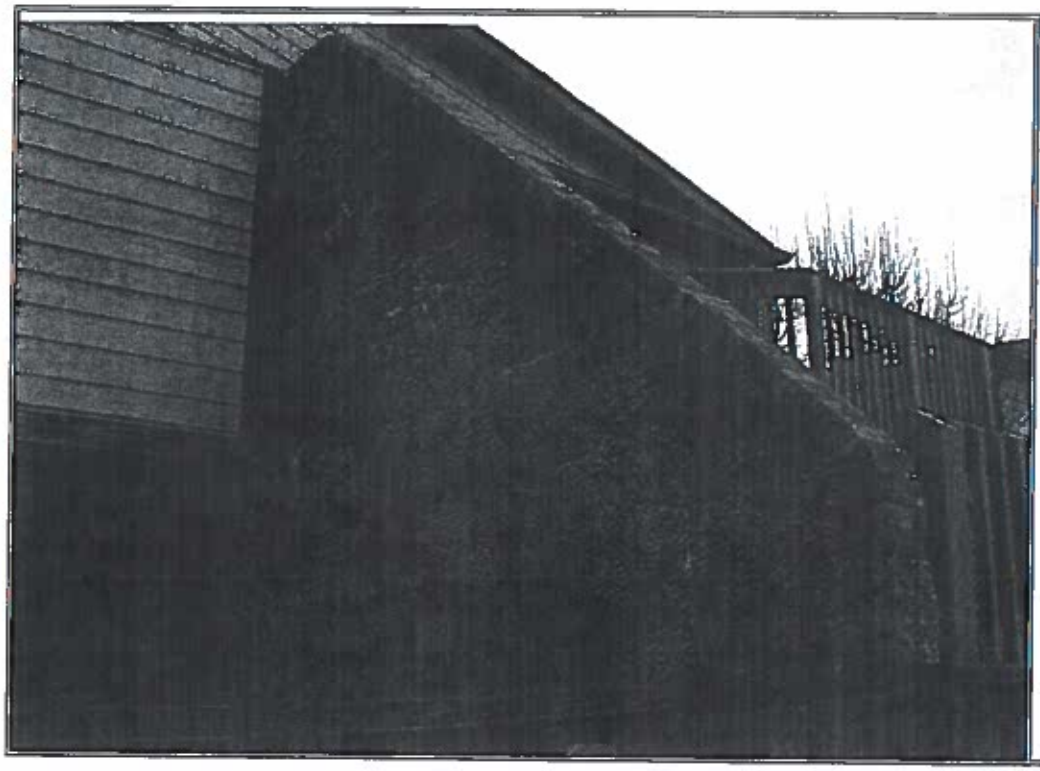


Description:
Close-up of wood board siding detail at a typical window

Photo Number
23



Description:
Typical two-story exterior masonry divider wall

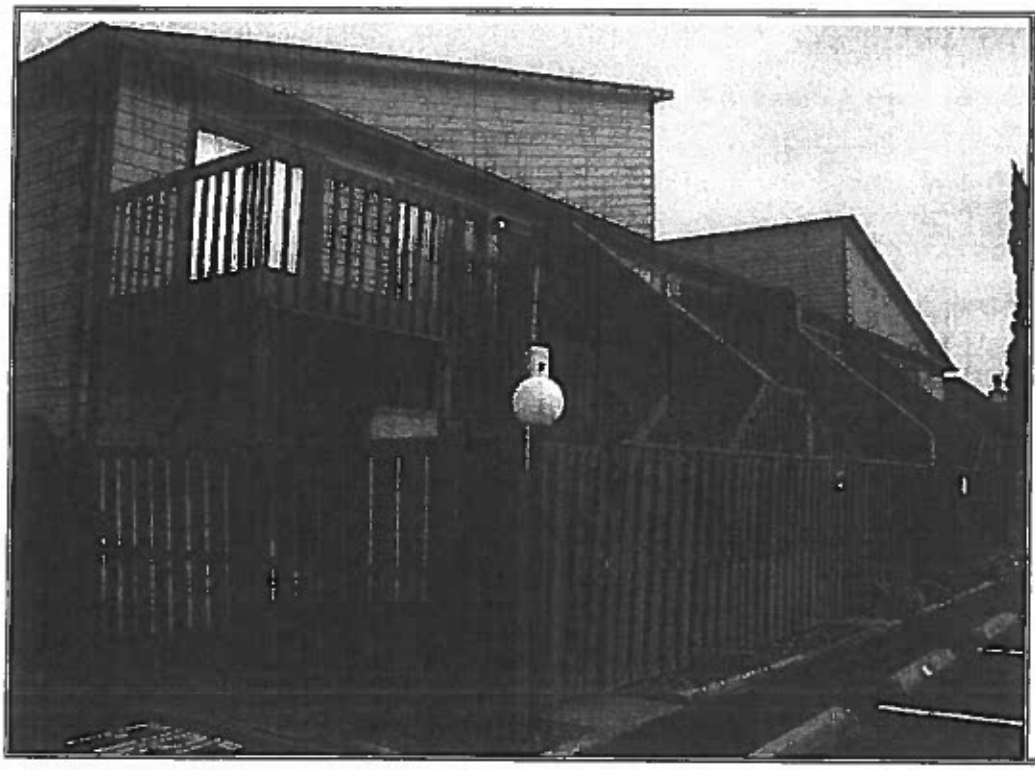
Photo Number
24

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Typical second-story unit wood deck and stair (owner responsibility)

Typical first story wood fence enclosure (Association responsibility)

Photo Number
25

Description:
Typical first story concrete patio (Association responsibility)

