

Application for CAI's  
Reserve Specialist (RS) Designation

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## General Information

### Reserve Study

A Reserve Study is made up of two parts, 1) the information about the physical status and repair/replacement cost of the major common area components the association is obligated to maintain (Physical Analysis), and 2) the evaluation and analysis of the association’s Reserve balance, income, and expenses (Financial Analysis). The Physical Analysis is comprised of the Component Inventory, Condition Assessment, and Life and Valuation Estimates. The Component Inventory should be relatively “stable” from year to year, while the Condition Assessment and Life and Valuation Estimates will necessarily change from year to year. The Financial Analysis is made up of a finding of the client’s current Reserve Fund Status (measured in cash or as Percent Funded) and a recommendation for an appropriate Reserve contribution rate (Funding Plan).

#### Physical Analysis

- Component Inventory
- Condition Assessment
- Life and Valuation Estimates

#### Financial Analysis

- Fund Status
- Funding Plan

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# Levels of Service

The following three categories describe the various types of Reserve Studies, from exhaustive to minimal.

- I. **Full:** A Reserve Study in which the following five Reserve Study tasks are performed:
  - Component Inventory
  - Condition Assessment (based upon on-site visual observations)
  - Life and Valuation Estimates
  - Fund Status
  - Funding Plan
  
- II. **Update, With-Site-Visit/On-Site Review:** A Reserve Study update in which the following five Reserve Study tasks are performed:
  - Component Inventory (verification only, not quantification)
  - Condition Assessment (based on on-site visual observations)
  - Life and Valuation Estimates
  - Fund Status
  - Funding Plan
  
- III. **Update, No-Site-Visit/Off Site Review:** A Reserve Study update with no on-site visual observations in which the following three Reserve Study tasks are performed:
  - Life and Valuation Estimates
  - Fund Status
  - Funding Plan

# Terms and Definitions

**CASH FLOW METHOD:** A method of developing a Reserve Funding Plan where contributions to the Reserve fund are designed to offset the variable annual expenditures from the Reserve fund. Different Reserve Funding Plans are tested against the anticipated schedule of Reserve expenses until the desired Funding Goal is achieved.

**COMPONENT:** The individual line items in the Reserve Study, developed or updated in the Physical Analysis. These elements form the building blocks for the Reserve Study. Components typically are: 1) Association responsibility, 2) with limited Useful Life expectancies, 3) predictable Remaining Useful Life expectancies, 4) above a minimum threshold cost, and 5) as required by local codes.

**COMPONENT INVENTORY:** The task of selecting and quantifying Reserve Components. This task can be accomplished through on-site visual observations, review of association design and organizational documents, a review of established association precedents, and discussion with appropriate association representative(s) of the association or cooperative.

**COMPONENT METHOD:** A method of developing a Reserve Funding Plan where the total contribution is based on the sum of contributions for individual components. See "Cash Flow Method."

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**CONDITION ASSESSMENT:** The task of evaluating the current condition of the component based on observed or reported characteristics.

**CURRENT REPLACEMENT COST:** See "Replacement Cost."

**DEFICIT:** An actual (or projected) Reserve Balance less than the Fully Funded Balance. The opposite would be a Surplus.

**EFFECTIVE AGE:** The difference between Useful Life and Remaining Useful Life. Not always equivalent to chronological age, since some components age irregularly. Used primarily in computations.

**FINANCIAL ANALYSIS:** The portion of a Reserve Study where current status of the Reserves (measured as cash or Percent Funded) and a recommended Reserve contribution rate (Reserve Funding Plan) are derived, and the projected Reserve income and expense over time is presented. The Financial Analysis is one of the two parts of a Reserve Study.

