

# RESERVE STUDY RESULTS - WHAT TO EXPECT

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Every Reserve Study gives you three key pieces of information, useful for annual budget planning and owners disclosure purposes. Knowing what to look for will save you time and allow you to more effectively communicate those results to others. The three results are:

1. What you are reserving for,
2. Strength of the Reserve Fund, and
3. Recommended Funding Plan

The first is the Reserve Component List. While different Reserve Study Levels of Service (Full, With-Site-Visit Update, No-Site-Visit Update) differ in how thorough the Reserve Component list was assembled (created entirely "from scratch", a site inspection updating information from a prior analysis, or an update without a site visit), the Reserve Component List defines the Reserve obligations of the association. The list of your Reserve Components should remain relatively stable from year to year, with the only changes being adjustments to Useful Life, Remaining Useful Life, and Current Replacement Cost.

Second is a presentation of the Reserve Fund Strength, one of two calculations performed on the Reserve Component List. Reserve Fund strength is typically reported in terms of Percent Funded, the result of a comparison between actual Reserve Fund cash and the computed deterioration of your Reserve Components (called the Fully Funded Balance). While it is important for the owners to be told the actual cash balance in their Reserve Fund, its also important for owners to be told the adequacy of their Reserves! This is because \$100,000 or \$500,000 might sound like a lot of cash, but it may be woefully inadequate based on upcoming expenses projected a the association.

Third and finally is a recommended Reserve contribution rate, often called the Reserve Funding Plan. While the first two results are disclosures, this result is a recommendation for action, designed to take the Reserve Fund from its current condition (result #2 above) to the association's chosen Funding Objective. The Funding Plan is therefore highly influenced by the Funding Objective and the current Reserve Fund Status. A conservative "Full Funding" objective will result in contributions (only) a few percentage points higher than contributions pursuing an aggressive "Baseline Funding" objective. And remember that any Funding Plan that begins at a weak starting point will have higher Reserve contributions than if the association had a strong starting point.

Simply summarized, look first for "what you are reserving for", "where you are now" and "where to go from here"!