

8 ESSENTIAL THINGS

You Need to Know About Reserve Funds & Studies



www.associaonline.com

Is your association's **FINANCIAL HOUSE IN ORDER?**

When it comes to finances, homeowners' associations (HOA) operate like any other corporation or business. HOAs have different accounts set up to pay for different things. A checking account to pay for everyday expenses, and separate savings and investment accounts set aside for future repairs and improvements. While appropriately funded spending and savings accounts are crucial to a well-run association, the savings part of the equation can often get ignored. Some studies estimate that nearly 70% of HOAs in the United States are underfunded and lack the proper savings to pay for major projects or repairs.

If you volunteer on your HOA board, then you have a unique responsibility to help protect your association with proper financial planning and stewardship. Don't wait to take a serious look at your HOA's financial health. We recommend working with your board, community manager, accountant, and other trusted professionals to ensure your community is prepared to meet all of its financial obligations including reconciling the past, managing the present, and planning for the future.

This eBook is an excellent introduction to reserve funds and studies—the two most essential aspects of community association savings and financial planning. We break down the eight most commonly asked questions, and provide helpful tips and insight from experienced community and reserve study experts.

About **THE CONTRIBUTOR**

This ebook, and free companion webinar, shares insights from Founder and CEO of Building Reserves, Kevin Bobb. He holds a Reserve Specialist designation from Community Association Institute (CAI) and a Mechanical Engineering Degree from Marquette University. Kevin's firm, Building Reserves Inc., specializes in budgeting for the cost of capital repairs and replacement of buildings and infrastructure. Since 2008, Kevin and his company have conducted thousands of reserve studies for condominiums, timeshares, cooperatives, churches, schools, and nonprofit organizations throughout the United States.



*Kevin Bobb – CEO & Founder
Building Reserves Inc.*

1. What is an HOA reserve fund?

Two main accounts are used to pay for HOA expenditures—the operating fund and the reserve fund. While the operating fund is used to pay for everyday and planned yearly expenses such as insurance, taxes, landscaping, legal fees, and other paid contractors, the reserve fund is set aside for future replacements and repairs that don't occur on an annual basis.

Reserves are funded by association member assessments, dues, fees, and fines. Additional money can come from interest and returns earned from existing reserve funds.

It may be helpful to think of your HOA reserves like a college savings account—money that is set aside by parents each month to pay for a significant, future expense. For the savings account to become fully funded and be used for its intended purpose, several things must occur. Money should be set aside on a planned schedule and then left alone to mature, only being withdrawn at the appropriate time and place. And, just like any college fund, it's best to start saving as soon as possible—giving you years rather than months to save.

THINK OF YOUR HOA RESERVES LIKE A COLLEGE SAVINGS ACCOUNT—MONEY THAT IS SET ASIDE BY PARENTS EACH MONTH TO PAY FOR A SIGNIFICANT, FUTURE EXPENSE.

2. Why do you need a reserve fund?

A reserve fund is your community's way to plan and prepare for the inevitable. Being prepared means having money set aside to pay for repairs and updates you know will happen, such as replacing a shared roof or resurfacing common roads and driveways.

Beyond paying for needed repairs, reserve funds also help your community attract new buyers and meet requirements put into place by some lenders. It also helps show homeowners your board is responsible and well prepared.

Seven states in the U.S. require associations to have a reserve fund in place. These states include:

- California
- Delaware
- Hawaii
- Nevada
- Oregon
- Utah
- Virginia

3. How much money should an HOA have in reserve?

There isn't a "one-size-fits-all," amount HOAs should have in reserve. Instead, your reserve amount will depend entirely on your community's needs, size, type, location, and many other factors. For example, a condo association with shared roofs, pools, and other expensive amenities may require far more funds compared to a small, single-family home community with limited common property or anticipated repairs.

To determine how much your community needs, you have to crunch some numbers. Determine what your association owns, estimate how much time you have until things will need to be replaced, and then calculate how much everything is going to cost. A simple, straightforward way to figure out these seemingly complicated details is by paying for a professional reserve study (see question five below).

4. What can HOA reserve funds be used for?

Your HOA reserve is not a piggy bank that can be dipped into at any time for any reason. Some states, like California, have strict laws against using reserve funds for regular, everyday expenses. Be sure to check your governing documents as well as your state laws before allocating any reserve funds.

