



ADVANCED RESERVE SOLUTIONS, INC.

## WHAT IS A RESERVE STUDY AND WHY DOES MY ASSOCIATION NEED ONE?

A Reserve Study is a financial plan for funding the future replacement of major common area components in an association. Roofing, exterior paint, streets, and pools are some examples of common areas that are shared by homeowners in an association. Maintaining these common areas in order to preserve or improve the property values requires setting aside a portion of your association fees into a reserve fund. A Reserve Specialist gathers essential information from the association's board or manager in addition to conducting a site inspection that aids in quantifying common area components as well as determining the estimated remaining life of each component. The Reserve Specialist looks at things like the total of cash reserves currently set aside, the condition and remaining life of each component and the estimated current replacement cost of major components. He then prepares a budget for the association's reserve fund to ensure that when the major components have reached the end of their useful life there is money to replace or repair the component. The reserve study identifies the methods of funding for future repairs, replacements or additions including notification of any deferred repairs or replacements. Getting a reserve study done and updating it each year provides the association with a history of repairs done or possibly deferred due to the component being in better condition than anticipated. Reserve Specialists work closely with association boards or their managers to provide them with the financial information needed to make sound financial decisions regarding the common area components. As volunteer boards or managers change over time, the Reserve Specialist is often the historian of the association and has noted in the reserve study decisions board members have made regarding common area component replacements.

Some associations assume that simply setting aside a percentage of the operating budget will suffice when and if the major components need to be replaced or repaired. This can become problematic if the replacement costs are extensive, something we see happen when repairs or necessary replacements are deferred year after year. Having a financial plan in place and following it can help an association avoid special assessments in most cases. There is always the exception of course, but it does help reduce the chances.

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