Reserve Studies

Board duties, funding decisions, and owner communication

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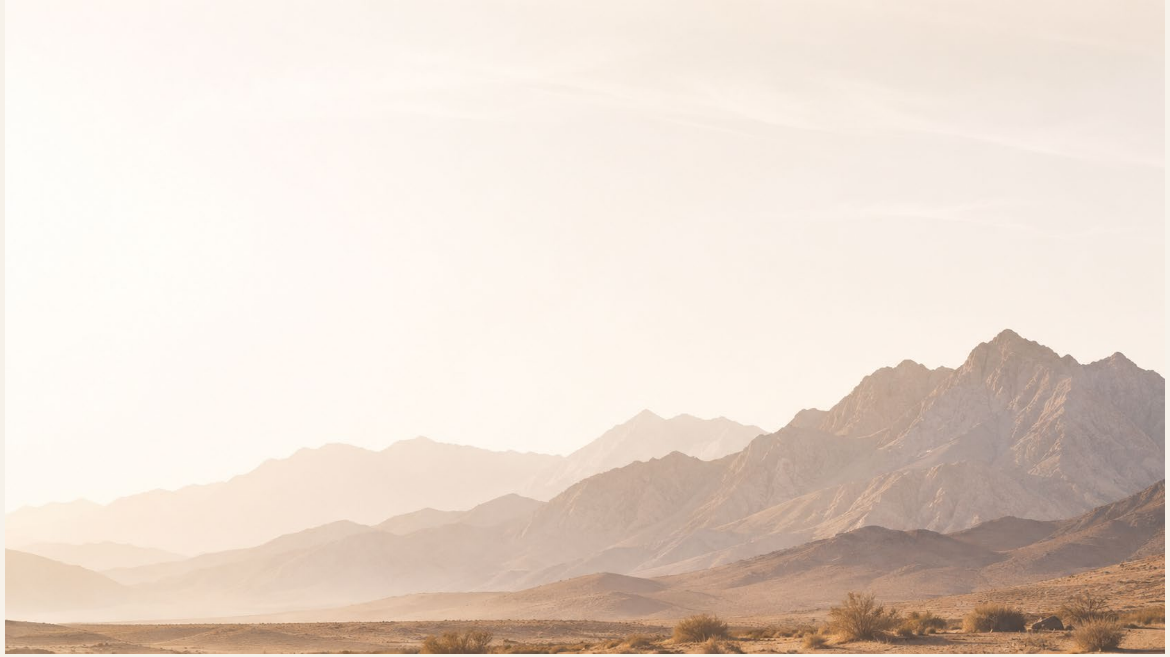


For Nevada common-interest community boards

The board-level objective

A reserve study is a decision tool, not a technical report to file away.

1 Protect common assets

Plan for roofs, paving, walls, gates, pools, landscaping systems, and other major components. But also think below the surface, pipes, irrigation lines, major “invisible” components

2 Fund when the work is due

“Adequate” funding means the association is positioned to pay when the adopted study says costs arrive.

3 Avoid preventable shocks

Underfunding creates deferred maintenance, special assessments, loans, or owner conflict.

4 Document the rationale

Minutes should show the board reviewed the study, considered sufficiency, and adjusted the plan.

Source: Original training objectives and Nevada reserve-study framework

Nevada board duties: the three "must-do" reserve actions

NRS 116.31152 places these duties on the executive board.

1 Full reserve study

At least once every 5 years

Conducted by a person holding the required NRED reserve-study permit, unless a narrow statutory exception applies.

2 Annual adequacy review

At least annually

Review the results to determine whether reserves remain sufficient.

3 Funding-plan adjustment

At least annually

Adjust the funding plan as needed to provide adequate funding for required reserves.

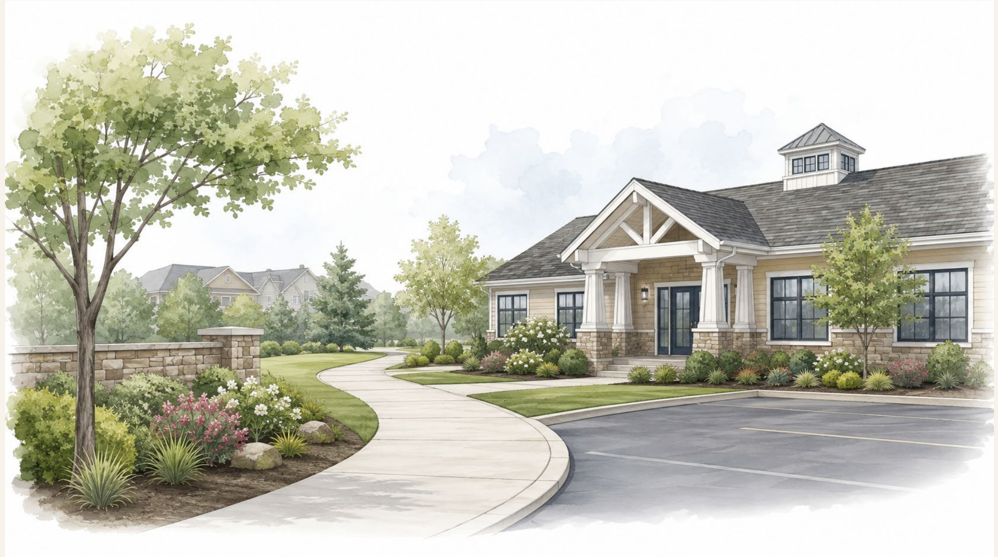
Board takeaway: "Shall" means this is not optional. The board may choose a funding method, but it must make a reasoned funding decision each year.