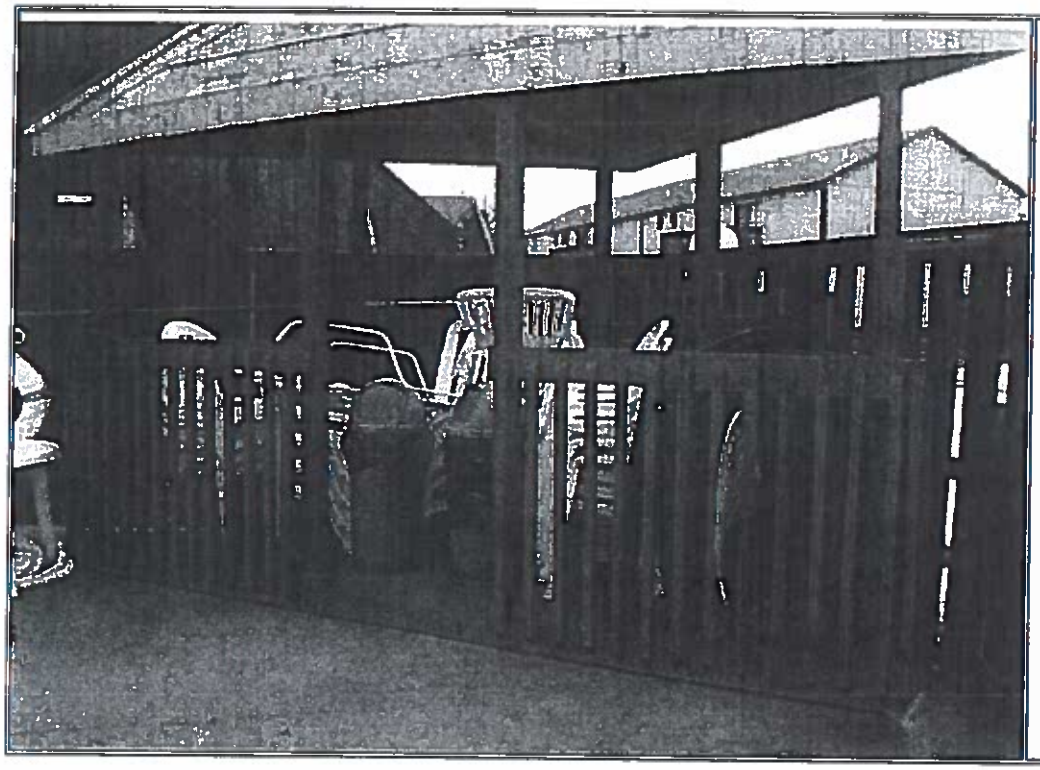
Photo Number
26

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

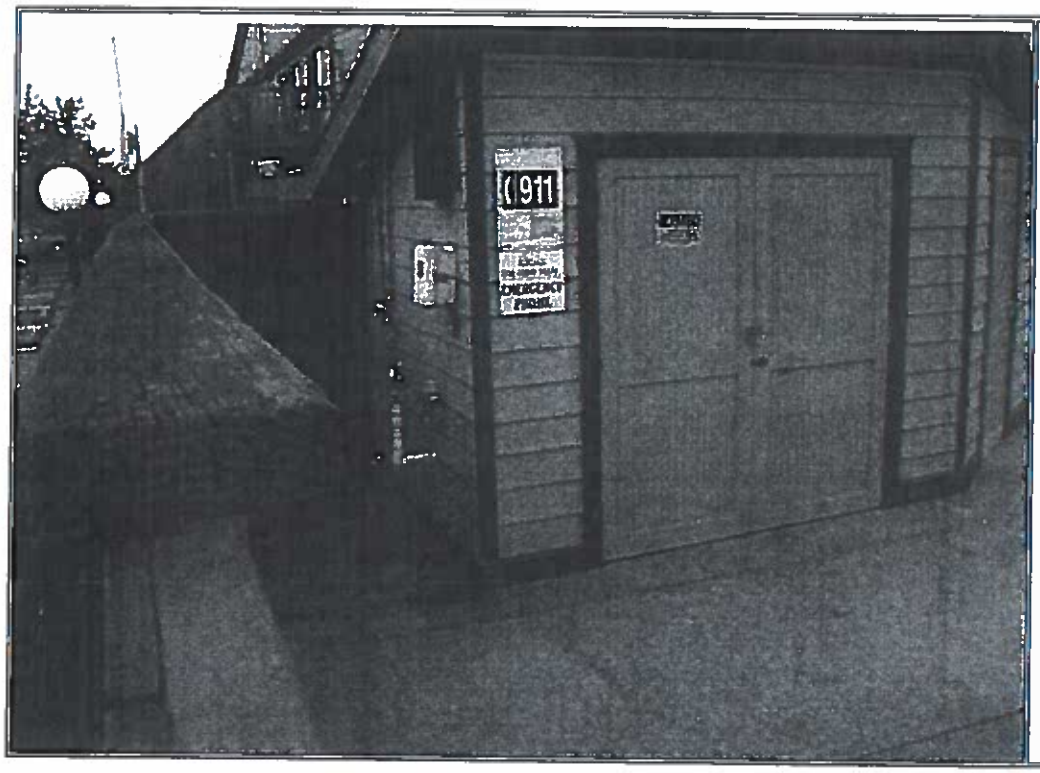
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Wood Pavilion and pool furniture

