

A Reserve Fund Expenditure Is Not an Isolated Event

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. (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](#).

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A Reserve Fund Expenditure Is Not an Isolated Event

Bring Today's Experience to Tomorrow's Planning

Isolated events have few consequences, beyond the event itself. But expenditures from a reserve fund often do. They clearly signal that changes to the existing plan should be considered in light of current expenditure experience. This chapter explains why, and suggests exactly what you should do about them, with a view to keeping your reserve fund balances healthy.

If you're into reserve funds ... as a Board Member, a Property Manager, a Reserve Fund Specialist, an Accountant ... we hope you won't be surprised to learn that a single expenditure has far-reaching consequences.

Let us explain.

Here's a simple case related to replacing your condo's hallway carpeting. The plan called for its replacement in 2008, but because of its condition you did the job in 2006. The cost, \$45,000, found its way into your books of course. But the estimated cost (\$35,000) still sits in your reserve fund plan, in the 2008 column.

Anyone referring to the 2008 plan, unless they're extra careful, is going to see that cost as "coming up" instead of "taken care of".

We maintain that you should do something to head off wrong interpretations. And we have a suggestion for what you should do. We'll get to that a bit later.

But let's go on a bit with other meaningful chain effects that our carpeting replacement is causing.

For one thing, the carpets cost \$10,000 more that you expected them to. If, in your reserve fund plan, you have carpet replacement costs in there every 8 years, perhaps all those estimates are low as well. The chances are very good they are, because your planner was thinking \$35,000, not \$45,000.

(By the way, we're putting aside the inflationary calculation in this article. The principles are the same, regardless).

So here you are with a plan that shows a replacement cost of \$35,000 several times in the carpeting row of the spreadsheet, when it should be showing \$45,000. Imagine what that variance is doing to your projected balances. It's showing them artificially too high and the error is increasing as you go through the plan's span.

There's more.

Remember, in our example, that the carpet was replaced 2 years sooner than the plan called for. The plan called for an eight-year interval and you replaced it after only six years.

Your plan, however, is showing a carpet replacement cost occurring every eight years. If you adjusted the plan (as you should) you'd have the costs occurring every six years. What

a difference it would make to your projected balances a few years out!

Our point is that a single expenditure from the fund can, and does, have broad, costly, and compounding implications.

All right, how do you handle this? In a word, you adjust your plan as real expenditures occur. You adjust it not only for the single actual expenditure dollars being different than the estimate, but you adjust it also for the probability that later, similar expenditures will resemble the latest expenditure and not the earlier planned amounts. You also adjust your plan for the change in intervals if you think the interval in the plan now looks too long, given your latest experience.

In this short article, we cannot go into the how of making these adjustments, but essentially it's a job for your computer. Our software chapter on page 88 will have some information on handling this task.

You'll rest easier if you're "on top" of your property's reserve fund.