

International Capital Budgeting Institute

The Capital Budgeting Source

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Interpretations of Generally Accepted Reserve Study Standards

General Standards – Section 100

The General Standards are personal in nature and address qualifications of the reserve professional and quality of his or her work. The standards are separate and distinct from those standards related to field work, reporting, software, or ethics.

101- Training and proficiency

101-01 – The reserve professional shall be familiar with ICBI General, Field, Reporting, and Software standards

101-02 – The reserve professional shall obtain 8 hours of continuing education annually in matters related to the performance of reserve studies

102 - Knowledge

102-01 – The reserve professional shall be familiar with Generally Accepted Reserve Study Principles

102-02 – The reserve professional shall have, or obtain, technical knowledge regarding the components expected to be encountered in the performance of the reserve study. This knowledge may be gained by prior experience, professional training, research, or consultation with an individual that has expert knowledge with respect to specific components. It is considered acceptable for the reserve professional to rely upon vendors that service such specific components unless the information so learned is contradicted by other sources.

102-03 – The reserve professional shall be familiar with concepts relating to application of inflation and interest earnings as it relates to future capital expenditures and interest earnings of accumulated reserve funds

103 – Independence

103-01 - The reserve professional shall maintain intellectual honesty and impartiality necessary to reach an unbiased conclusion about the subject matter or assertions

103.02 – Any relationship that may impair independence shall be disclosed to the client before a reserve study engagement is accepted.

103.03 - Any possible impairment of independence shall be disclosed in the reserve professional's report.

104 – Due Professional Care

104-01 - The exercise of due professional care and professional judgment is an obligation for any reserve professional involved with the engagement to observe each of the general, field, reporting, and software standards.

104-02 - The exercise of due professional care requires a critical review at every level of supervision of the work performed in judgment exercised by those participating in the engagement, including the preparation of the report

Cooley on torts, a legal treatise, describes the obligation for due care as follows: every man who offers his services to another and is employed assumes the duty to exercise in the employment such skill as he possesses with reasonable care and diligence. In all these employments where peculiar skill is requisite, if one offers his services, he is understood as holding himself out to the public as possessing the degree of skill commonly possessed by others in the same employment, and if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that task he assumes shall be performed successfully, and without fault or error, he undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon mere errors of judgment.

Field Standards – Section 200

The Field Standards relate to the technical aspects of the reserve study process including the site analysis, component analysis, and preparation of the funding plan.

201 - Planning and Supervision

201-01 – The reserve study shall be adequately planned, including nature of components of the organization, preliminary judgments about materiality, conditions that may require extension or modification of procedures, the type of report and level of service, and the nature of the report to be issued.

201.02 – Planning should include a review of the prior reserve study report, if one was prepared, for completeness of the component list, component pricing, and other information that may be useful in the site or component analysis.

201-03 – Subordinates or consultants used during the reserve study process shall be supervised by the reserve professional.

202 - Site Analysis

202-01 – The site analysis shall be used to identify, quantify, and evaluate condition of all components to be included in the funding analysis and reserve study report. This should include a review of any prior reserve study report. The reserve professional shall remain objective and free from bias in the identification and evaluation of components to be included in the reserve study.

202.02 – The site analysis shall be used to identify components for which the organization has maintenance responsibility that are to be excluded from the funding study. Such components shall be disclosed in the reserve study report.

202.03 – The reserve professional should inquire of the client regarding their maintenance plan, including when components were last replaced, anticipated future expenditures, and actual or projected costs.

202.04 – The reserve professional should inquire regarding the existence of warranties.

202.05 – The reserve professional should consider obtaining a list of significant vendors for possible contact regarding maintenance issues.

202.06 – The reserve professional should make note of any maintenance or safety issues observed during the site analysis and inform the client immediately of any safety issues. This is based on limited visual observation only and is not intended to imply that the reserve professional is an expert in construction code or safety issues or is performing an analysis of safety issues.

202.07 – A sampling of multiple components is considered adequate; 100% observance of multiple components is not considered necessary unless there is evidence of significant disparity of condition or differences in age.

202.08 – The reserve professional may rely upon software tools and public images (such as Google Earth) in obtaining measurements of selected components.

202.09 - The reserve professional may rely upon photos obtained by drones or photos from other individuals as part of the visual observation for components that are not generally accessible.

