



Association of Professional Reserve Analysts

APRA Position Statement

The Board of Directors of APRA issues **Position Statements** in the interest of furthering the common body of knowledge relating to reserve studies. The following are three statements concerning **Percent Funded, Cost Estimates, and Assessment Projections**. California, in particular, requires community associations to identify how much an association has **Percent Funded** its reserves. It is a means to test or measure the financial health of an association with respect to reserves. **Cost estimates** are a major factor upon which an association bases its future reserve funding plan. The accuracy or validity of **Assessment Projections** are time dependent. The following **Position Statements** address these three issues.

Percentage of Funding - It is misleading to categorically state that if an association is over some level of funding they are "financially healthy", or if they are below some level they are "financially unhealthy". It is possible for organizations to have rather high levels of funding and still need significant special assessments. It is also possible for associations to have relatively low percentages of funding with no significant impact either because of a long period of time available in which to catch up, or because there are a large number of contributors to spread the shortfall among. The relative health of an organization's reserves can best be determined by measuring the assessment which would be required if the fund were fully funded at the current time, against the assessment which is currently necessary in order to achieve full funding. A determination can then be made concerning the significance of these two figures.

Cost estimates - The cost estimates used in Reserve Studies are estimates designed to establish a fair market rate for the replacement or repair cost of a component. They are for budgetary purposes only, and if prepared by competent persons can normally be expected to, as part of a portfolio of components, provide the basis for a funding plan that will ensure reasonable funds for future use. These cost estimates are normally not as exacting as estimates that might be provided by a contractor actually bidding the work. Season of year, the level of specifications, and the economy may also affect actual construction costs. Therefore, actual costs may vary from the cost estimates used to prepare the reserve budget.

Assessment projections - While a competent reserve study will by its very nature show projected assessments across future years, the reserve study is designed to project assessments for the upcoming year only based upon a variety of budget assumptions which include assumptions about future year assessments. However, it is not appropriate for users of the study to follow those assessments in subsequent years without satisfying themselves that all the other budget assumptions (inflation rates, interest rates, fund balances, construction costs, and remaining life estimates) which impact those future assessment projections are still valid. In most cases, there will in fact be changes in one or more of those factors that will result in a need to make new financial forecasts annually. For that reason, each year that the association relies on the financial forecasts of a reserve study, without revising the underlying assumptions, increases the probability that the funding plan is no longer accurate or useful.