



Asset Guardians
Building Tomorrow's
Reserves Today

Reserve Study Analysis



Sample Community

St. Louis, Missouri

2014





About Asset Guardians

Asset Guardians is a St. Louis, MO based reserve study company serving throughout Missouri and the Midwest. We develop reserve studies to accurately document, anticipate, and manage long term financial expenses for the community owned property of homeowner and condominium associations. With more than 20 years of experience with property and construction management in residential, town home, and condominium associations, we offer and deliver a thorough assessment of your community's condition. Our services provide a complete, detailed financial analysis of your property and amenity assets. We start with a community inspection, review maintenance and repair history, and prepare a condition report with financial conclusions that help forecast your community's reserve needs. Our solution, constructed from proven study methodology, will help verify your community's improvement needs and advise you on issues that can impact the budget and cause a loss of financial resources. Using proven software tools that calculate your short and long-term funding requirements, we are equipped to deliver both physical and financial reporting for your community. With our commitment to excellence and service, we provide solutions you need today and in the future.

Asset Guardians available services:

- Full Reserve Studies with site visit and funding report
- Data update and annual review reports
- Mini-10 Reserve Study Reports for bank lending
- FHA Certification Services
- Construction Administration Services
- Property Condition Assessments
- Insurance Appraisals
- Lender compliance reports
- Presentation to board members
- PDF copies for Associations
- Presentations to annual membership meetings
- Presentations to special meetings
- Critical issue and special studies



ABOUT RESERVE STUDIES

The objective of a Reserve Study is to set the minimum level of annual reserve contributions made by a community association. This generally insures that adequate funds exist for the replacement or major repair of any component of the property as it becomes necessary. Depending on the Board of Directors wishes, a study can be either extremely exhaustive or restricted to only the major building components. In either case, each item included must be evaluated to determine the current condition, the remaining useful life and the replacement cost. This information is then synthesized into a spreadsheet format which determines the contribution needed. All costs and balances are shown both in constant dollars and adjusted for annual inflation and interest earned (rate assumptions are clearly shown). Ideally, an even level of contribution is established that maintains a positive balance in the account.

In order to build a study that is the greatest value to the Association, *Asset Guardians* employs a "Reasonable Approach" when evaluating a property. This means that we attempt to predict (based on the economics and the Association's objectives) what a reasonable person will decide to have done when the corrective action becomes necessary. For example, a reasonable person does not have an entirely new fence installed when repairing and restoring the old one would have produced the same result. The benefit of this is that reserve contributions are minimized to allow for what is most likely to occur. Our studies are not based on a worst case scenario. It should be noted that our approach assumes that the Association will correct minor problems as they occur – before they become major problems.

The benefits of a consistent annual contribution to reserves as determined by a reserve study are many:

- ❖ **It is fair.** Owners contribute only for the useful life extracted during their term of ownership. Current owners are not assessed for what previous owners did not pay.
- ❖ **Protects the owner's investment.** By insuring that funds always exist to keep a community maintained and functional, each owner's investment in their unit is protected.
- ❖ **Increases salability/lend ability.** Savvy purchasers and lenders are closely examining association finances before making commitments. A good reserve study and adequate reserves illustrate an Association's financial health and endurance.
- ❖ **Reduces special assessments.** By utilizing a reserve study to aid in medium and long range planning, the need for special assessments is greatly reduced. This assists personal financial planning and reduces the uncertainty and fear of ownership.
- ❖ **Identifies problem areas.** By highlighting items that need immediate attention or routine maintenance, useful lives are extended and costs are minimized. An ounce of prevention is worth a pound of cure.

In order to provide the best reserve analysis possible, many sources are used in compiling our report. These include:

- ❖ Site visit and inspection of facilities.
- ❖ Conference with on-site management and maintenance personnel.
- ❖ Review of building blueprints.
- ❖ Generally accepted construction, maintenance and repair guidelines.

- ❖ Conversations with vendors employed by the association.

