

L&J QUICK FACTS

ASSOCIATION RESERVES

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.

Federal Housing Administration (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.

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:

| Year | Amount Contributed | Reserve Balance |
|------|--------------------|-----------------|
| 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