**FULLY FUNDED:** 100% Funded. When the actual (or projected) Reserve balance is equal to the Fully Funded Balance.

**FULLY FUNDED BALANCE (FFB):** Total Accrued Depreciation. An indicator against which Actual (or projected) Reserve balance can be compared. The Reserve balance that is in direct proportion to the fraction of life "used up" of the current Repair or Replacement cost. This number is calculated for each component, then summed together for an association total. Two formulae can be utilized, depending on the provider's sensitivity to interest and inflation effects. Note: Both yield identical results when interest and inflation are equivalent.

$$\text{FFB} = \text{Current Cost} \times \text{Effective Age} / \text{Useful Life}$$

or

$$\text{FFB} = (\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) + [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Interest Rate}) ^ \text{Remaining Life}] - [(\text{Current Cost} \times \text{Effective Age} / \text{Useful Life}) / (1 + \text{Inflation Rate}) ^ \text{Remaining Life}]$$

**FUND STATUS:** The status of the reserve fund as compared to an established benchmark such as percent funding.

**FUNDING GOALS:** Independent of methodology utilized, the following represent the basic categories of Funding Plan goals:

**Baseline Funding:** Establishing a Reserve funding goal of keeping the Reserve cash balance above zero.

**Full Funding:** Setting a Reserve funding goal of attaining and maintaining Reserves at or near 100% funded.

**Statutory Funding:** Establishing a Reserve funding goal of setting aside the specific minimum amount of Reserves required by local statutes.

**Threshold Funding:** Establishing a Reserve funding goal of keeping the Reserve balance above a specified dollar or Percent Funded amount. Depending on the threshold, this may be more or less conservative than "Fully Funding."

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**FUNDING PLAN:** An association's plan to provide income to a Reserve fund to offset anticipated expenditures from that fund.

**FUNDING PRINCIPLES:**

- Sufficient Funds When Required
- Stable Contribution Rate over the Years
- Evenly Distributed Contributions over the Years
- Fiscally Responsible

**LIFE AND VALUATION ESTIMATES:** The task of estimating Useful Life, Remaining Useful Life, and Repair or Replacement Costs for the Reserve components.

**PERCENT FUNDED:** The ratio, at a particular point of time (typically the beginning of the Fiscal Year), of the *actual (or projected)* Reserve Balance to the *Fully Funded Balance*, expressed as a percentage. 4

**PHYSICAL ANALYSIS:** The portion of the Reserve Study where the Component Inventory, Condition Assessment, and Life and Valuation Estimate tasks are performed. This represents one of the two parts of the Reserve Study.

**REMAINING USEFUL LIFE (RUL):** Also referred to as "Remaining Life" (RL). The estimated time, in years, that a reserve component can be expected to continue to serve its intended function. Projects anticipated to occur in the initial year have "zero" Remaining Useful Life.

**REPLACEMENT COST:** The cost of replacing, repairing, or restoring a Reserve Component to its original functional condition. The Current Replacement Cost would be the cost to replace, repair, or restore the component during that particular year.

**RESERVE BALANCE:** Actual or projected funds as of a particular point in time that the association has identified for use to defray the future repair or replacement of those major components which the association is obligated to maintain. Also known as Reserves, Reserve Accounts, Cash Reserves. Based upon information provided and not audited.

**RESERVE PROVIDER:** An individual that prepares Reserve Studies.

**RESERVE STUDY:** A budget planning tool which identifies the current status of the Reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures. The Reserve Study consists of two parts: the Physical Analysis and the Financial Analysis. "Our budget and finance committee is soliciting proposals to update our Reserve Study for next year's budget."

**RESPONSIBLE CHARGE:** A reserve specialist in responsible charge of a reserve study shall render regular and effective supervision to those individuals performing services which directly and materially affect the quality and competence rendered by the reserve specialist. A reserve specialist shall maintain such records as are reasonably necessary to establish that the reserve specialist exercised regular and effective supervision of a reserve study of which he was in responsible charge. A reserve specialist engaged in any of the following acts or practices shall be deemed not to have rendered the regular and effective supervision required herein:

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1. The regular and continuous absence from principal office premises from which professional services are rendered; except for performance of field work or presence in a field office maintained exclusively for a specific project;
  2. The failure to personally inspect or review the work of subordinates where necessary and appropriate;
  3. The rendering of a limited, cursory or perfunctory review of plans or projects in lieu of an appropriate detailed review;
  4. The failure to personally be available on a reasonable basis or with adequate advance notice for consultation and inspection where circumstances require personal availability.

