WHAT CAN RESERVE FUNDS BE USED FOR?

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Good question! There are two ways to answer a question regarding the appropriate use of Reserve Funds, depending on how it is asked.

Boardmembers and managers of condos, HOAs and other forms of community associations are often confronted with a major repair or replace expenditure they think should be a Reserve expense but cannot find it on the Reserve Component List (a good first place to look).

So, if it doesn't appear in your latest Reserve Study, can you pay for it from Reserves?

While it is simple to look to the Reserve Component List to determine if an expense should be paid from Reserves or not, the higher authority is National Reserve Study Standards. They are the ultimate authority on what Reserve Funds can be used for.

National Reserve Study Standards dictate a simple three-part test, that if passed, indicate a component is eligible for Reserve Funding:

- Is it a common area maintenance responsibility?
- The need and schedule can be reasonably anticipated
- The total cost of the project is material to the association, and can be reasonably estimated

If the project passes the above three-part test but does not currently appear in your Reserve Component List (whether due to human fallibility or "surprise"), it is appropriate to spend the cash from Reserves, and then to add the component to the Reserve Study during the next update.

The other question boardmembers often have has to do with a partial project done to a "legitimate" Reserve Component.

For instance, is repairing a section of fence or repairing a section of roof (both of which have "replacement" line items in the Reserve Study) a legitimate use of Reserve Funds?

The answer, if it is a normal, ongoing repair, is no. Unfunded, ongoing, partial repair projects are not an appropriate use of Reserve Funds. However, if the project extends the Remaining Useful Life of the entire project (or would mean the project is now best modeled by splitting it into multiple phases… a newer phase and an older phase) , it is a legitimate Reserve expense.

In both cases, make sure you make or request the appropriate changes to your next annual Reserve Study update, by adding the "missing" component, or extending the Remaining Useful Life of the repaired component.

Is your association due for its annual Reserve Study Update? Request a proposal now.