



CAN I PAY FOR THIS FROM RESERVES?



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Can we spend our Reserve Funds on this project? This is common question raised by Boardmembers and Manager of condos, HOAs and other forms of association governed communities.

When a Boardmember or Manager is confronted with an unexpected repair or replacement they think should be considered a Reserve expense, the Component List in the Reserve Study is a good first place to look. But what if that project doesn't appear in your latest Reserve Study? Can the Association still pay for it from Reserves?

While it may be simple to rely on the Component List to determine if an expense should be paid from Reserves or not, the higher authority is actually [National Reserve Study Standards](#). National Reserve Study Standards are the ultimate authority on the appropriate use of Reserve Funds and contain a simple [four-part test](#):

According to National Reserve Study Standards, only components that pass all 4 parts of the 4-part test are eligible for Reserve Funding:

- Is it a common area maintenance responsibility?
- Is it life limited?
- Does it have a predictable Remaining Useful Life?
- Is its cost above a minimum threshold of significance?

If the project passes the test, but does not currently appear in your Reserve Component List, it is appropriate to spend the cash from Reserves, and then to add the component to



RESERVE COMPONENT "FOUR-PART TEST"

the Reserve Study during the next update.

There are a number of reasons why a component may not appear on the Component List. One reason is that the responsibility for a particular project may have changed from the operating budget to the reserve budget. For example, tree trimming could transition from the landscaping company (as part of their ongoing service contract) to a special reserve project every few years performed by an outside tree trimming company. Another reason is that a component that had previously been presumed not to be life limited is revealed, due to the association's advancing age, to have a limited useful life after all. Finally, there is always the possibility that the person preparing the study omitted the component by mistake.

The other question Boardmembers and Managers face with respect to this question has to do with a partial project done to a Reserve Component. For instance, is repairing a section of fence or repairing a section of roof (both of which appear as replacement projects in the Reserve Study's Component List) a legitimate use of Reserve Funds?

The answer for any routine maintenance or small repair, is no.



Unfunded, ongoing, partial repair projects are not an appropriate use of Reserve Funds with one exception. If the work being done measurably extends the Remaining Useful Life of the component listed in the Reserve Study.

As an example, replacing one or two fence posts and stabilizing the one wobbly area of the fence to extend its life by two more years is a legitimate Reserve expense. But repairing vandalism damage to the fence or replacing a broken slat here or there, should be considered "normal maintenance", prohibiting the use of Reserve Funds.

In every case, be sure these changes are documented in your next [annual Reserve Study update](#). Adding a "missing" component, or changes to the Remaining Useful Life of a component is important information for both reserve planning and disclosure purposes.