**SPECIAL ASSESSMENT:** An assessment levied on the members of an association in addition to regular assessments. Special Assessments are often regulated by governing documents or local statutes.

**SURPLUS:** An actual (or projected) Reserve Balance greater than the Fully Funded Balance. See "Deficit."

**USEFUL LIFE (UL):** Total Useful Life or Depreciable Life. The estimated time, in years, that a reserve component can be expected to serve its intended function if properly constructed in its present application or installation.

# Reserve Study Required Contents

Each Reserve Study prepared by a Reserve Specialist or Reserve Specialist applicant must contain all of the following elements:

PAGE	CONTENTS
_____	1. A summary of the association’s number of units.
_____	2. Association physical description (legal or physical narrative).
_____	3. General statement or opinion describing the association’s current reserve fund status (good/fair/poor, adequate or inadequate. Percent Funded, etc.).
_____	4. General statement describing the methods and objectives utilized in computing or evaluating the association’s Reserve Fund status (Percent Funded or otherwise).
_____	5. Fiscal Year (start and end) for which the Reserve study is prepared.
_____	6. A projection of starting reserve cash balance (as-of above start date).
_____	7. A general statement describing the development or computation of the association’s starting Reserve Fund balance.
_____	8. Recommended reserve contributions (minimum 20 years).
_____	9. Projected reserve expenses (minimum 20 years).
_____	10. Projected ending reserve fund balance (minimum of 20 years).
_____	11. A tabular listing of the components in the Reserve Study.
_____	12. A tabular listing of the component quantities or identifying descriptions.
_____	13. A tabular listing showing each component’s Useful Life.
_____	14. A tabular listing showing each component’s Remaining Useful Life, where RUL=0=initial year.
_____	15. A tabular listing showing each component’s Current Replacement Cost.
_____	16. A general statement describing the Methods (cash flow, component, etc.) and Goals (Full Funding, Threshold Funding, Baseline Funding) of the Funding Plan, using National Standard terminology.
_____	17. Identification of the source(s) utilized to obtain component repair or replacement cost estimates.
_____	18. A clear description of which one of the three Reserve Study “Levels of Service” (ie: Full, Update With-Site-Visit, Update No-Site-Visit) was performed.
_____	19. A clear statement of assumption used for Interest and inflation (whether zero or otherwise).

**Applicants MUST INCLUDE THE ABOVE TABLE with their work product submission, noting the page number where all the above required elements can be found in their sample work product.**

# Reserve Study Required Disclosures

Each Reserve Study prepared by a Reserve Specialist or Reserve Specialist applicant must contain all of the following disclosures:

PAGE	DISCLOSURE
_____	1. <b>General:</b> Description of other involvement(s) with the association, which could result in actual or perceived conflicts of interest.
_____	2. <b>Physical Analysis:</b> Description of how thorough the on-site observations were performed: representative sampling vs. all common areas, destructive testing or not, field measurements vs. drawing take-offs, etc.
_____	3. <b>Personnel Credentials:</b> State or organizational licenses or credentials carried by the individual responsible for Reserve Study preparation or oversight.
_____	4. <b>Completeness:</b> Material issues which, if not disclosed, would cause a distortion of the association's situation.
_____	5. <b>Reliance on Client Data:</b> Information provided by the official representative of the association regarding financial, physical, quantity, or historical issues will be deemed reliable by the consultant.
_____	6. <b>Scope:</b> The Reserve Study will be a reflection of information provided to the consultant and assembled for the association's use, not for the purpose of performing an audit, quality/forensic analyses, or background checks of historical records.
_____	7. <b>Reserve Balance:</b> The actual or projected total presented in the Reserve Study is based upon information provided and was not audited.
_____	8. <b>Reserve Projects:</b> Information provided about reserve projects will be considered reliable. Any on-site inspection should not be considered a project audit or quality inspection.

**Applicants MUST INCLUDE THE ABOVE TABLE with their work product submission, noting the page number where all the above required elements can be found in their sample work product.**