It is important to note that the long term nature of this study requires that certain assumptions and predictions be made about future events. Since there can be no guarantees that these future events will actually occur as assumed, it is important that this analysis be viewed in light of the circumstances under which it is conducted. Every reasonable effort is made to insure that the conclusions of this report are based on reliable information and sound reasoning.

This report should be updated annually with actual repair costs, reserve balances, etc. Every two or four years it should be updated with a physical inspection and professional review. Regular updating will allow changes based on actual occurrences and adjustments for the cost of repairs to be incorporated into the annual reserve contributions. This will allow any savings or additional costs to be properly allocated among unit owners.

6 THINGS YOU SHOULD KNOW BEFORE YOU CONDUCT A RESERVE STUDY

One of the primary business duties of Community Associations is maintaining and preserving property values of the Associations common property. To do this properly, Associations must develop funding plans for future repair or replacement of major common-area components. A Reserve Study is a budget-planning tool that identifies the current status of the Reserve fund and establishes 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.

There are many benefits to having a Reserve Study done. First, it meets legal, fiduciary and professional requirements. It provides for the planned replacement of major items that must, at some point in time, be replaced, as major items deteriorate during use. It minimizes the need for special assessments. And lastly, a replacement fund enhances resale values. Following are things to keep in mind when planning your Reserve Study.

1. All Reserve Studies are not equal. Until just a few years ago, most Reserve Studies included a list of all of the components, their replacement cost and remaining useful life in order to determine what the next years funding should be. After many years of discussion and development by the Reserves Committee of the Community Associations Institute, it was agreed by the leading Providers from across the United States that all Reserve Studies should include not only this “Physical Analysis” but also a comprehensive “Financial Analysis”. This is now the standard. The physical analysis is important because it determines the existing condition of the common elements. The financial analysis, which includes a cash flow projection of the Reserve Fund over a 20 to 30 year period, is even more important because it focuses on the planning and budgeting of replacing these common elements based on the specific needs of the Association. A Financial Analysis enables the Association to consider long term planning decisions, rather than focusing only on the next year’s replacement items. By providing this projection, the Association is better able to make an informed decision in regards to how much money should be set aside each year into the Reserve Fund and still feel comfortable that a special assessment will not be required over the life of the projection.

2. Full Funding of a Reserve Study may mean that you are over funded. Based upon the National Reserve Study Standards of the Community Associations Institute, there are a number of different “Funding Goals” which are recommended to be utilized as the basis for your Associations future reserve fund planning. “Baseline Funding” is when the cash flow projection reaches \$0 at some time over the projection period. “Component Full Funding” is based on keeping every individual component within the Study 100% funded. In most instances, this will result in a significant amount of funds, which are never used during the cash flow projection period. “Threshold Funding” is when the amount in the fund during the cash flow projection period is based upon keeping a minimum balance within the fund. This is generally more than “Baseline Funding” and less than “Full Funding”. “Statutory Funding” is based upon the establishment of the amount to be funded as dictated by the local State requirements. At *Asset*

Guardians, we work with the client to establish the funding goals ahead of time and then concentrate on strategies to achieve that objective.

