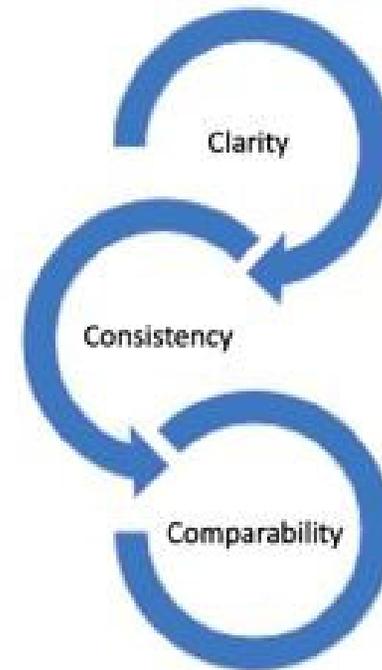


Reserve Study Fundamentals

Gary Porter, RS, RRC, FMP, CPA

Three separate disciplines comprise the reserve study process.

The goal is to achieve Clarity, Consistency, and Comparability, factors considered essential by users of reports.



Reserve Study Process

Three steps in the process

- On-site Analysis
- Office follow up work
- Prepare the Report

Reserve Study Process

The On-Site Analysis

- Identify components
- Quantify components
- Evaluate condition

Reserve Study Process

Office follow up work

- Organize, categorize components
- Price components
- Enter into software

Reserve Study Process

Prepare the report – the financial process

- Financial calculations
- Financial modeling
- Financial reporting

Reserve Study Process

Three separate skill sets

- Component skills – Most important for on-site analysis
- Valuation skills – Most important for office follow up
- Financial skills – Financial calculations, modeling and reporting

Reserve Study Fundamentals

The Reserve Study is a budget

- It is NOT a “capital budget”
- It is a “hybrid” service that combines asset analysis with financial budget
- It is based on and is the financial reflection OF a maintenance program

Capital budgeting outside the community association industry is very different

Reserve Study Fundamentals

How the reserve study differs from a capital budget

- Capital improvements
- Noncapital expenditures
- Guaranteed funding source

Service Levels

Most reserve standards identify four service levels

1. Full Study with “Site Visit”
2. Update with Site Visit
3. Update without Site Visit
4. Study based on plans

Service Levels vs. Types of Engagements

These are actually “Types of Engagements” not as service levels

Multiple different service levels could be applied to each type of engagement

1. Independent Study – excluding long-lived components
2. Independent Study – including long-lived components
3. Budgetary study
4. Reserve Management Plan

Service Levels

Reserve Management Plan

- The analysis is based on the existing maintenance program
- A collaborative engagement between the reserve professional and the association
- Reserve professional works WITH the association to understand the maintenance program and obtain better information that also fits within the association's budget.
- The reserve professional DOES NOT surrender his independence

Capital Budgets vs. Reserve Study

- Capital budgeting theory
- Different type of on-site analysis
- Data organization
- Financial reporting
- Software

Pricing Components

Separate session on this topic

Valuation and cost estimating is a profession with specialized skills, training, and education

Financial Aspects of Reserves

Reserve studies are budgets

Just as skills are required for component analysis skills are also required for budget preparation and presentation

Recommended budgeting SKE (Skills, Knowledge and Experience)

Reserve Study Fundamentals

Questions?

Comments?

Reserve Activities

ICBI “principles” define a four-part “concept-based” guideline for an item to be considered a reserve “Activity” – not a component

1. Financial obligation of the association
2. Significant in cost
3. Maintenance related activity
4. Non annual expenditure

Landscaping, dredging, block walls, and engineering inspection reports are all included under ICBI standards.

Characteristics of a profession

Agreed upon body of knowledge	ICBI
Standard setting body	ICBI
Academic educational requirements	BPCB
Comprehensive test of knowledge	BPCB
Professional credential	BPCB
Continuing education requirement	BPCB/ICBI
Peer review requirement	BPCB
Disciplinary framework	BPCB
Forum for dialogue and sharing information	ARP
CPE provider	ARP
Research library	ARP
Agreed upon information sources	ARP