Preparing the Reserve Budget

The executive board uses the reserve study to prepare the annual budget and set monthly assessments.

Annually, after adopting the budget, the executive board then distributes to each unit owner a copy of the budget for ratification. This copy must include:

- The current amount of cash reserves necessary per the reserve study vs. the amount set aside (percent funded); and
- If the projected balance is less than the amount required to adequately fund the reserves, the reason for the difference and how this difference is proposed to be resolved by the executive board, i.e. a statement as to whether a levy of one or more special assessments will be necessary (NAC 116.415);

After ratification, a summary of the reserves must:
- Be reviewed at least once every quarter at a board meeting (revenue/expense report); and
- Be included in any resale package an association prepares for a unit owner to provide to a purchaser when selling their home; providing a potential purchaser with an idea of how well funded the community is.

How Is the "strength" of the Reserve Fund Measured?

Every association has different reserve requirements depending on the scope and timing of that association's reserve projects. By law, the association SHALL establish "adequate" reserves, meaning enough money to maintain the common elements at the level described in the governing documents; without using operating funds and without the use of special reserve assessments (NAC 116.425(2)).

What Is a Special Assessment?

With the goal of establishing adequate reserves, a reasonable special assessment can be imposed against units in the common-interest community by the executive board for a set period of time. Such an assessment MUST be based on the study of the reserves and can be imposed without seeking or obtaining approval of units' owners, but must still be disclosed at a meeting of the unit owners (NRS 116.3108(4)).

State of Nevada

OFFICE OF THE OMBUDSMAN
Nevada Real Estate Division

Department of Business and Industry
Real Estate Division

Ombudsman for Owners in Common-Interest Communities and Condominium Hotels

Telephone: 702-486-4480

Northern Nevada
1818 East College Parkway, Suite 100 Carson City, Nevada, 89706

Southern Nevada
3300 West Sahara Avenue, Suite 325 Las Vegas, Nevada 89102

red.nv.gov

CICOmbudsman@red.nv.gov

Understanding Reserve Studies



What Is a Reserve Study?

The reserve study is a tool used to enable an association to determine the amount of money that should be set aside to repair, replace and restore major components of the common elements of the common - interest community over time.

The executive board SHALL, at least once every 5 years, cause to be conducted a study of the reserves. This designated 5 -year commencement period begins the day the on-site inspection of major components by the reserve study specialist begins. (NRS 116.31152)

Reserve Study Timeline

Step 1—the executive board determines when the next study of the reserves is due.

Step 2—bids for reserve study specialists are received and a specialist is selected.

Step 3—an on -site inspection is scheduled with the specialist, who will ask for certain documentation, and may ask that a representative from the community be present.

Step 4—a draft reserve study is submitted to the executive board for adoption.

Step 5–based on the results of the reserve study, a funding plan is implemented by the executive board.

Who May Conduct the Study?

Specialists take courses similar to community managers and must disclose, as part of the reserve study, all of the following:

• Background, training, references and qualifications;
• Any potential conflict of interest;
• Proof of professional liability insurance with a minimum coverage of $1,000,000;
• Method(s) for determining common area components;
• Industry sources used for determining the life and cost of major components;
• Any guarantees provided by a manufacturer or service provider; and
• Source of interest and inflation rate assumptions used in the 30-year projection.

A person shall not act as a reserve study specialist unless the person registers with the Division and receives a permit (NRS 116A.420). The Division maintains a list of all those registered as reserve study specialists and makes the list available to the public through NRED's main webpage, specifically through 'license lookup'.

Components of a Reserve Study

A Reserve Study consists of two parts:

- **Physical Analysis**—analysis of the current condition of major common area components through inventory, inspection and determination of remaining useful life.
- **Financial Analysis**—a recommended Funding Plan created by the Reserve Study Specialist to offset anticipated future expenses.



What Must a Reserve Study Include?

Among other things:
• An inspection and summary report of major components of the common elements as defined in NRS 116.0605 (inventory list);
• An estimate of the remaining useful life of each major component;
• An estimate of the cost of maintenance, repair, replacement or restoration of each major component over time (30 year projection);
• An estimate of the total annual assessment that may be necessary to cover this cost; and
• An estimate of the funding plan necessary to provide adequate funding.



Funding Plan Types

Full Funding – the projected balance is equal to the fully funded balance of 100%; all money required to carry out reserve projects for that year is in the reserve account, ready to be spent.

Threshold Funding – establishing a reserve funding goal of keeping the reserve balance above a specified percent funded amount [Ex. 75%]; less stringent than full funding and allows room to adjust the funding plan.

Baseline Funding – objective of keeping the reserve cash balance at least above zero; money is added and spent as needed; most dangerous type of funding.

Adopting the Study

After receiving a first draft of the reserve study from the specialist, the executive board should go over the results to make sure that all common elements of the community are properly listed. While the executive board can recommend that certain amendments be made to the study, recommendations should not include any requests to change monetary calculations or exclude common elements.

The executive board must submit a summary of the study to the Division within 45 days after the date the study is adopted by the board using Form 609. This summary, on Form 609, must be provided to the Division 45 days after adoption.

Constant Review

At least once a year, the executive board must review the reserve study to ensure that the funding plan chosen is sufficient and make any necessary adjustments. Remember, the reserve fund should not be over-funded either.

How Much Money is Enough?

Money is collected from unit owners to maintain common elements in the form of assessments. This money goes into two funds:

The OPERATING FUND, which reflects the accounting transactions surrounding the normal, day to day maintenance and service operations of the association; and

The RESERVE FUND, which reflects accounting transactions pertaining to the long-term, MAJOR repair and replacement requirements of the association.

Money in the reserves may be used only for those purposes, including, without limitation, repairing, replacing and restoring roofs, roads and sidewalks, and must not be used for daily maintenance and operating expenses. .

How Well-Funded are You?

You can calculate "Percent Funded" by dividing (as of a particular date) the actual current fund balance (determined by bank statements), by the full funding amount that the reserve study predicted would be sufficient for that year..