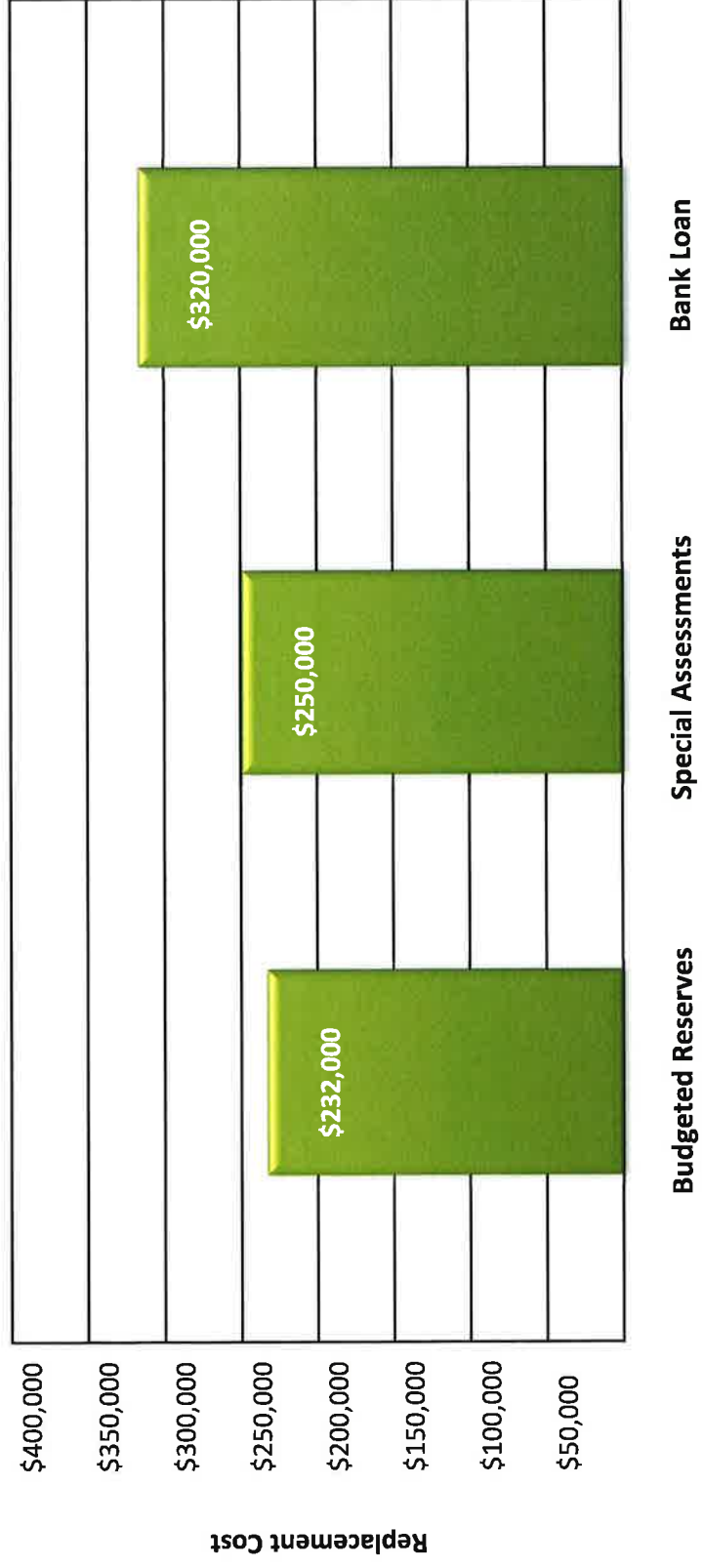
3. The Replacement Costs included within a Reserve Study should not always be based upon a replacement with the exact same component. In many instances the original component, which is being replaced, either is no longer available or has become outdated since it was first installed. By making recommendations for alternatives to the initial installation, the Association may be able to install a replacement with a significantly longer life such as a new type roofing system, or something which is much more energy efficient such as a new HVAC system. In both cases, this will result in either a reduction in the recommended contributions to the Reserve Fund or a reduction in the client's energy costs. At *Asset Guardians*, all Reserve Studies are prepared under the direction of experienced professionals whose expertise is not only estimated life valuations and cost estimating but also in design. *Asset Guardians* also provides alternative recommendations and the required design services when the replacements become necessary.

