



the month in which the first order of business is the budget. Members are notified in a variety of ways, including articles in the Condor newsletter, email blasts, and postings on the association website and in the clubhouse lobby.

After the March meetings, a summary of the draft budget is run in the April Condor newsletter, and during the regular April meeting of the Board, a budget resolution is approved and the assessment amount is set.

During the first week in May, the association mails a packet to every member that includes the approved pro forma budget and assessment, the annual letter, a summary of the Reserve Fund status, and more.

### **Status of the PMCPOA Reserve Fund**

Adequate reserve contributions required by almost every association's Governing Documents comprise 15% to 40% of the association's budget. PMCPOA is typically above the norm in its reserve funding. According to a scale set forth by the outside entity that conducts our Reserve Study, PMCPOA is in a "strong" financial position. Based on the standards recommended by PMCPOA's auditor, the association has an "outstanding" reserve fund status.

Needless to say, the Reserve Fund makes up a large portion of the annual assessment, but responsible reserve funding can prevent the Board from having to impose special assessments if something needs replacing or major repair is required.



## **What Exactly is Covered Under the Reserve Fund?**

In a nutshell, the Reserve Fund covers anything that is not covered under the Operating Budget line items. The Operating Budget line items include management fees and staff salaries, utilities and other expenses that occur on a monthly or annual basis.

The Reserve Fund is dedicated to those items owned by the association that do not need replacing annually, but over time will require replacement. This encompasses a long list of items, including but not limited to, buildings, vehicles, asphalt or concrete, decking and balconies, landscaping, lighting, fencing, painting, mechanical equipment and supplies.

The Reserve Report provides estimates of current replacement costs to help determine how much money will eventually be required in the bank to pay for these items. One way to think about the Reserve Fund is as though it's the gasoline in your car tank needed to fund a road trip. Your tank doesn't have to be completely full, but ideally, it should be at least 70 percent full.

Invariably, some assumptions have to be made during the compilation of the Reserve Study analysis. Assumptions are applied in calculating the inflation rate and the average interest rate. Anticipated events may not materialize, and unpredictable circumstances can occur. Deterioration rates and repair/replacement costs will vary from causes that are unforeseen. Typically, the cost of goods and services will increase over time, so the analysis takes that into consideration. Earned interest rates may vary from year to year. These variations can all alter the results of the Reserve Study. This is why annual review of the Reserve Fund is so critical.



# **Understanding the PMCPOA Reserve Fund**

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# PMCPOA Reserve Fund

## The PMCPOA Budget as a Whole

There are two main parts to the PMCPOA budget: the Operating Budget and the Reserve Budget. Both of these budgets are funded through the annual assessments and user fees.

For details about the Operating Budget, please see the accompanying brochure titled "Understanding the PMCPOA Budget Process." This pamphlet is dedicated to describing the Reserve Budget.

## What is a Reserve Fund?

A Reserve Fund is the part of an annual budget that is dedicated funding set aside for future capital replacement items, or those items that do not have to be paid for on a monthly or annual basis. The Reserve Fund is created through the process of a Reserve Study, which takes a look at all assets of the association to determine value, longevity and depreciation.

A Reserve Fund is always a good idea for an association, and in some states -- including California -- it's a legal requirement. California Civil Code 5550 requires a Reserve Study based on a "diligent visual site inspection" at least every third year, but requires the Board of Directors to review that Reserve Study annually to "consider and implement necessary adjustments."

Without this annual Reserve Study, the

PMCPOA Board and management would have no way of knowing how much money to set aside in the Reserve Fund. For example, if an association had a Reserve Fund of \$500,000, the Board might assume this is a lot of money and that all is well. Then, they discover that the facility roofing must be replaced, and the cost will be \$750,000.

To avoid this type of situation, diligent inspection of every asset of the association must be conducted annually to ensure that funding is in place to cover inevitable repair and replacement expenses. The Reserve Fund is critical to the future of the association because it helps ensure that significant reserve projects can be completed on time with quality contractors. In doing this, maintenance can be completed in a timely fashion, and property values will not decline as a result of failing assets.

To avoid any issues with vested interest in the property, PMCPOA brings in credentialed outside vendors to conduct the Reserve Study. An on-site inspection is completed, and the report is submitted to the Board. The study is then used to help establish the annual budget for the upcoming fiscal year. The reserve allocation makes up a large portion of the total yearly assessment amount, and the report acts as a guide in obtaining proposals in advance of pending projects.

## Disclosure Requirements

California Civil Code 5300 and Civil Code 5560 together require that every association annually adopt and disclose their Reserve Funding Plan.



# PMCPOA Reserve Fund



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Most Reserve Studies have a 30-year Funding Plan. But, there is a misconception that these reports are good for an extended period of time because the report has projections going forward for the next 30 years. If a Reserve Study report is two years old, then the association doesn't have a current plan. Time has marched on, and the plan is out of date.

In keeping with California Civil Codes 5550, 5565 and 5570, PMCPOA includes a full summary of the Reserve Study in the annual budget report. The association takes great pains to keep the membership informed about the budget process and where assessment money goes.

PMCPOA's fiscal year runs from July through June each year, and the budget process for the fiscal year begins each February. A draft budget and estimated assessment level is developed by the GM and staff and reviewed by the Budget & Finance Committee, and is published in the March issue of the Condor newsletter and posted on the association website.

The association mails a "Financial Statement of the Association as of Jan. 31" to every member in February that includes the proposed budget and assessment amount for the ensuing fiscal year. The membership is also notified in February of an open Board meeting that is held the second Saturday of March dedicated solely to discussion of the budget, and of the formal March Board meeting on the third Saturday of