In general, reserve funds will have a plan in place for how and when any money can be spent. Reserve fund expenditures often include, but are not limited to:

- Roof replacements
- Pool pumps
- Playground equipment
- Replacing fencing in common areas
- Painting of community-associated buildings
- Major landscaping projects
- Construction and major renovations
- Road and sidewalk resurfacing



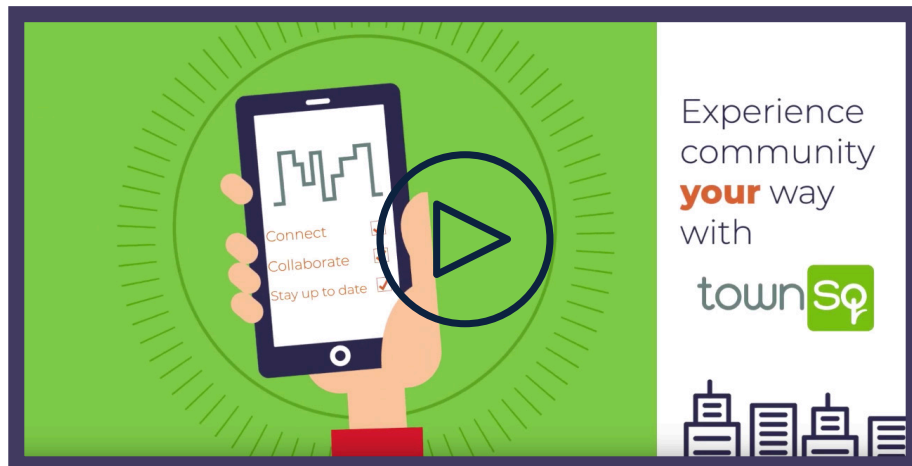
TAKE CONTROL OF YOUR ASSOCIATION'S FINANCES WITH TOWNSQ!

Are you looking to improve your association's financial planning and budgeting? TownSq can help! This all-in-one community app helps you view, categorize, and plan your community's spending—quickly showing you where every dollar goes.

TownSq allows you to experience community your way – any time and from any device with:

- Budget diagnostic tools
- Flexible reporting
- Spend tracking
- And more!

WATCH THIS VIDEO TO LEARN MORE



townSq
experience
community your way



iOS



Web



Android

www.townsq.io

**TownSq may not be available in all areas. Check with your community management team for more details.*

5. What is a reserve fund study, and how much do they cost?

A reserve study looks at reserve accounts and analyzes all foreseeable capital improvements and repairs. For example, if your community has a clubhouse with a roof that needs to be replaced every ten years, the reserve study will advise how much and how quickly your association needs to save to make the repair at the appropriate time.

A Reserve Specialist or professional Reserve Analyst can perform a reserve study for your association. Check with your governing documents and state regulations for any additional requirements.

The cost of a reserve study varies with the size and complexity of your association. The cost for conducting a first-time reserve study for a small HOA typically starts at \$2,400.

6. How often should a reserve fund study be performed?

The frequency with which your board should perform a reserve study depends on your association's governing documents, as well as local and state laws. For example, Virginia requires a reserve study to be conducted every five years, while California requires one every three years.

If you're serving on the board, check your association rules and state laws to ensure reserve studies are being completed within the proper time frame. If you live in a community or state without guidelines, do what makes the most sense for your community and work with a trusted community manager to put a reserve study schedule into place.



7. How do you plan and budget for a reserve fund?

Performing a reserve study is the best way to plan and budget a reserve fund. These studies will give you an overview, plan for how much needs to be saved and how long it should take.

Typically, a predetermined percentage of yearly or monthly assessments will go towards the funding of a reserve account—usually between 25% and 40%. How much money your association puts aside can change as reserves become fully funded, and the needs of your community change. Be sure your association is on track to meet its reserve goals and be careful to ensure owners are never paying too much or too little.

If your community is facing a potential shortfall in your reserve funds, then adjustments can be made. Your board should work closely with your accountant, community manager, and a certified reserve fund study specialist to find a proper resolution.

8. Are HOA reserve funds taxable?

No, in almost all cases, any money saved in an HOA reserve fund can't be taxed. The exception would be any interest or money earned from reserve account funds. To be certain, check with your association accountant and local and state laws regarding reserve funds.



MAKING [COMMUNITY] HAPPEN.

Developed by industry professionals. Designed for association board members.

For nearly 40 years, Associa has been the partner of choice for some of the most complex, innovative and amenity-rich properties in the world. Our best-in-class technology, products and services are designed to add value to your community. And, you'll find that nobody has the expertise that we do when it comes to helping you achieve your community's goals. Because of our commitment to community, we've become an industry leader positioned to provide actionable insights that deliver results for our client.

What really differentiates us, though, is our people.

With nearly 200 employees holding their PCAM® – the highest professional recognition available to community association managers – you can trust that your Associa team has the knowledge and resources to help your community plan, manage, maintain and grow. From our community managers and service partners to our financial professionals, executives and many more, we are committed to helping you achieve your community's vision.

[Click here to request a proposal!](#)