4. The Reserve Study can be used for much more than just estimating the Associations contributions to the Reserve Fund. The Reserve Study cash flow analysis can also be used as a tool for determining how the Associations Reserve Funds can be invested. They give the Association the ability to plan for the actual replacements, therefore making it easier to negotiate more effectively with contractors. The cash flow analysis will show how much money will be in the Reserve Fund and over what period of time. By reviewing this information with the Associations investment advisor, an investment plan can be established to maximize the return on these funds based upon when they will be needed. In addition, by reviewing the anticipated replacements in the coming year on a regular basis, the Association can plan to have the required work performed before the actual conditions deteriorate to the point that remedial work will be required as part of the replacement, which can cause a significant increase in the actual cost of doing the work. A common example of this occurs with pavement seal coating and overlays. If the application of the seal coating is not performed on the recommended schedule, even if the pavement looks good, it can result in additional deterioration of the pavement which must be corrected prior to the application of the overlay. This can reduce the anticipated time period before the overlay is needed, but also increase the cost of the work when it is done. At *Asset Guardians* our expertise in both the analysis of existing conditions and the ability to answer technical questions specifically related to the conditions at your site can help prevent this from occurring.

5. The Reserve Study will not be the only funding the Association will need for the upkeep of the common elements. The Reserve Study is only for the major repair or replacement of the common and limited common elements that are the Associations responsibility. In all cases the cost of ongoing maintenance should also be budgeted for separately, as this is not included within the Reserve Study. If the proper maintenance is not performed, it can result in a significant loss of useful life for the reserve components. This will result in their replacement occurring sooner than anticipated when adequate funds have not yet been accumulated. At *Asset Guardians*, we can also provide the Association with a recommended maintenance schedule and budget to help prevent this situation from occurring.

6. The Reserve Study is a budgeting tool and the actual cost of performing the replacement work when it occurs will generally vary from the costs included within the Study. In preparing the Reserve Study, the replacement costs, which are used, are based upon both estimating standards as well as the actual cost of similar projects, which have been performed. The replacement costs are typically based upon current dollars and are not based upon the preparation of specifications and bidding of the work to actual contractors. It is intended to be used as a budget-planning tool. In order to keep the replacement costs as well as the anticipated useful lives current the Reserve Study should be updated (including a site visit) on a regular basis. At *Asset Guardians* our expertise in the preparation of Reserve Studies and the implications of the different funding plans, allows us to make recommendations on how often the Study should be updated and what may happen if it is not. All studies include a comprehensive section outlining these recommendations.

Funding Comparison - \$250,000 Project





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Sample Pages from a reserve study

HOA Reserve Study Expense Item Listing - Continued

Reserve Items	Unit Cost	No Units	Current Cost When New	Estimated Remaining Life	Expected Life When New	Fiscal Calendar Year	Estimated Future Cost	Raw Annual Payment
Gutters	\$5.00 / lf	300 lf	\$1,500	3 Years	3 Years	2042	\$3,774	\$1,244.27
Deck Rails Vinyl- 25 houses	\$95.00 ea	200	\$19,000	15 Years 20 Years	20 Years	2027 2047	\$30,589 \$55,474	\$1,800.01 \$2,571.72
Deck Stain Rolled/ power wash 25 homes	\$276 ea	25	\$6,900	5 Years	5 Years	2017 2022 2027 2032 2037 2042	\$8,249 \$9,573 \$11,109 \$12,891 \$14,960 \$17,360	\$1,344.57 \$1,879.46 \$2,181.04 \$2,531.01 \$2,937.13 \$3,408.42
Decks Roof Cover owner responsible	\$1.00 ea	1	\$1	20 Years	20 Years	2032 2052	\$2 \$3	\$0.08 \$0.16
Stairway Decks Owner responsibility	\$15.00 / ft	1 ft	\$15	30 Years	30 Years	2042	\$38	\$1.08
Veneer Clay Brick	\$15.00 / ft ²	60 ft ²	\$900	7 Years	5 Years	2019	\$1,142	\$138.55
Veneer Rock	\$14.28 / ft ²	16 ft ²	\$228	10 Years	2 Years	2022	\$317	\$27.65
Vinyl	\$3.45 / ft ²	50 ft ²	\$173	3 Years	2 Years	2015	\$194	\$47.87
Painting Trim each unit	\$250 ea	20	\$5,000	4 Years 5 Years	5 Years	2016 2021 2026 2031 2036 2041	\$5,802 \$6,733 \$7,814 \$9,068 \$10,522 \$12,211	\$1,139.20 \$1,321.99 \$1,534.12 \$1,780.28 \$2,065.94 \$2,397.44
Concrete-- Lower Patio Slab -owner responsible	\$5.50 / ft	1 ft	\$6	25 Years	25 Years	2037 2062	\$12 \$25	\$0.42 \$0.91
Garage Door 9 ft Metal	\$1,000 ea	1	\$1,000	20 Years	20 Years	2032 2052	\$1,868 \$3,388	\$82.17 \$157.07
Garage Doors Double Metal 16 ft	\$1,200 ea	1	\$1,200	25 Years	25 Years	2037 2062	\$2,602 \$5,475	\$90.66 \$199.19
Asphalt Comp 3Tab 25 #--- 22 units each year	\$1.98 / ft ²	39000 ft ²	\$77,220	20 Years	25 Years	2032	\$144,269	\$6,345.30
Asphalt Comp 3Tab #3	\$1.98 / ft ²	39000 ft ²	\$77,220	21 Years	25 Years	2033	\$148,628	\$6,215.88

