

Sample Reserve Policy

Reserve Policy For XYZ Homeowners Association

Provided as a courtesy by Association Reserves.

Please customize as appropriate and review with appropriate legal and accounting professional counsel

Per the Governing Documents, it shall be the responsibility of the Board of Trustees of the XYZ Homeowners Association to determine the repair and replacement risk of the assets owned and maintained by the association. As required by our Governing Documents, it shall be the Board's responsibility to create and maintain adequate reserves to provide for the orderly repair and replacement of the common areas so as to minimize the risk to the membership of special assessments, deferred maintenance, or unfunded losses.

In recognition of this responsibility, to make informed decisions for the upcoming Fiscal Year the Board commissioned a With-Site-Visit Update Reserve Study which was completed on XX/YY/ZZ. The Reserve Study determined the Percent Funded of the existing reserve account (a measure of Reserve Fund strength, where 100% means our Reserve cash equals the amount of deterioration of the common area assets), established a schedule of anticipated repair and replacement projects, and recommended a Reserve contribution rate.

It shall therefore be the policy of the XYZ Homeowners Association to:

1. Maintain the Reserve Fund at or above ___% of the Fully-Funded Balance. Should unforeseen circumstances result in a Reserve Fund balance falling below ___%, the Board of Trustees will bring the fund balance back to ___% within five years. The Board of Trustees feel that this level of Reserve funding reasonably protects the association members from the risk of special assessment and deferred maintenance.
2. Contribute \$_____ to the Reserve Fund for Fiscal _____. We expect that in future years, due to inflationary factors, the Reserve contributions will likely need to be adjusted higher. Future annual contributions to the fund will normally be the amount necessary to maintain our Reserve Fund at or above the above stated target Percent Funded.
3. Authorize expenditures from Reserve Fund for:
 - a. Projects or purchases pre-approved in the annual budget;
 - b. Projects or purchases anticipated in the Reserve Study;
 - c. Repairs or replacements not exceeding \$_____ determined to be of an emergency nature by the Manager, with the concurrence of at least one Board of Trustee. The

Board of Trustees shall be notified in writing in a timely manner when such expenditure is required.

- d. Other expenditures approved by a majority of the Board of Trustees. Funds may be authorized for the repair or replacement of the items listed in the reserve study, but not for major enhancements or capital improvements.
4. Maintain Reserve Funds in a general fund managed as indicated in Appendix 2, "Reserve Fund Investment Policy".
5. Require on-site Reserve Study updates by independent, credentialed Reserve Study professionals every three years, or more frequently when determined necessary by the Board of Trustees. Interim year updates will be accomplished in-house using available resources or commercial software, or through a No-Site-Visit Update prepared by an independent, credentialed Reserve Study professional.

Capital Improvements

The Finance Committee does not intend to create a separate capital improvement fund at this time. It is felt that until the Board has presented the membership with, and received, an approved building improvement plan acceptable to members, it is unnecessary at this time to create a separate capital fund for indeterminate future projects.

Loans From Reserves

1. Reserve funds can be used to meet short-term cash flow needs. (For example, the Association has frequently paid its annual property insurance in a single lump sum in the first quarter of each year with reserve funds, and then paid back to the reserve fund as soon as funds were available.)
2. Since borrowing from reserves means the monies may not be available for the purposes they were originally collected, the Association must follow certain formalities to this end. The expectation will be that the funds be repaid within 12 months of transfer from reserves, and the Board must provide notice of a meeting to the members advising them of the intent to consider a transfer out of reserves. The notice must state (1) why the transfer is needed, (2) possible options for repayment, and (3) whether a special assessment may be considered to repay the amount transferred out of reserves.
3. Lastly, any proposed transfer must be discussed and approved during the open session of any properly noticed meeting. These requirements are designed not only to give members notice of the potential transfer out of reserves, but to offer them the opportunity to hear the discussion explaining why such a transfer may be necessary, as well as an opportunity to address the Board and state any concerns they may have over such a transfer.

This policy will be reviewed annually by the Board of Trustees following the Annual Meeting and Election of Officers.

Policy Approved by Board at meeting on _____

President's Signature _____

Date: _____

Secretary's Signature _____

Date: _____