

THE BASICS

Capital Reserves ARE: Association funds saved for future repair or replacement of capital items in the community that are the association's responsibility to maintain.

Capital Reserves ARE NOT: Funds intended for routine maintenance costs or day-to-day operating expenses of the association.

EXAMPLES: The following are just a few examples of capital items:

- Pools
- Clubhouses
- Private roads
- Gates
- Tennis courts
- Common roofs
- Sidewalks
- Detention Ponds

Adequate Reserves: Sufficient funds available to meet current costs of repair or replacement of association capital items and a funding plan to meet future capital needs.

Legal Requirement: Georgia does not legally require community associations to have reserves, but more courts are finding that boards of directors have a duty to fund reserves. Whether or not having a reserve fund is legally required, having these funds available is beneficial to all property owners within a community.

FHA: For those condominiums seeking to be approved for FHA loans, the association is required to have adequate reserves to cover capital needs, as well as to budget 10% of the total annual budgeted income for reserves.

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WHY RESERVE?

- ◆ Funding the reserves over time spreads out the expense of repairing or replacing capital items, equitably spreading these costs among owners who use those capital items.
- ◆ Adequately funding reserves can reduce the need for future special assessments and budget increases.
- ◆ Association reserves help maintain or improve property values.
- ◆ Healthy reserves protect the assets of the association.

HOW MUCH TO RESERVE?

A Reserve Study evaluates the current status of the association's reserves and identifies a funding plan to address the future reserve needs of the association.

- ◆ Physical Analysis
 - ⇒ Identify capital items
 - ⇒ Determine effective age
 - ⇒ Determine estimated remaining useful life
- ◆ Financial Analysis
 - ⇒ Determine current reserves
 - ⇒ Estimate repair or replacement costs of all capital items
 - ⇒ Adjust for inflation
 - ⇒ Develop funding plan to spread necessary contributions equally over remaining estimated useful life
 - ⇒ Update every few years

HOW TO FUND?

Association reserves can be funded in different ways, but the most common way is to spread contributions over time.

- ◆ Work into annual budget
- ◆ Create additional capital contributions through initiation or transfer fees
- ◆ Special Assessments

Funding example for anticipated road resurfacing in five years:

- ◆ Current Road Resurfacing Reserves: \$50,000
- ◆ Estimated Current Resurfacing Cost: \$85,000
- ◆ Estimated Cost in Year 5 Using 3.5% Inflation*: \$100,000
- ◆ Funding Schedule:

<u>YEAR</u>	<u>AMT. CONTRIBUTED</u>	<u>RESERVE BALANCE</u>
1	\$10,000	\$60,000
2	\$10,000	\$70,000
3	\$10,000	\$80,000
4	\$10,000	\$90,000
5	\$10,000	\$100,000

*Estimate Only

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