202.10 – In an engagement where the site analysis is performed by another individual that is not part of the reserve professional's company, the reserve professional may rely upon the photos, counts, and measurements provided by such individual, provided that the information appears to be free of material error. In such an engagement, the reserve professional should consider using tools such as Google Earth satellite and street views to supplement information received from other sources.

203 - Component Analysis

203.01 – The reserve professional should assemble component data obtained during the site analysis and review it for completeness based on the preparer's experience with similar properties / components and comparison to the prior reserve study.

203.02 – The reserve professional should use all available evidence to determine dates components were placed in service, useful life and remaining life based on observed condition.

203.03 – Component replacement cost may be determined from a variety of sources. The reserve professional should generally use what is considered the most reliable source of information to determine replacement cost. Sources may include:

- Current bids
- Actual cost most recently paid
- Cost based on research
- Vendor estimates
- Preparer's cost database, assuming cost is regularly updated
- Cost estimating manual

204 - Documentation

204.01 – The reserve professional shall retain sufficient documentation for work performed to provide a reasonable basis for the information and amounts included in the reserve study report.

204.02 - The reserve professional shall retain sufficient documentation to provide evidence of the work performed. This documentation may be included within the reserve study report, or in the reserve professional's supporting files in either an electronic or paper format.

205 – Funding Plan

205.01 – The funding plan shall be prepared on the cash flow basis, designed to provide a positive cash balance at all times during the 30-year funding forecast. The component method should be avoided.

205.02 – The funding plan should include an estimate for inflation / deflation for the entire 30-year forecast period. If different rates are used in different periods, disclosure of the different rates used shall be made.

205.03 – If interest income is included in the funding plan, the estimated interest rate must be disclosed. If different rates are used in different periods, disclosure of the different rates used shall be made.

205.04 – The funding plan shall be prepared to reflect the funding goals and financing ability of the organization

205.05 – While one or more projections may be prepared for consideration by the governing body during the reserve study process, the final funding plan should reflect the most probable expectation of future events.

Reporting Standards – Section 300

The Reporting Standards address the format and content of the reserve study report, including the preparer's report. The purpose of this section is provide consistency of reporting, while still allowing nonstandard exhibits to be presented as supplemental information.

301 – Reserve Study Report Elements

301.01 - The report shall include the following elements:

- 1) Cover page
- 2) Table of Contents
- 3) Preparer's report (see section 302 below)
- 4) Statement of Current Status
- 5) 30-year Cash Flow Forecast
- 6) 30-year Summary Expenditure Table
- 7) Summary Component List
- 8) Disclosures
- 9) Required Supplemental Information (RSI)
- 10) Regulatory Disclosures
- 11) Supplemental Information (if any)

301.02 – The statement of current position must include the following data points:

- Name of organization
- Forecast period, beginning and ending date
- Summary description of project including type and location of organization, number of lots or units (if applicable), construction date (approximate), and summary description of physical property
- Name of Company preparing the report and date of report
- Summary table of components disclosing (normally by category) component name, estimated current cost and 100 percent funded amount, using the inflation adjusted method of calculating percent funded, at the start date, and in total only, the estimated net resources available for reserve funding, the percent funded, amount over or under funded, and the amount over or under funded on a per unit or per lot basis (if applicable)
- Summary table of components excluded from the funding plan, or reference to excluded components listed in “component analysis” disclosures
- Statement regarding special assessments

301.03 – The 30 year cash flow forecast must be prepared on the cash flow basis (component method funding calculations are not appropriate) and disclose by year; beginning balance, assessments and other cash inflows, expenditures, and ending balance. An additional disclosure is the amount of assessment increase expressed as a percentage. Percent funded at either the beginning or end of each year may be disclosed, but is not required.

301.04 – The summary expenditure table must disclose, by major component or category, the expenditures each year of the forecast period. This summary may be limited to 10 years, or may

display the entire 30-year period. This table may be displayed on an individual component basis if the number of components is not significantly different from the number of categories.

301.05 – The summary component list must disclose, by major component or category, the component or category name, range of estimated useful lives, range of estimated remaining lives, quantity or measurement, estimated current cost, and estimated 100 percent funded amount (optional), using the inflation adjusted method of calculating percent funded, at the start date. This table may be displayed on an individual component basis if the number of components is not significantly different from the number of categories.

