

RESERVE FUNDS IN THE REAL



WORLD: A STORY OF AN ASSOCIATION'S RISE FROM DESTITUTION TO FISCAL STRENGTH

by Christian Colunga, RS
Association Reserves, Inc.

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www.reservestudy.com

Multiple times a year Association representatives ask me how their Reserve Strength compares to other communities, especially when facing major expenditures in the near future.

The answer to that question is never simple but no matter the community's situation, a strong Reserve foundation can be achieved with three simple steps: **Identification**, **Implementation**, and **Determination**. Take a look at how one association achieved their goals using this process.



Identification: Building the Component List

For privacy, we'll call this association "*Community A*". Back in 1991, this was a young community, about 5 years old, and they made no clear distinction between Operating Funds and Reserve Funds, just that repair projects came up and checks had to be written. The first step on their path to success was to correctly identify which projects were suitable for Reserve funding, and [building a component list](#).

The Board engaged the services of a Reserve Specialist and their first Reserve Study provided a dismal picture of their current Reserve Fund status, revealing that the community was 17% Funded. This '[percent funded](#)' figure indicates that they only had about 17% of the necessary funds to offset the prior years of deterioration of their common assets. We typically consider that a very weak financial position, but at least the position was identified so the Board could formulate an executable plan.

Implementation: Adjusting Homeowner & Reserve Contributions

For many Associations, getting the homeowners together in the same room is a challenge, let alone achieving consensus on key issues like Reserve planning. Luckily, *Community A* was able to rely on the expertise of their Reserve Study company when it came time to illustrate the importance of implementing a sound Reserve strategy to their members.

We attended an annual meeting and communicated the key points involved in the Reserve Study, showing them that their goals are achievable if they could all agree to get moving in the right direction. Within several weeks the Board had convinced its members to begin implementing the Reserve Funding plan that would allow for timely common area repairs & replacements.

Determination: Achieving & Maintaining a Fully Funded Reserve Balance

Over the next 23 years, we worked with this Association each year to [update their Reserve Study](#). We had the pleasure of watching their Reserve fund grow and their community prosper. As expected, some surprises arose and difficulties were encountered, but the community still kept improving their financial position because they were determined to stick to their funding plan.

Today, *Community A* is 83% Funded and on track (within the next few years) to approach the 100%, Fully Funded level. One of the key factors of their success was keeping the line of communication between the Boardmembers, their Management Company, and their Reserve Planning partner simple and clear.

Like in many Associations, the make-up of their Board and the Manager changed. However, everyone was committed to making sure the original Reserve funding strategy remained intact: offsetting ongoing deterioration with appropriately sized Reserve contributions.

This is just one example of hundreds of Associations who have enjoyed the same success by Identifying their needs, Implementing a clear plan and demonstrating Determination through the years. Every community, no matter how weak their financial position, is only a few steps away from getting on the path to a stable financial future!