Photo Number
27



Description:
Pool equipment building

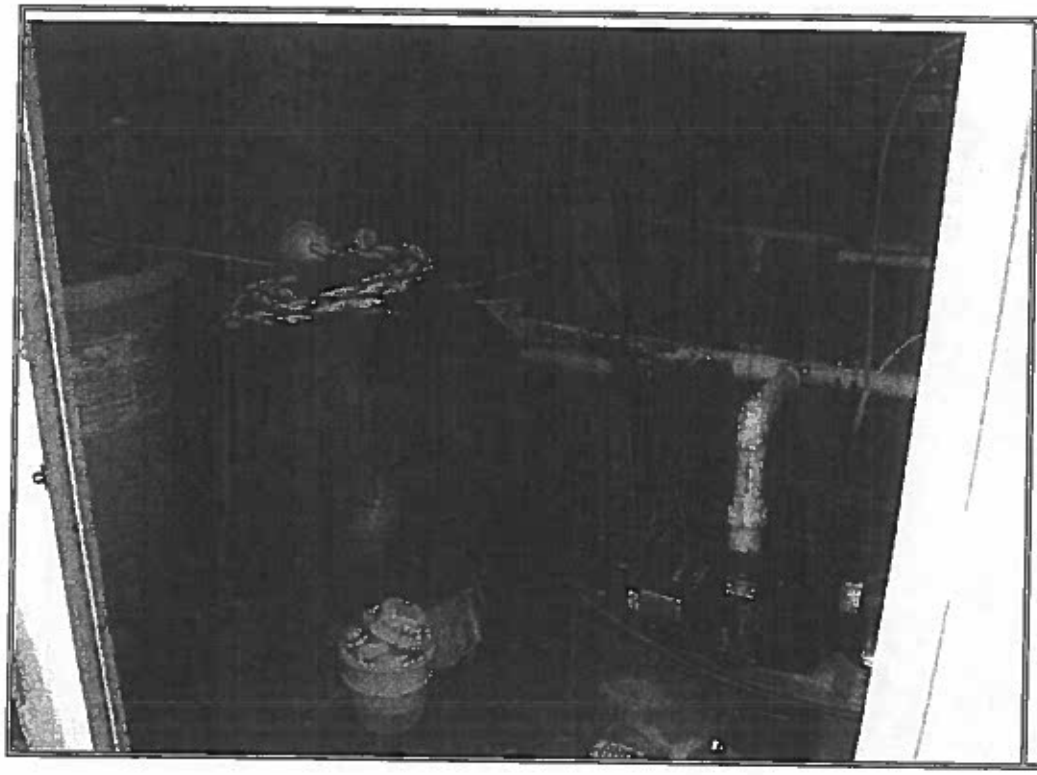
Photo Number
28

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

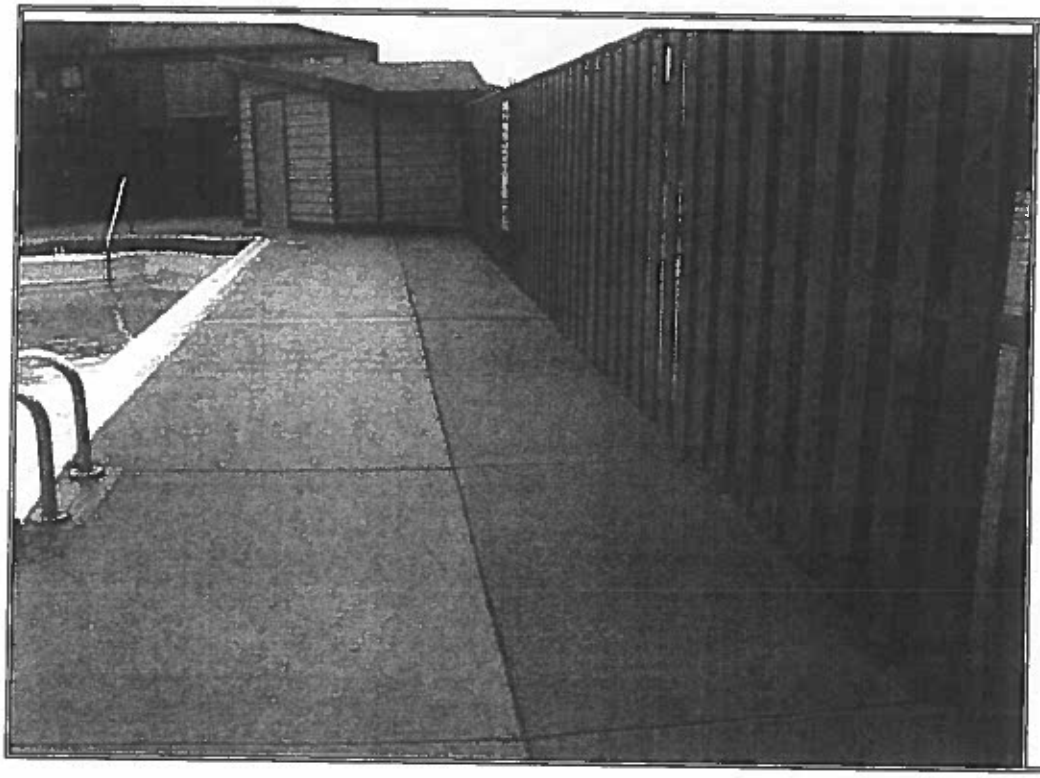
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Circulation pump and sand filter

