

# **The Villas of Arden Mills Condominium Association**

## **RESERVE STUDY FUNDING POLICY**

### **Background**

One of the primary business duties of our Association, and a fiduciary responsibility of the Board, is maintaining and preserving the property values of our units and the common property. To do this we must develop funding plans for future repair or replacement of major common area components. Equipment and major components must be replaced, whether the expense is planned or not. The Reserve Fund enables the Association to spread out these associated expenses more evenly. Your contribution to this Fund, which is collected as part of the monthly Maintenance Fee, utilizing special assessments, contributions at time of purchase, and any earned interest are our normal source of funds. A properly established and funded Reserve Study should minimize the need for special assessments to accomplish these replacements.

Elite Management has provided us information published by the Community Associations Institute which is used as guidelines in: Establishing a Reserve Fund, including conducting a Reserve Study; Financial Reporting Requirements; and How to Invest Reserve Funds. This Policy addresses the elements of: Reserve Study, Reserve Funding Plan, and Reserve Financial Reporting. A separate Policy is required for the Reserve Fund Investments, along with the Strategy for Investment of these funds.

### **Definitions**

The Reserve Study is comprised of two parts:

1. The information about the physical status and repair/replacement cost of the major common area components the Association is obligated to maintain (physical analysis); and
2. The evaluation and analysis of the Association's reserve balance, income, and expenses (financial analysis).

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The Reserve Funding Plan is our Association's plan to provide income to a reserve fund to offset anticipated future expenditures from that fund.

Reserve Financial Reporting consists of the documents required to be on hand for review by unit owners, prospective unit owners, and lenders who are concerned about the Association's financial health and any disclosures required to support an audit of the financial statements.

### **Policy**

BE IT RESOLVED that the Reserve Study, Reserve Funding Plan, and Reserve Financial Reports shall be established by the Board of Directors in accordance with the following policy:

#### **Reserve Study**

A. An initial Reserve Study shall be conducted by the Board which will establish the full list of component elements, establish the life of these components based on the fact that they were all newly constructed or acquired, and develop the costs based on current prices for these components. Each Committee was assigned the responsibility for the component parts in their area. This work was accomplished in 2009. The financial analysis of this Study was started in 2009 and was concluded in early 2010. This initial Reserve Study was presented to the Community during 2010.

B. The initial Reserve Study was followed by one utilizing a professional organization in 2012. Following that, a formal Reserve Study will be conducted as frequently as determined by the Board.

C. The existing Reserve Study will be reviewed in conjunction with the development of each Annual Operating Budget. Any Reserve items requiring funding in the next fiscal year will be included in the Budget development with special identification given to these items.

D. The Reserve Study shall be for a period of 30 years. Components with a useful life expectancy exceeding the time window are not included.

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E. Component items that have a replacement value less than \$1000 will not be included in the Reserve Study, but will be covered as needed by the Operating Budget.

F. Non-recurring maintenance items will be stated separately in the Reserve Study, but funded through the same process. They will be treated as non-capital expenditures. Certain components may require maintenance to achieve their useful life. These costs are to be included in the Reserve Study.

### **Reserve Funding Plan**

A. The Reserve Funding Plan shall have the goal to attain and maintain the reserves at or near 100%, i.e. fully funded.

B. A pooling technique will be employed whereby the annual expenditure in any year will not cause the reserve balance to reach \$0.

C. The reserve balance for any year will be calculated by starting with the ending reserve balance for the previous year, plus the income from the reserve portion of the monthly maintenance fee, any contributions at time of purchase, assessments, plus the return from the investments for that year, minus the expenditures for that year.

D. The Board reserves the right to either raise the contribution of the reserve portion of the maintenance fee, or to utilize a special assessment to compensate for any shortfall in the funding goal. The Board will not finance any shortfall by borrowing from a lending institution.

### **Reserve Financial Reports**

A. The following document will be published to the Community:

The Reserve Budget for the current Fiscal Year which includes a statement regarding the source of funds, whether from the Reserve Fund, an Assessment, or a combination of these.

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B. The following documents will be kept on hand for review:

The Professional Organizations narrative on the latest Reserve Study, listing the coverage, the source of the Life information, the source of the Replacement Cost information, Assumptions concerning inflation & return on investments, and a statement regarding the compliance with this Policy. The Board may provide a supplemental report stating their reasons for not adopting any recommendations from the latest Reserve Study.

A spreadsheet of the Reserve Study Component List, showing the Item Description, Item quantity, Total Replacement Cost, and Notes on unit of measure and replacement plan.

A spreadsheet of Expenditures by year for each Component Item showing the 30 year plan.

A spreadsheet of the Reserve Study Financial Analysis showing the year by year Fund Beginning Balance, Income from Unit Owners, Income from Investments, Expenditures, and Ending Balance, and Notes on the Reserve Fund Contribution Amount, Assessments (if any), and the Assumed Return on Investment.