

# THE TWO PARTS OF A RESERVE STUDY

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Every Reserve Study has two parts: information on the physical condition of the property and the financial analysis that consists of results computed based on that information. While every Reserve Study should have a similar financial analysis, most Reserve Studies differ in how thorough the physical information was compiled (a site inspection where the information was created "from scratch", a site inspection updating information from a prior analysis, or an update without a site visit). It is natural, therefore, to divide the Reserve Study into these two parts.

The result of the Physical Analysis is Reserve Component List. This list contains the following information:

- A clear identification of each Reserve Component (Fence – Repaint, Fence – Replace, Pool – Resurface, Roof – Replace, etc.),
- Particular descriptive information. Typically this means the quantity, but it could also mean the serial number, or a size (like the BTU rating of a boiler or the horsepower of a pump)
- Useful Life (in years)
- Remaining Useful Life (also in years, where zero means no life left)
- A Current Repair/Replacement Cost estimate.

The items appearing in the Reserve Component List are usually stable from year to year, while the Remaining Useful Life and Current Repair/Replacement Cost estimates typically change from year to year.

The Financial Analysis is where Reserve Fund Strength and Recommended Reserve Contributions are calculated. Reserve Fund Strength is typically calculated and reported in terms of Percent Funded (where 100% Funded means the Reserve Fund Balance is equal to the value of deterioration experienced by the Reserve Components). This is an important disclosure,

giving the Board and owners an update, with each year's Reserve Study, on how well prepared their Reserve Fund is for upcoming Reserve projects. The Recommended Reserve Contributions for the year are calculated based on an analysis of at least the next 20 years of (appropriately inflated) Reserve expenses at the association. An aggressive funding strategy (Baseline Funding) can be chosen, a more conservative funding strategy (Full Funding) may be chosen, or something in-between (Threshold Funding).

In summary: one Reserve Study, with two parts.