301.06 – Disclosures must include the following:

- Site Analysis – Description of project, date of site analysis, identification of individuals performing site analysis, client staff interviewed, if any, procedures performed, discussion of common area and exclusive use common area components, disclosure of sampling used if not all components evaluated, no destructive testing is performed
- Component Analysis – Assembly of components based on site analysis, statement regarding completeness of component list, summary description of how repair or replacements costs were derived, statement regarding reliance on client data and that it is deemed reliable, list of excluded components with reason for exclusion, statement of other exclusions
- Financial Analysis – Description of cash flow method, disclosure of interest rate assumptions used if interest is included in the financial analysis or a statement that interest was not considered, disclosure of inflation rate assumptions used if included in the financial analysis or a statement that inflation was not considered, disclosure of income tax rate assumptions used if included in the financial analysis or a statement that income taxes were not considered, disclosure of annual assessment adjustment factor if applicable, statement that actual results may vary from estimated amounts, disclosure of how estimated beginning balance was calculated and statement that financial information is not audited
- Significant Assumptions – The summary of significant assumptions should include any assumptions regarding components or financial factors that could affect the reserve study such as:
 1. Minimum useful life
 2. Minimum replacement cost
 3. Addition of new components due to unexpected deterioration
 4. Preventive maintenance programs
 5. No unusual conditions
 6. Proper construction and installation
 7. Continued use of existing amenities
 8. Adequate property insurance coverage
 9. Regular reserve assessments will be made

10. Interest rate assumptions

11. Inflation assumptions

301.07 – Required Supplemental Information consists of a detail component list including component name, estimated useful life, estimated remaining life, estimated current cost, and, as an option only, estimated 100 percent funded amount, using the inflation adjusted method of calculating percent funded, at the start date. Current or future cost methods of calculating percent funded should not be used in making this calculation for any purpose other than a required regulatory disclosure.

301.08 – Regulatory information includes (1) summary disclosures as required by the Financial Accounting Standards Board (FASB) if the organization is a community association located within the USA, (2) any disclosures required by state or other statutes.

301.09 – Supplemental information may consist of any other information or exhibits that the preparer may wish to include, as long as such information is adequately disclosed and does not contradict information included elsewhere in the report.

302 – Preparer Report Elements

302.01 – The Preparer Report elements shall consist of:

- a) a title that identifies the type of report and level of service
- b) identification of the subject matter and the responsible party
- c) a statement that the subject matter is the responsibility of the responsible party
- d) a description of the nature and scope of the work performed
- e) a reference to the professional standards governing the engagement
- f) a statement that the engagement is less in scope than an independent engineering report and no such opinion is expressed
- g) the report shall disclose if site analysis or any other significant portion of the financial forecast is prepared by another individual or company
- h) a statement about whether the practitioner is aware of any material modifications that should be made to the subject matter in order for it to be based on the criteria indicated in the report
- i) a statement about whether or not the software used in preparation of the financial exhibits meets ICBI software standards
- j) a statement restricting the use of the report to specified parties
- k) a statement identifying required supplemental information
- l) statement identifying supplemental information that is not required
- m) the report shall state that the reserve professional is not responsible for any events subsequent to the date of the report

- n) a statement setting forth the credentials of the individual signing the report on behalf of the reserve study company
- o) signing of report - report shall be signed in the name of the issuing company, and the name of the primary reserve professional shall also be disclosed
- p) dating of the report - the reserve professional's report shall be dated the date that all work is completed

Software Standards – Section 400

The Software Standards are necessary to ensure reliability and consistency of calculations

401 Calculation Standards

401.01 – Software must meet ICBI standards of accurately calculating future costs and expenditures considering the effects of inflation or deflation, and including one-time, non-repeat expenditures, and future funding amounts including special assessments, interest earned, and income tax calculations

402 Percent Funded Calculation Standards

402.01 – Software must be able to accurately calculate all three methods of calculating percent funded:

- Current cost method
- Inflation adjusted cost method
- Future cost method

403 Required Reports

403.01 - Software must be capable of producing all reports required by ICBI in an appropriate format. While exact formats are not dictated, the required reporting elements for each financial exhibit are specified

404 Timeshare requirements

404.01 - Software meeting timeshare certification requirements must be capable of tracking interior unit component inventory by unit in addition to tracking non unit common area components