Photo Number
29



Description:
Recently extended concrete pool deck and wood pool fence enclosure

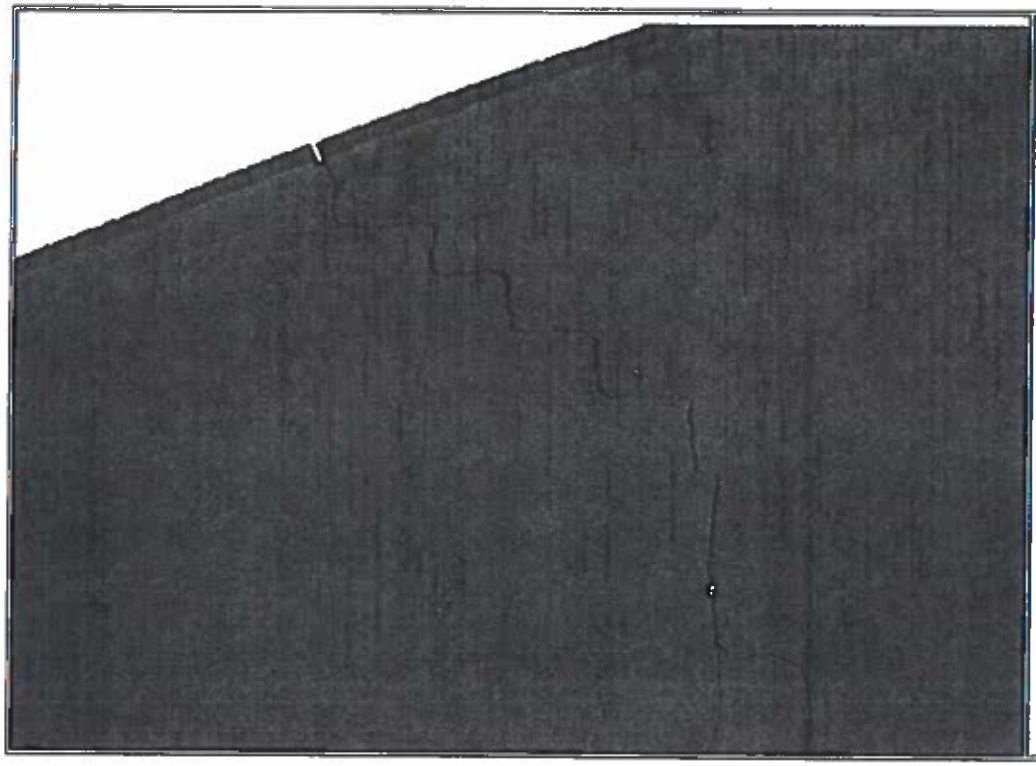
Photo Number
30

Location:
Club Ocean Villas I
Ocean City, Maryland

Photo Taken by:
Craig Smith, P.E.
Reserve Fund Study

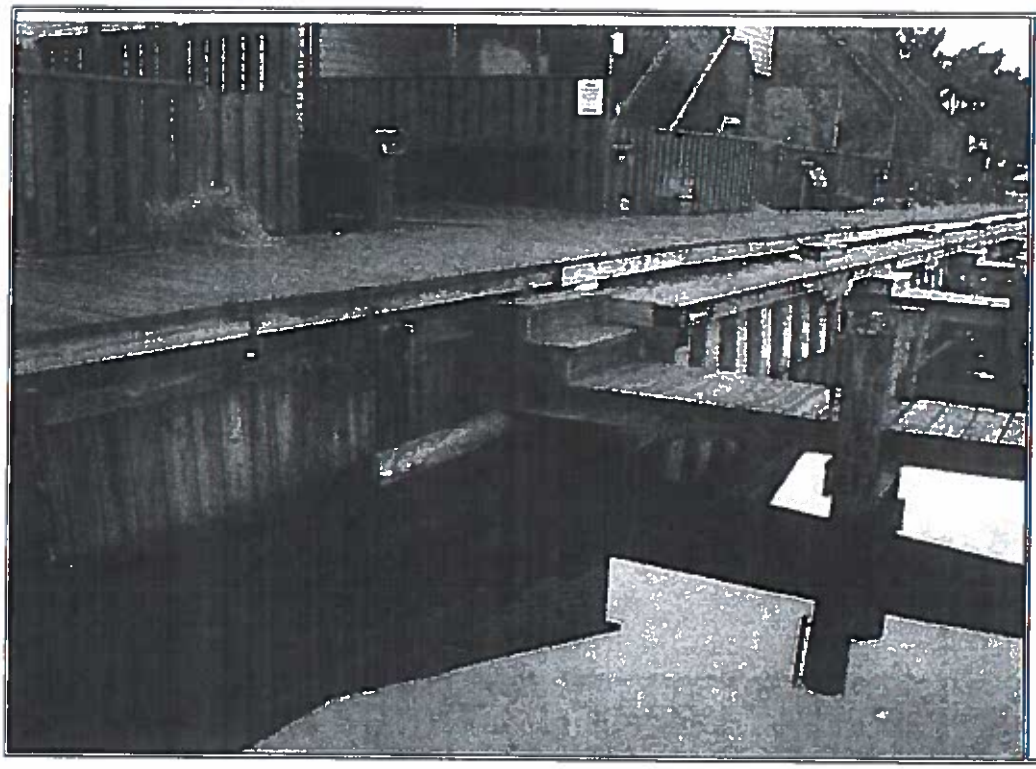
Date:
January 25, 2012

CRITERIUM ENGINEERS



Description:
Cracking in the masonry sport court enclosure wall

Photo Number
31



Description:
New vinyl sheet piling bulkhead (right side). Original wood piling bulkhead (left side).

Photo Number
32

Appendix C: PROFESSIONAL QUALIFICATIONS

PROFESSIONAL QUALIFICATIONS AND EXPERIENCE

Craig D. Smith, P.E.

Area of Expertise

Mr. Smith is the Principal of Criterium-Harbor Engineers, located in Baltimore, Maryland. This consulting engineering firm provides building investigative and due diligence services for residential, commercial, institutional and industrial markets.

Mr. Smith is an Architectural Engineer with a broad background in all aspects of building systems and construction technology.

Primary services provided by Criterium-Harbor Engineers include; property condition assessments, energy audits, homeowner association reserve studies and construction quality assurance.

Qualifications

Before founding Criterium-Harbor Engineers, Mr. Smith gained over twenty years of experience in building design and facilities management, including; seven years as an HVAC design engineer, six years as a facilities engineer and eight years as owner of a consulting engineering firm specializing in building automation systems.

Mr. Smith has performed many building inspections and investigations, including; over 100 property condition assessments of commercial properties and over 500 structural inspections of residential properties. Mr. Smith has also provided quality assurance inspections for the construction of over 300 new homes.

Education and Affiliations

Bachelor of Architectural Engineering - The Pennsylvania State University – 1983

Professional Engineer - State of Maryland - registration #16605 – 1988

Leadership in Energy and Environmental Design Accredited Professional – LEED-AP

Member – National Society of Professional Engineers

Member –American Society of Heating Refrigeration and Air Conditioning Engineers