

HOW OFTEN SHOULD YOU UPDATE YOUR RESERVE STUDY

by Robert M. Nordlund, PE, RS
CEO/Founder
Association Reserves, Inc.

www.reservestudy.com

How often is "proper" or "prudent" Reserve planning? With Reserve contributions making up 15% to 40% of the typical Community Association's budget, this is an important question. So let's look at the issues...

Reserve contributions allow you to offset ongoing deterioration with appropriately sized Reserve contributions. The more deterioration there has been, the larger the association's financial assets should be.

Because the physical condition of the association's assets and the size of the Reserve Fund change on an almost constant basis, on an annual basis, Boardmembers need to responsibly know how much to budget for their Reserve contributions, and what to tell the owners about how well prepared the Reserve Fund is to deal with upcoming expenses.

REASONS FOR ANNUAL RESERVE STUDY UPDATES

From a Boardmember responsibility (liability) viewpoint, for a budget line item as large as Reserve contributions, it is appropriate to re-evaluate Reserve contributions annually to comply with the "sound business judgment".

Second, most Governing Documents require an "appropriate" amount of Reserves to be collected each year to offset ongoing deterioration of the common areas. That number needs to be adjusted annually in light of changes to the association's natural physical and financial changes.

Third, in August of 1991 the American Institute of Certified Public Accountants (AICPA) issued guidelines (generally accepted accounting principles, or GAAP) stating that Reserve planning is recommended annually as part of the budget planning and financial reporting process.

Finally, as-of 2016 30 different states specifically require Reserve Studies for budget preparation or owner (and prospective owner) disclosure purposes. Some states require this annually updated information to be based on a more diligent on-site inspection every few years.

So...review and adjust each year. Perform a more exhaustive With-Site-Visit update at least every few years, as appropriate due to physical changes at the association or as required by State Law.