

National Reserve Study Standards

A reserve study is made up of two parts, 1) the information about the physical status and repair/replacement cost of the major common area components the association is obligated to maintain (physical analysis), and 2) the evaluation and analysis of the association's reserve balance, income, and expenses (financial analysis). The physical analysis comprises the component inventory, condition assessment, and life and valuation estimates. The component inventory should be relatively "stable" from year to year, while the condition assessment and life and valuation estimates will necessarily change from year to year. The financial analysis is made up of a finding of the client's current reserve fund status (measured in cash or as percent funded) and a recommendation for an appropriate reserve contribution rate (funding plan).

Physical analysis

- Component inventory
- Condition assessment
- Life and valuation estimates

Financial analysis

- Fund status
- Funding plan

Levels of Service

The following three categories describe the various types of reserve studies, from exhaustive to minimal.

I. Full: A reserve study in which the following five reserve study tasks are performed:

- Component inventory
- Condition assessment (based upon on-site visual observations)
- Life and valuation estimates
- Fund status
- Funding plan

II. Update, with-site-visit/on-site review: A reserve study update in which the following five reserve study tasks are performed:

- Component inventory (verification only, not quantification)
- Condition assessment (based upon on-site visual observations)
- Life and valuation estimates
- Fund status
- Funding plan

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III. **Update, no-site-visit/off-site review:** A reserve study update with no on-site visual observations in which the following three reserve study tasks are performed:

- Life and valuation estimates
- Fund status
- Funding plan

Terms and Definitions

CAI's Reserve Professionals Committee adopted the following terms and definitions to assist community association boards of directors.

Cash flow method—A method of developing a reserve funding plan in which contributions to the reserve fund offset the variable annual expenditures from it. Different reserve funding plans are tested against the anticipated schedule of reserve expenses until the desired funding goal is achieved.

Component—An individual line item in a reserve study, developed or updated in the physical analysis. Components are the building blocks on which the reserve study is built.

Component inventory—The task of selecting and quantifying reserve components. This task can be accomplished through on-site visual observations, review of association design and organizational documents, review of established association precedents, and discussion with the appropriate association representative(s).

Component method—A method of developing a reserve funding plan in which the total contribution is based on the sum of contributions for individual components. See cash flow method.

Condition assessment—The task of evaluating the current condition of the component based on observed or reported characteristics.

Current replacement cost—See replacement cost.

Deficit—An actual (or projected) reserve balance less than the fully funded balance. The opposite would be a surplus.

Effective age—The difference between useful life and remaining useful life. Not always equivalent to chronological age because some components age irregularly. Used primarily in computations.

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Financial analysis—The portion of a reserve study in which the current status of reserves (measured as cash or percent funded) and a recommended reserve contribution rate (reserve funding plan) are derived, and the projected reserve income and expense over time is presented. The financial analysis is one of the two parts of a reserve study.

Fully funded—100 percent funded, when the actual (or projected) reserve balance is equal to the fully funded balance.

Fully funded balance (FFB)—Total accrued depreciation, an indicator against which actual (or projected) reserve balance can be compared, the reserve balance that is in direct proportion to the fraction of “used” life of the current repair or replacement cost. This number is calculated for each component, and these sums are added together for an association total.

Funding goals—Independent of methodology utilized, the following represent the basic categories of funding plan goals:

- **Full funding:** Setting a reserve funding goal of attaining and maintaining reserves at or near 100 percent funded.
- **Baseline funding:** Establishing a reserve funding goal of keeping the reserve cash balance above zero.
- **Statutory funding:** Establishing a reserve funding goal of setting aside the specific minimum amount of reserves required by local statutes.
- **Threshold funding:** Establishing a reserve funding goal of keeping the reserve balance above a specified dollar or percent funded amount. Depending on the threshold, this may be more or less conservative than full funding.

Funding plan—An association’s plan to provide income to a reserve fund to offset anticipated expenditures from that fund.

Life and valuation estimates—The task of estimating useful life, remaining useful life, and repair or replacement costs for reserve components.

Percent funded—The ratio at a particular point in time (typically the beginning of the fiscal year) of the actual (or projected) reserve balance to the fully funded balance, expressed as a percentage.

Physical analysis—The portion of the reserve study in which the component inventory, condition assessment, and life and valuation estimate tasks are performed. This represents one of the two parts of the reserve study.

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Remaining useful life (RUL); Remaining life (RL)—The estimated time, in years, for which a reserve component can be expected to continue to serve its intended function. Components of projects planned for the initial year have zero remaining useful life.

Replacement cost—The cost of replacing, repairing, or restoring a reserve component to its original functional condition. The current replacement cost would be the cost to replace, repair, or restore the component during that particular year.

Reserve balance—Actual (or projected) funds at a given point in time identified by the association to defray the future repair or replacement costs of those major components the association is obligated to maintain. Also known as reserves, reserve accounts, or cash reserves.

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. The reserve study consist of two parts: the physical analysis and the financial analysis.

Special assessment—An assessment levied on association members in addition to regular assessments. Special assessments are often regulated by governing documents or local statutes.

Surplus—An actual (or projected) reserve balance greater than the fully-funded balance. See deficit.

Useful life (UL)—The estimated time, in years, for which a reserve component can be expected to serve its intended function if properly constructed in its present application or installation.

Professional Designation

The following is an outline of the designation application. The RS designation is intended for individuals, and is designed to demonstrate a basic level of competency within the industry. The application comprises four parts: background, experience and sample work product, references, and continuing experience. All four parts must be completed and submitted to apply for the credential via the Reserve Specialist (RS) Application.

Qualification guidelines:

1. Background:

College bachelor level degree in construction management, architecture, or engineering; or four years prior related experience (prior to and in addition to direct reserve study experience) in a field servicing community associations (accounting, association management, construction, etc.); or trade school

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diploma and two years prior related experience (prior to and in addition to direct reserve study experience).

2. Experience and sample work product:
Must certify preparation of or be in responsible charge for preparing at least 50 reserve studies within past three calendar years and submit a list of 50 clients with application. Must submit one study of the applicant's original work using format on application including all seven tasks as described within for a "full" study. One sample work product must be submitted to demonstrate that minimum report requirements and disclosures have been met.
3. References:
Two references from community association industry professionals. Five references from different clients.
4. Continuing experience:
Must continue to prepare or be in responsible charge for the preparation of at least 50 reserve studies within past three calendar years and submit a list of 50 clients with application. Renewal applications, required every third year, will require documentation of this experience. (See Experience and Sample Work Product.)

Reserve Study Contents

The following is a list of the minimum contents to be included in the reserve study:

- A summary of the association's number of units, physical description, and reserve fund financial condition.
- A projection of reserve starting balance, recommended reserve contributions, projected reserve expenses, and projected ending reserve fund balance for a minimum of 20 years.
- A tabular listing of the component inventory, component quantity or identifying descriptions, useful life, remaining useful life, and current replacement cost.
- A description of methods and objectives utilized in computing the fund status and development of the funding plan.
- Source(s) utilized to obtain component repair or replacement cost estimates.
- A description of the level of service by which the reserve study was prepared.
- Fiscal year for which the reserve study is prepared.

Downloadable Resources for Community Operations and Management

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