

IMPORTANCE OF RESERVE STUDIES

Maintaining the association's common property is among the manager and board member's highest responsibilities, and it takes a long range plan to prepare successfully for repair or replacement of the association's major common area assets. The reserve study is the plan by which the association expects to offset ongoing deterioration and prepare for inevitable future expenses. Reserve projects are typically the largest expenses that an association faces, and proper financial preparation takes many years.

A reserve study is a budget planning tool that considers the current status of the replacement fund and determines a stable and equitable funding plan to offset the anticipated future major common area expenditures. The reserve study can also be very useful for developing a fund budget.

Consequences of not having a reserve study:

- Under funding: special assessments, bank loans, deferred maintenance, or a combination of these.
- Over funding: paying too much for the benefit of future owners
- Board member liability: Exposure to claims of fiscal irresponsibility and loss of D&O insurance coverage.

Reserve study benefits are as follows:

- Fulfilling fiduciary responsibility
- Meet individual state requirements (if regulated states)
- Compliance with American Institute of Certified Public Accountants audit guide
- Reduce personal liability from claims of financial mismanagement
- Save valuable time with prioritized business plan for capital repairs and replacements
- Effective communication tool to keep owners informed
- Reserve study can turn up items that haven't been budgeted in ongoing operations.

Excerpt from Advancehoa.com