

## **What is a reserve study and why would an HOA need one?**

Community associations come in all sizes. They vary in age, amenities provided, and maintenance obligations. Careful planning for future repairs and replacements is not only in the best physical and fiscal interests of the community association, it is required by law in some states. Maintaining a reserve fund not only meets legal, fiduciary and professional requirements, it also minimizes the need for special assessments and enhances resale values. Every community association requires a different amount of cash in reserves to complete repair or replacement projects on schedule without special assessments or loans. How does an association properly determine and compile adequate reserves to fund necessary repair and replacement costs? By conducting reserve studies.

### **Contents of a Reserve Study**

A reserve study should include the following:

- A summary of the association, including the number of units, physical description, and the financial condition of the reserve fund.
- A projection of the reserve starting balance, recommended reserve contributions, projected reserve expenses, and the projected ending reserve fund balance for a minimum of 20 years.
- A tabular listing of the component inventory, component quantity or identifying descriptions, useful life, remaining useful life, and current replacement cost.
- A description of the methods and objectives utilized in computing the fund status and in the development of the funding plan.
- Source(s) utilized to obtain component repair or replacement cost estimates.
- A description of the level of service by which the reserve study was prepared and the fiscal year for which the reserve study was prepared.