Source: NRS 116.31152

What a reserve study actually tells the board

Strip the report down to the questions the board must answer.

- **What do we own?**
  Major components the association must maintain, repair, replace, or restore.
- **When does it fail?**
  Remaining useful life for each component.
- **What will it cost?**
  Projected repair/replacement/restoration costs.
- **What do we have now?**
  Reserve balance as of the study date.
- **What must we contribute?**
  Annual assessment/contribution necessary under the funding plan.



Board-friendly rule: if an item is in the study, it should connect to a budget decision.

Source: NRS 116.31152(3)

Annual review = budget discipline

The annual review should feed directly into the association budget.

1 Study adopted

Start with the most recent study and adoption date.

2 Reality check

Confirm work completed, cost changes, additions/deletions, and reserve balance.

3 Adequacy review

Ask whether the plan still keeps funds available when due.

4 Budget adjustment

Set the reserve transfer and any catch-up funding.

5 Owner notice

Budget package should disclose reserve summary and adequacy.

Practical standard for minutes: “The board reviewed reserve adequacy and adopted a reserve contribution of $____ based on the current study and funding plan.”

Source: NRS 116.31152; NRS 116.31151; NAC 116.425

Funding methods: what the board is really choosing

The method reflects the board's risk tolerance and assessment philosophy.

Method	Goal	Board risk	Plain-English use
Full funding	Aim for 100% funded	Lowest risk / highest contribution	Conservative; strongest cushion
Threshold funding	Stay above a chosen safety line	Moderate risk / moderate contribution	Common practical compromise
Baseline funding	Avoid dropping below zero	High risk / lower contribution	Permitted but fragile if costs rise

Board lens: the lowest assessment today is not automatically the best fiduciary decision.

Source: Reserve funding methods summarized from original deck; Nevada adequacy framework in NRS 116.31152/NAC 116.425

Board scenario: funding half the recommendation

Use the reserve study to quantify the risk before reducing contributions.

EXAMPLE FROM TRAINING DECK

Sierra Pines HOA

150 single-family homes

$120K recommended annual reserve contribution

$60K actual contribution after board reduction

4 yrs since last full study

What the board should discuss before voting:

- What dollar gap is created each year?
- Which components become exposed first?
- Can the gap be recovered without a special assessment?
- Is the reduction still “adequate” under the current study?
- How will the decision be explained and documented?

Approximate reserve shortfall: $60K/year × 4 years = $240K before cost escalation.

Source: Scenario adapted from original deck; NRS 116.31152 annual review/adjustment duty

Due to / From reserve account: the red flag

An accounting IOU does not disappear because it sits on the balance sheet.

What it usually means

- Operating owes reserve because transfers were missed, or
- One fund paid expenses allocated to the other fund, or
- The budget did not generate enough cash to make required transfers.

Board risk: the reserve study may assume the money exists. If it does not, the board must address the deficiency.

Board action plan

1. Confirm the amount owed and why it exists.
2. Check whether the current reserve study reflects the true cash position.
3. Adopt a repayment/catch-up line item in the budget if needed.
4. Document the plan and monitor until cleared.

Source: Original deck discussion of due-to/from reserves; NRS 116.31152 annual funding adjustments

Manager support vs. board decision-making

The CAM should facilitate compliance; the board owns the decision.

Board owns

- Adopting the reserve study results
- Reviewing reserve sufficiency annually
- Choosing the funding level and method
- Approving the budget and owner communication
- Documenting the rationale in minutes

CAM supports

- Calendar compliance dates and Form 609 follow-up
- Prepare budget options tied to the study
- Flag due-to/from and funding deficiencies
- Recommend RSS/legal/accounting input when needed
- Maintain records and respond professionally

Practical line: the CAM should not silently carry forward a reserve problem the board has not reviewed.

Source: NAC 116A.320–.360; NRS 116.31152

How to explain reserve funding to owners

The board's message should be plain, factual, and tied to visible assets.

Do not say — "Dues are going up because the study says so."

Say instead — "We are funding scheduled replacements so we can repair assets on time and reduce the risk of larger special assessments."

Show the connection — "This contribution funds paving, roof, wall, gate, pool, and landscape-system work projected over the next reserve cycle."

Board communication checklist

- Use dollar amounts and component examples.
- Explain the consequence of underfunding.
- Avoid blame; focus on maintenance obligations.
- State what the board reviewed and decided.
- Invite questions but do not negotiate away fiduciary duties.

Source: Board communication framework based on original deck takeaways

Board checklist for a reserve-study agenda item

Verify dates

Last full study date; adoption minutes; annual review date; Form 609 submission.

Set funding

Reserve transfer, catch-up amount, and any special assessment/loan discussion.

Confirm scope

Are all association-maintained major components included? Any additions/deletions?

Document vote

State what was reviewed, what was decided, and why.

Review adequacy

Does the plan show funds available when the work is due?

Escalate when needed

Use RSS/legal/accounting input for material changes or uncertainty.

Source: Original deck final takeaways; NRS 116.31152; NRS 116.31151; NAC 116.425

Questions?

Key close:

The board does not need to memorize the reserve study. The board must use it, fund in accordance with it, explain it, and document the decision.

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