



# COMPLYING WITH RESERVE DISCLOSURE LAW



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[www.reservestudy.com](http://www.reservestudy.com)

It is our understanding that the purpose of the CA Civil Code 1365.2.5 form is to summarize Reserve Study results and clarify the current status of an Association's Assessments and Reserves in a standard format on an annual basis, minimizing the chances of misrepresentation or surprise.

Proper completion of the 7 questions that appear on this form can only be accomplished with a current-year Reserve Study and finalized budget information. Since finalized budget information typically occurs after the Reserve Study has been completed, one cannot expect the Reserve Professional to complete and finalize this form at the time the Reserve Study is completed. Furthermore, if the Association establishes a Reserve contribution rate other than was recommended in the Reserve Study, additional Reserve calculations will need to be made in order to answer Question 3 and Question 4. Thus preparation of this form will require the coordinated involvement of Association/Management and the Reserve Study provider.

[Click here](#) for Helpful Links:

Below is a detailed Discussion of each of the form's 7 questions:

**Question #1:** Budgeted assessment rate for upcoming year comes from the association or mgmt, after budget has been finalized. If the association does not have equal assessments throughout, a table summarizing assessments per unit is to be provided by association/mgmt.

**Question #2:** Approved Special Assessments for upcoming year comes from the association/mgmt, after budget has been finalized.

**Question #3:** A "yes" answer requires the association to have implemented a Reserve Funding Plan that will not run out of money for projected Reserve expenses over the next 30 years with no special assessments other than those listed in #2 above. If the association's current Funding Plan (based on Reserve contributions for the initial year found in #1 above) projects cash deficits

at any point in time over the next 30 years, a “no” answer should be checked and at least one special assessment should be entered in Question #4. A “yes” answer does not give assurance that there will be “clear sailing” for 30 years. This is only an opinion (not a promissory note) at this time, based on the association’s current 30-yr Funding Plan (to be attached to this form). It is our expectation that this Funding Plan will be reviewed and revised annually, and the disclosure updated accordingly.

*Note 1: “Sufficient” Reserve balances are interpreted to describe a requirement to not run out of cash (defined as “Baseline Funded” in National Reserve Study Standards). This question is not interpreted as having anything to do with the measurement tool “Percent Funded” or the conservative position of “Fully Funded”.*

*Note 2: It is recommended that a one-page summary of the association’s 30-yr Funding Plan used to fill out this form be Board be attached to the form to demonstrate and document the income and expense assumptions used to answer this question.*

**Question #4:** List additional array of assessments (year of assessment and total amount per unit assuming equal assessment rates), scattered through the next 30-yrs as necessary, needed for an association to avoid running out of money (see Question #3 above). This may be one large special assessment or a series of smaller assessments, and should be considered a rough opinion.

**Question #5:** All Major components (those meeting the National Reserve Study Standards four-part funding test) should be documented and funded through Reserves. We recommend the association document the reason that any other “major” association assets failed the National Reserve Study Standards four-part funding test.

**Question #6:** Straightforward disclosure of a projection of the Reserve Fund Balance and the Fully Funded Reserve Balance computation (“required amount in the Reserve Fund”) as-of the first day of the upcoming fiscal year (which is equivalent to the end of the current year). This information is contained in a current Reserve Study (provide name of organization and date of Reserve Study).

**Question #7:** The original State-suggested form is currently problematic due to a requirement for five years of information with only one set of blanks provided. Recommendation: attach a 30-yr summary table containing the following information: Fiscal Year, Starting Balance, Fully Funded Balance, Percent Funded, Annual Contributions, Special Assessment/Loans, Interest Income, and Reserve expenses (see attached). Note that this 30-yr table also has the dual purpose of documenting assumptions utilized in answering Question #3. General Recommendation: Provide the name or organization filling out the form, and the date it was prepared.