

Why Have a Professional Reserve Study?

Every community association has three functions - to serve as a business, a government and a community. Community associations are generally nonprofit corporations, functioning in many ways as businesses with revenues (association dues, rentals of clubhouses, revenues from golf, restaurant, etc.) and expenses.

As a business, the Board needs a business plan for the maintenance of the assets of the association. Which assets or parts thereof (i.e. partial pavement replacements, phasing roofing replacements) will require repair or replacement, when will they need replacement, and at what cost are the most important questions one must ask in determining a forecast of future capital projects. When managing the contributions (assessments) of hundreds of homeowners, it is essential to provide as accurate a forecast as possible. Professional Reserve Study providers have the extra expertise from conducting hundreds of assignments each year to apply engineering success stories from other associations and determine the most reasonable reserve budget that is consistent with Board objectives. The benefit to homeowners is that present and future owners are treated fairly and equitably. As an example, special assessments are typically conducted because those who lived in the community previously did not pay their fair share and as a result, current owners have to pay extra.

A professional Reserve Study is the continuous 'blueprint' for the future. Board members frequently change. While future Board members may

not understand the logic or reasons that prior decisions were made based on internally conducted Reserve Studies because the author(s) are no longer around, a professional Reserve Study firm will be available to discuss the Reserve Study, the methodology used, and considerations that went into the analysis years after the Reserve Study was conducted. Also, the independent Reserve Study provider will help the future Boards with periodic Updates of the original Reserve Study to keep the association current and on track.

Consistency is another benefit of having a professional Reserve Study conducted. If more than one individual participates in the development of the Reserve Study, how can the owners be ensured a level of consistency among the individuals in how they measure the property, determine an appropriate remaining useful life, future costs (how are they determining accurate replacement costs)? And when periodically updated, will the same individuals be available to make changes to the original in-house reserve study?

Liability and support of internally developed reserve studies are often difficult challenges. Does the Association have errors and omissions (E & O) insurance for the in-house Reserve Study expert or only insurance for the directors? Is the "in-house expert" covered by the association's E & O insurance policy? Will the expert be willing to defend the conclusions reached to other homeowners, buyers and lenders?

Timing is always a question. Can an internally produced Reserve Study be conducted in a timely manner? Quite often, timelines are not met because information takes longer to obtain than expected, some of those participating in the assignment can get distracted with personal business (don't forget, Board members don't get paid for these activities), and Reserve Studies can drag out for up to a year or more. Just about that time, elections take place and the Board turns over and the association is back to square one - no long range plan.

Boards routinely seek outside expert advice concerning audits, production of financial statements and legal advice. Homeowners will have more confidence in their Board because they sought outside expert advice for a Reserve Study as well as other professional services. Another advantage is knowing that their Reserve Study was conducted within the national guidelines of the Association of Professional Reserve Analysts (APRA) and Community Associations Institute (CAI). The real value to owners is knowing that the Reserve Study was conducted independently of any personal agendas, either real or perceived.

The second part of the business plan is 'how do we obtain funds to pay for these capital projects when it is necessary?' An independent, professional Reserve Study will not only identify future costs, but should determine a minimum and stable level of funding to accommodate the future capital projects. Thus, homeowners

avoid the fear of special assessments.

Quite often, the independent Reserve Study provider can make recommendations that prolong or extend the life of common elements and save the homeowners significant dollars over the long term. A case in point - many times associations run into problems with leaking foundation walls. Bringing in excavators and obtaining two or more bids to correct the problems can be a far more expensive solution as opposed to seeking impartial advice from an independent Reserve Study provider offering alternative and often less costly solutions to a particular problem.

An independent professional Reserve Study can be a great marketing tool to prospective buyers and their lenders. The independent Reserve Study shows that the association is managed with expert advice, which adds value to the property. Prospective buyers, particularly

second time buyers, are more shrewd and likely to ask not only how much is in reserves, but what is the money in reserves to be used for?

As a governance, the Board has a fiduciary responsibility to the owners not dissimilar from the responsibility corporate Board members have to shareholders. They must, to the best of their ability, strengthen the value of the organization. The Reserve Study must comply with the AICPA (American Institute of Certified Public Accountants) accounting guidelines for financial reporting and state reporting requirements, which are changing on an annual basis in some states.

A professional Reserve Study will also reduce claims of financial mismanagement because the Board sought out the advice of independent Reserve Study experts. Demonstrating sound fiscal management to the owners with a professional Reserve Study will

provide the owners with a high comfort level that their investment in their property is being managed properly.

Last, having an independent professional Reserve Study is simply good business sense.



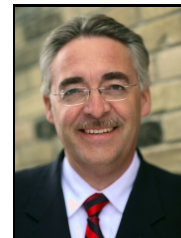
Reserve Advisors, Inc. is the leading provider of **Reserve Studies**, **Transition Studies** (defect analysis at developer turnover), and **Property Insurance Advisory Services** in nearly 50 states and Canada since 1991.

Clients benefit with a customized, thorough analysis that's based on our noninvasive, visual inspection and is easy to use. Understanding the needs and issues that are specific to client objectives helps ensure satisfaction.

Clients comply with national standards because many of our engineers and architects hold the Reserve Specialist (RS) and Professional Reserve Analyst (PRA) designations from the *Community Associations Institute* and *Association of Professional Reserve Analysts*.



John Poehlmann, RS



Theodore J. Salgado, P.E., PRA

Our principals are at the forefront of education and professional standards. Theodore Salgado, P.E., PRA, serves as President of the *Association of Professional Reserve Analysts (APRA)*. John Poehlmann, RS, serves on the *Community Associations Institute (CAI)* national Board of Trustees. Both are founders of CAI's *Reserve Professionals Committee*, which developed national standards for Reserve Study providers.

Our focus is to help clients preserve and maintain their property in excellent condition.