

Reserve Study Reports & Calculations

Gary Porter, RS, RRC, FMP, CPA

Reserve study reports are financial reports

Calculations need to be understood and standardized to have value



Reserve Study Reports & Calculations



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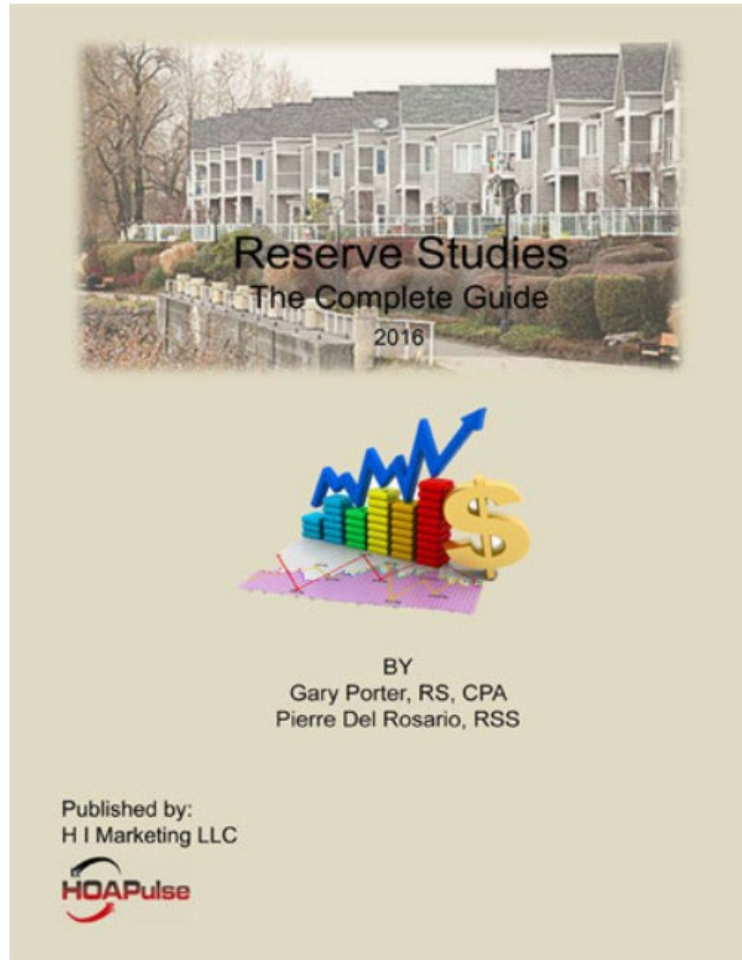
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Reserve Studies – The Complete Guide



Reserve Study Reports & Calculations

The reserve study report is a financial document

It is not a maintenance plan, an engineering report, a property condition assessment or anything related to components.

All three sets of reserve study standards recognize that the reserve study process consists of a physical analysis and a financial analysis.

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The reserve study financial process consists of:

- Financial calculations
- Financial modeling
- Financial reporting

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Preparers of financial documents like reserve studies need to know

- What is the difference between a forecast and a projection?
- What are prospective financial statements?
- What is the single most important item in a reserve study?
- Are there standard financial reporting protocols
- What exhibits are normally expected? In what order?

Reserve Study Reports & Calculations

Preparers of financial documents like reserve studies need to know

- If you don't know the answers to all of these questions you really don't have enough knowledge to properly prepare financial reports such as reserve studies
- If you are a member of ICBI you don't need to know any of the answers to the above, because all relative requirements are built directly into the ICBI standards – you just have to follow the standards

Reserve Study Reports & Calculations

Goal of reporting standards

- Clarity
- Consistency
- Comparability

Not trying to make reserve preparers into accountants, just trying to get reports into some semblance of compliance with reporting protocols that have existed for more than 100 years –

Just so finance type people who read the reports think you're informed on financial reporting.

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Impact of standards on reserve study process and reports

ICBI standards are generally concepts based related to components and rules based related to reports.

Contrast to NRSS standards which are generally rules based related to components and concept based related to reports.

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Minimum required report sections and exhibits

- Cover
- Table of contents
- Preparer report
- Statement of position
- Cash Flow
- Expenditures summary
- Summary component list
- Disclosures – including summary of significant assumptions
- Supplementary exhibits – FASB disclosures
- Whatever else you want

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Some standard reporting protocols – little things, big impact

- Headers, footers, and page numbers on all exhibits
- Header to include association name, period covered, exhibit title
- Totals on pages where appropriate

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Some standard exhibit requirements

- Cover page – association name, type of report, period covered
- Report - association name, type of report, period covered, standards followed, conclusions
- Statement of position – current financial status
- Cash Flow – Future funding analysis
- Expenditures – Future expenditures
- Component list – generally at summary level
- Disclosures – Anything relevant to report including all assumptions
- FASB Disclosures

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Funding Methods

- Component Method
 - Simple in concept
 - Easy to manipulate
- Pooling or Cash Flow Method
 - Confused by many as a funding goal – it's not
 - Most simple method to calculate
 - Eliminate allocation requirement inherent to component method

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Funding Goals

- Baseline Funding Goal
- Threshold Funding Goal
- Full Funding Goal

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Understanding calculations

- Interest
- Inflation
- One-time expenditures
- Percent funded

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Percent Funded

- Mostly a west coast thing
- Highly misunderstood
- Can be easily manipulated
- Is really a blunt force tool

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Understanding Percent Funded – More complex than it looks

Balance available	\$ 50,000
100% funded balance	<u>\$ 100,000</u>

Reserve Study Reports & Calculations

Understanding Percent Funded – More complex than it looks

	Cost Factor Used			
	Current	Time Valued	Future	Average
Balance available		\$ 50,000		
100% funded balance		\$ 100,000		

Reserve Study Reports & Calculations

Understanding Percent Funded – More complex than it looks

	Cost Factor Used			
	Current	Time Valued	Future	Average
Balance available		\$ 50,000		
100% funded balance		\$ 100,000		

Beginning of year
 End of year
 Inflation
 Interest

Reserve Calculations – Percent Funded

Example - Year 8 of 10 year component with \$100,000 current cost at 3% inflation

100 Percent Cost Calculation Method Used

	1	2	3	4
	<u>Current</u>	<u>Inflation Adjusted</u>	<u>Future</u>	<u>Average</u>
Balance				
Cash & Investments	\$ 118,988	\$ 118,988	\$ 118,988	\$ 118,988
+ Other Assets		\$ 3,000		
- Liabilities		\$ (6,000)		
+ Off balance sheet amounts		\$ 7,000		
Balance available	\$ 118,988	\$ 122,988	\$ 118,988	\$ 118,988
100% funded balance	\$ 100,000	\$ 122,988	\$ 130,478	\$ 115,239
Beginning of year		Yes		
End of year		Yes		
Inflation		Always		
Interest		Never		
Percent Funded Calculated	119.0%	100.0%	91.2%	103.3%

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Understanding Percent Funded – Gaming the system

Roofing example

\$500,000 annually for 30 years equals \$15,000,000

If calculated based on annual expenditure it results in a high percent funded calculation

If calculated based on total roof cost it results in a low percent funded calculation

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Three separate disciplines comprise the reserve study process.

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



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Questions?

Comments?

Gary Porter

Facilities Advisors

gporter@FacilitiesAdvisors.com

877.304.6700

