

# Reserve Study

This session will answer the questions:

1. What is a Reserve Study?
2. How do I read & understand a Reserve Study?
3. How do I use a Reserve Study (for the benefit of my association)?



**ASSOCIATION  
RESERVES**  
Est. 1986

*Reserve Studies for Community Associations*

**[www.ReserveStudy.com](http://www.ReserveStudy.com)**

### 3 Key Results of Your Reserve Study:

1. A list of what you are Reserving for - **“Component List”**
2. A measurement of the adequacy of your current Reserve Funds - **“Percent Funded”**
3. A plan to prepare for the expenses on the component list - **“Funding Plan”**

The first two results establish “where you are”, and the third is a recommendation of “where to go from here”.

The Reserve Component List forms the foundation of the Reserve Study. The other results are all based on the Component List, so it is important that it be current and credible. You get a credible Reserve Component List when components have been selected based on the National Reserve Study Standards **4-Part Test**:

1. Is the component a common area maintenance responsibility of the association?
2. Does the component have a limited life span?
3. Does the component have a predictable remaining useful life?
4. Will the project be above a minimum threshold cost? (That means the cost should be too large to be easily absorbed into the ongoing maintenance budget)

**Fully Funded Balance** is defined as the fractional age of a component multiplied by its current replacement cost. This same calculation is done for all components, once a year during the budget process, to get a Fully Funded Balance total for the entire association. It is important to recognize that Fully Funded Balance does not reflect total replacement value of the Reserve components.

**Percent Funded** provides a measurement of Reserve Fund size and strength. It reveals on a relative basis how much Reserves the association actually has on hand compared to its needs. It is the ratio of actual Reserve cash to the calculated Fully Funded Balance. Reserve Fund Strength is divided into 3-Ranges:

- 0 - 30% Funded is the Weak Range
- 30 - 70% Funded is the Fair Range
- 70 - 130% Funded is the Strong Range

#### **4-Reserve Funding Principles:**

1. Providing sufficient cash for the needs of the association
2. Creating a Funding Plan that is fair and stable through the years
3. Creating a Funding Plan that is evenly distributed across the ownership base (meaning fair to current owners and future owners)
4. A plan that is fiscally safe and responsible

#### **3-Reserve Funding Objectives:** more important than methods (*i.e.* Cash Flow & Straight Line)

1. Full Funding - the low risk, conservative objective of having the goal to be 100% Funded
2. Baseline Funding – the high risk, aggressive objective of having the goal to just barely keep Reserves cash-positive through the years.
3. Threshold Funding – the strategic choice of a particular dollar or Percent Funded target, typically somewhere in-between the Baseline and Full Funding objectives.

#### **Keys to leading your association to financial health & stability with a Reserve Study:**

- Lay a stable foundation with a credible Reserve Component list.
- Know your Percent Funded, and understand what it is telling you.
- Craft a Reserve Funding Plan that leads to a successful future.
- Keep your Reserve Study credible by keeping it current. A Reserve Study for a prior fiscal year is an expired, out of date document.