Prepared by ASSET GUARDIANS
HOA Funding Study Cash Flow Analysis

Fiscal Calendar Year	Annual Payment	Annual Interest	Salvage	Annual Expenses	Annual Income Tax	Net Reserve Funds	% Funded
2012	\$42,756	\$151			\$45	\$43,362	24.5 %
2013	\$42,756	\$472			\$142	\$86,449	40.7 %
2014	\$42,756	\$796			\$239	\$129,763	52.4 %
2015	\$42,756	\$1,121		\$194	\$336	\$173,109	61.2 %
2016	\$42,756	\$1,446		\$6,005	\$434	\$210,872	66.2 %
2017	\$43,006	\$1,730		\$10,371	\$519	\$244,718	70.1 %
2018	\$43,593	\$1,986			\$596	\$289,701	77.1 %
2019	\$43,593	\$2,323		\$4,314	\$697	\$330,606	80.0 %
2020	\$43,481	\$2,629		\$16,732	\$789	\$359,196	80.4 %
2021	\$44,659	\$2,848		\$6,969	\$854	\$398,880	84.7 %
2022	\$44,879	\$3,146		\$14,052	\$944	\$431,909	85.5 %
2023	\$45,214	\$3,395			\$1,019	\$479,499	89.9 %
2024	\$45,214	\$3,752		\$8,312	\$1,126	\$519,027	90.2 %
2025	\$45,344	\$4,049			\$1,215	\$567,205	93.0 %
2026	\$45,344	\$4,410		\$23,402	\$1,323	\$592,234	90.7 %
2027	\$46,087	\$4,601		\$55,511	\$1,380	\$586,030	87.0 %
2028	\$48,962	\$4,564			\$1,369	\$638,186	95.8 %
2029	\$48,962	\$4,955		\$9,193	\$1,487	\$681,424	95.4 %
2030	\$49,263	\$5,280		\$22,206	\$1,584	\$712,176	94.5 %
2031	\$48,811	\$5,509		\$151,736	\$1,653	\$613,108	78.6 %
2032	\$42,689	\$4,745		\$190,979	\$1,424	\$468,140	69.8 %
2033	\$37,798	\$3,641		\$154,161	\$1,092	\$354,326	68.3 %
2034	\$31,753	\$2,767		\$167,990	\$830	\$220,026	55.4 %
2035	\$26,197	\$1,740		\$157,744	\$522	\$89,698	35.0 %
2036	\$20,196	\$742		\$16,941	\$223	\$93,472	78.8 %
2037	\$20,726	\$772		\$24,078	\$232	\$90,661	73.9 %
2038	\$21,532	\$754		\$24,737	\$226	\$87,985	73.1 %
2039	\$22,322	\$737		\$23,758	\$221	\$87,064	73.7 %
2040	\$22,352	\$730		\$3,793	\$219	\$106,134	90.8 %
2041	\$22,479	\$873		\$12,638	\$262	\$116,586	85.8 %
2042	\$19,997	\$943		\$38,985	\$283	\$98,258	68.4 %
Totals :	\$1,188,234	\$77,608	\$0	\$1,144,801	\$23,283		

