

# The Infrequency OF Reserve Fund Expenditures

## **First ... About our Book**

The chapter you are about to read (next page) is identical to the material in our book "Reserve Fund Essentials". This 94-page book covers a wealth of need-to-know reserve-related wisdom. Its 17 chapters deliver insights, suggestions and processes designed to ensure that co-owned and co-managed properties create healthy reserve funds that can be managed to everyone's satisfaction.

Thirteen chapters can be accessed from our website [oliver-group.com/rfund](http://oliver-group.com/rfund). (Click on Book/Articles). The four chapters that cannot be accessed are "**Reserve Fund Fundamentals**" and "**Reserve Funds: What Does Adequate Really Mean?**" These are major, significant chapters and are included in our "Reserve Fund Essentials" book. To find out more about the book and how to order it, please click [MORE](#).

## **Now ... About the Authors**

You may wish to learn more about the authors of "Reserve Fund Essentials" (and the chapter you are about to read). To do this click [MORE](#).

## **Next ... Your Selected Chapter Begins**

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## Not a Lot of Work. Really!

Why are Boards and their professional advisors gun-shy about doing up-dates of their reserve fund numbers? We think it's because they believe it's a "lot of work". This chapter will show you that in reality, it isn't!

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An under-recognized fact is that the number of expenditures per year from a property's reserve fund is very low. Would you believe ... less than one-a-month?

Of course some of them can be large when they happen, but the number of "projects" in any given year averages only 10.

It begs the question: Why is it, then, that so few Boards or Property and Community Managers shirk from using their expenditure figures as updates to their existing reserve plans? Seems to us they're overlooking a heaven-sent opportunity to keep tabs on their ever-changing fund balances, and to spend very little time doing it.

Here's an example. Your plan calls for a carpeting job this year that is estimated to cost \$40,000. The job gets done, as scheduled, but the Board decided to go with a better grade of carpeting and the job came in at \$52,000. (There's another issue regarding whether the Board should have upgraded the quality and exceeded the plan number, but that's a different

story). The estimated balance in the plan for the year, based upon the predicted costs, was (past-tense), \$240,000. But now that the carpeting has been installed at a cost of \$12,000 more than originally planned for, your end-of-year balance in the fund will be only \$228,000. Plus ... all the ensuing balances, for every year in the plan, will be overstated by \$12,000 as well.

Why not adopt a routine whereby you delete the estimated figures for jobs that are completed, and in their place, enter the actual figures. It's not a mammoth job — you only have to do it 10 times a year!

You agree? Fine. But exactly how do you do this?

If you're a Board member, one way would be to use the spreadsheet you received with your reserve plan. You would find the component that was repaired or replaced, cross out the estimated cost, enter the actual cost in its place, and recalculate the closing balance. A bit awkward? Yes, we think so.

For one thing, it would be hard to work with, especially once you had entered a number of up-dates. But the big problem would be that as a human, you could not possibly deal with the challenge of recalculating all the future balances. Maybe 30-years of them. So it's worse than "awkward". It's quite an unsatisfactory method.

A workable system would be to ask your reserve planner for his computer file for the plan. That would work if were prepared as an Excel file, but if another software package were used, you as a Board Member would not likely have it.

Using the Excel route would work all right, but be warned, you would have to have quite a high level of comfort with it in order to use it well for this job. Your planner would have created a number of “macros” that he or she understands very well, but might result in a steep learning curve for you.

The next suggestion is to use a software package that’s designed expressly for this kind of work. (See page 88). Dialog boxes will open up to accept your changes, graphs will illustrate what the effect of them are, on your yearly balances, and all the other amounts will be re-calculated — interest, inflation, and so on.

You can use this software on your own computer, quite independently of the original work prepared by your planner. If you’re not computer-savvy and don’t want to get onto a keyboard at all, there are still some possibilities.

Perhaps your planner or property manager would take on the job. You might expect to pay a fee for this work. Or, since the software company itself offers the updating as a low-cost service item, consider using them. That way, you can sit back and receive the new outputs, and do hardly any work at all, beyond sending them your new actual expenditures data once in a while

Returning to our main point — the number of expenditures for your reserve fund, annually, are so few, that working them into your plan should be seriously considered. It’s a sure way to keep your balances healthy and to avoid surprises that require drastic, and often costly, action.