

YOUR RESERVE STUDY IS A DISCLOSURE DOCUMENT!



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This topic comes to you this month because the Board of a current client Association is in hot water because of what they didn't disclose to their homeowners and to their prior Reserve Study consultant. We hear disclosure problems so often in the news nowadays that it is no longer surprising – a CEO of a large company sells stock in the company for a big profit right before bad news hits. Most of us would agree that it's only fair that "insiders" with important data have a moral (and sometimes legal) obligation to disclose the facts for the benefit of any "outsiders" who may be affected by that information.



Reserve Studies are, by definition, a budget planning tool. But a Reserve Study also serves as a "disclosure" document. This is because the key three results of any Reserve Study that is prepared in accordance with National Reserve Study Standards disclose important "inside" information about the Association-governed community that affects "outsiders" such as owners, prospective owners, and lenders.

Let's take a look at the key three Reserve Study results through the disclosure lens:

1. The Component List discloses the scope and schedule of all anticipated Reserve projects.
2. The % Funded calculation discloses the strength or weakness of the current Reserve Fund.
3. The recommended Funding Plan discloses how much money (including special assessments, if required) must be set aside for timely repairs & replacements .

Associations that fail to follow the recommended Funding Plan are setting themselves up for additional disclosure issues. A Funding Plan that falls short of the ongoing deterioration of the Association's common area assets is going to lead to a Special Assessment. Special Assessments

are unsettling, but they are primarily the result of a simple tradeoff made by Boardmembers – lower contributions now in exchange for a Special Assessment in the future. Boards that make this arguably unwise decision (great subject for another article!) should disclose that such a tradeoff is being made.

Professional Managers who are involved in the annual budget process are privy to this “inside” information. Likewise, volunteer Boardmembers are in the potentially dangerous position of knowing the financial future of the Association. And just like a corporate CEO, Managers and Boardmembers have a fiduciary duty to disclose what they know about the physical state of the Association’s assets, and how well prepared (or not!) the Association is to face those oncoming financial obligations.

Reserve Studies serve the dual purpose of providing guidance and disclosures. Make sure you give your homeowners both! Keeping owners, prospective homeowners, and lenders in the dark is going to get Managers and Boardmembers into hot water. And if a Boardmember lobbies to keep reserve contributions low and sells their unit right before a Special Assessment, they are no different than the unscrupulous CEO we read about in the news!