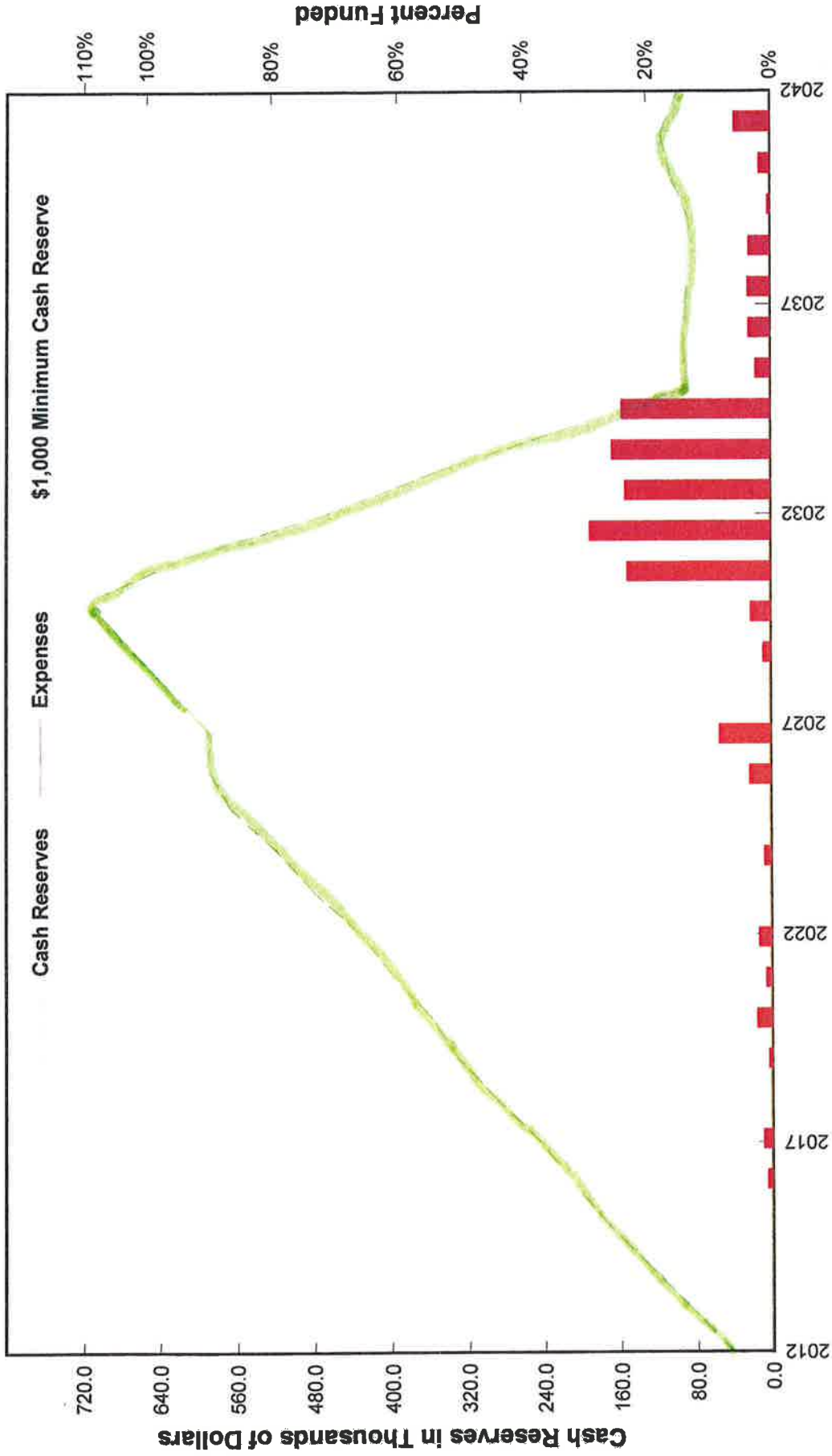
The cash distribution shown in this table applies to repair and replacment cash reserves only.

