

# Need for a Reserve Fund Study

## What is a Reserve Study?

A reserve study is an in-depth evaluation of a property's components and an analysis of its reserve funds. Based on a thorough on-site inspection, a custom reserve study details anticipated replacements or repairs to common-area elements and recommends annual reserve funding to cover capital expenditures for the next 30 years.

## Why is a Reserve Study Needed?

- . **To maintain the property's value and appearance:** A reserve study helps maintain the property's value and property owner's investment. By identifying and budgeting for future capital improvements, the property's common elements continue to look attractive and well-kept, adding to the community's overall quality of life. It is a key marketing component for well run associations and their owners.
- . **To fulfill the board of director's fiduciary responsibility:** Board members of community associations have a fiduciary responsibility to their members. Directors are legally bound to use sound business judgment in guiding the association and cannot ignore major capital expenditures or eliminate them from the budget.
- . **To establish sound financial planning and budget direction:** A comprehensive reserve study lays out a schedule of major repairs or replacements to common property elements and applies cost estimates to them. To ensure property owners have adequate reserve funding to cover anticipated costs, a reserve funding plan typically spans 30 years. In short, it's a blueprint for the future.
- . **To comply with state law:** Many states require community associations to disclose reserves, accumulate reserves or have professional reserve studies conducted. It's anticipated more states will adopt similar legislation.

## What constitutes a Reserve Study?

- . **Physical Analysis:** Component Survey and Inventory; Assessment of Component Condition; Estimate of Useful Life and Remaining Useful Life
- . **Financial Analysis:** Current Reserve Fund Status; Recommended Funding Plan

## What physical Assets should be included in a Reserve Study?

- . **Large items that require advance planning to repair or replace:** **Site Improvements:** Storm Water Drainage System; Paving and Curbing; Parking Areas; Sidewalks; Monuments; Site Lighting; Exterior Electrical Systems; Septic Fields; Water Wells; Landscaping; Irrigation; Topography. **Buildings:** Roofing; Siding; Windows; Entry Doors; Patio Slabs; Patio Decks.