Basis of Funding Study

Cash reserves have been set to a minimum of \$1,000

Months Remaining in Fiscal Calendar Year 2012: 12 Inflation = 2.98 % Interest = 0.75 %
 Study Life = 30 years Initial Reserve Funds = \$500.00 Final Reserve Value = \$98,258.20

HOA Funding Study Cash Flow by Fiscal Calendar Year - Continued



HOA Reserve Payment Summary

Projected Payments by Month and by Fiscal Calendar Year

Fiscal Calendar Year	Member Monthly Operations Payment	Member Monthly Reserve Payment	Member Total Monthly Payment	Member Total Annual Payment	Monthly Reserve Contribution	Annual Reserve Contribution
2012	NA	\$29.94	\$29.94	\$359.30	\$3,563	\$42,756
2013	NA	\$29.94	\$29.94	\$359.30	\$3,563	\$42,756
2014	NA	\$29.94	\$29.94	\$359.30	\$3,563	\$42,756
2015	NA	\$29.94	\$29.94	\$359.30	\$3,563	\$42,756
2016	NA	\$29.94	\$29.94	\$359.30	\$3,563	\$42,756
2017	NA	\$30.12	\$30.12	\$361.40	\$3,584	\$43,006
2018	NA	\$30.53	\$30.53	\$366.33	\$3,633	\$43,593
2019	NA	\$30.53	\$30.53	\$366.33	\$3,633	\$43,593
2020	NA	\$30.45	\$30.45	\$365.39	\$3,623	\$43,481
2021	NA	\$31.27	\$31.27	\$375.29	\$3,722	\$44,659
2022	NA	\$31.43	\$31.43	\$377.13	\$3,740	\$44,879
2023	NA	\$31.66	\$31.66	\$379.95	\$3,768	\$45,214
2024	NA	\$31.66	\$31.66	\$379.95	\$3,768	\$45,214
2025	NA	\$31.75	\$31.75	\$381.04	\$3,779	\$45,344
2026	NA	\$31.75	\$31.75	\$381.04	\$3,779	\$45,344
2027	NA	\$32.27	\$32.27	\$387.28	\$3,841	\$46,087
2028	NA	\$34.29	\$34.29	\$411.44	\$4,080	\$48,962
2029	NA	\$34.29	\$34.29	\$411.44	\$4,080	\$48,962
2030	NA	\$34.50	\$34.50	\$413.97	\$4,105	\$49,263
2031	NA	\$34.18	\$34.18	\$410.17	\$4,068	\$48,811
2032	NA	\$29.89	\$29.89	\$358.73	\$3,557	\$42,689
2033	NA	\$26.47	\$26.47	\$317.63	\$3,150	\$37,798
2034	NA	\$22.24	\$22.24	\$266.83	\$2,646	\$31,753
2035	NA	\$18.35	\$18.35	\$220.14	\$2,183	\$26,197
2036	NA	\$14.14	\$14.14	\$169.72	\$1,683	\$20,196
2037	NA	\$14.51	\$14.51	\$174.17	\$1,727	\$20,726
2038	NA	\$15.08	\$15.08	\$180.94	\$1,794	\$21,532
2039	NA	\$15.63	\$15.63	\$187.58	\$1,860	\$22,322
2040	NA	\$15.65	\$15.65	\$187.83	\$1,863	\$22,352
2041	NA	\$15.74	\$15.74	\$188.90	\$1,873	\$22,479
2042	NA	\$14.00	\$14.00	\$168.04	\$1,666	\$19,997

In the context of the Reserve Payment Summary, the "Annual Reserve Payment" corresponds with the "Annual Revenue" in the Cash Flow report.

Number of Payment Months in Fiscal Calendar Year 2012: 12

Number of Years of Constant Payments: 1

Number of Dues Paying Members: 119