

CNPOA Reserve Fund Study, 2003

Introduction

The Calmes Neck Property Owners Association (CNPOA) is in the fortunate circumstances of owning community property such as the Kubota tractor and implements, swimming pool, and truck with snowplow. Because of this substantial investment in capital equipment, it is important to plan for major maintenance and the eventual replacement of these items. This is not only fiscally prudent, but it is also a requirement of the *Virginia Property Owners Association Act of Virginia* (VPOAA). The following is the relevant excerpt from the VPOAA (full 16-page text available from your Board or http://www.co.fairfax.va.us/dtcs/consserv/community_association_manual.htm):

§ 55-514.1. Reserves for capital components.

A. Except to the extent otherwise provided in the declaration and unless the declaration imposes more stringent requirements, the board of directors shall:

1. Conduct at least once every five years a study to determine the necessity and amount of reserves required to repair, replace and restore the capital components;
2. Review the results of that study at least annually to determine if reserves are sufficient; and
3. Make any adjustments the board of directors deems necessary to maintain reserves, as appropriate.

B. To the extent that the reserve study conducted in accordance with this section indicates a need to budget for reserves, the association budget shall include, without limitation:

1. The current estimated replacement cost, estimated remaining life and estimated useful life of the capital components;
2. As of the beginning of the fiscal year for which the budget is prepared, the current amount of accumulated cash reserves set aside, to repair, replace or restore capital components and the amount of the expected contribution to the reserve fund for that year; and
3. A general statement describing the procedures used for the estimation and accumulation of cash reserves pursuant to this section and the extent to which the association is funding its reserve obligations consistent with the study currently in effect. (2002, c. 459.)

§ 55-509. Definitions.

"Capital components" means those items, whether or not a part of the common area, for which the association has the obligation for repair, replacement or restoration and for which the board of directors determines funding is necessary.

Capital Components

The capital components we are planning for in this reserve fund study are:

1. the Kubota tractor,
2. the truck,
3. major equipment, including the Versapro, bush-hog, Woods blade, and the snow plow blade for the truck,
4. the swimming pool, swimming pool fence, and pool house, and,
5. the road.

Assumptions

The following assumptions were made regarding the information available to us:

1. The useful life and salvage value for the components were estimated by Board members without professional assistance. Nonetheless, certain outside resources were consulted to estimate the salvage value of certain equipment, e.g., the value of a 25-year-old tractor.
2. The road has a very high estimated replacement value, and is assumed to be maintained in such a way as to negate total replacement, and so has an indefinite working life. However, road emergencies such as the snow event in early 2003 require some funds to be reserved in order to negate the necessity of a special assessment.
3. The amounts to be accumulated in the fund yearly have been calculated using straight-line depreciation, both for simplicity, and to even out the amounts across years.
4. The swimming pool needs to be resurfaced, and so must have at least \$13,000 available within the next six months
5. Interest/dividends earned by the fund(s) shall be re-invested in the fund instrument.
6. Inflation was ignored (with the assumption that interest/dividends will make up for it).

The attached table contains the figures used to generate the reserve fund study. The columns are defined as follows:

1. **Capital Component**
2. **Replacement or Refurbishment Cost** – For most items, this is the value of the item when it was placed in service. For the pool this is the estimated cost to refurbish. For the truck, an estimate of purchase price was made.

3. **Date Purchased** – The date that the component was purchased or brought into service*
4. **Age (years)** – The age of the component, as of September 30, 2003
5. **Expected Life (years)** – The expected useful life of the component
6. **Salvage Value** – The expected value of the component at the end of its expected useful life
7. **Yearly depreciation (straight line)** – The straight line depreciation for the component. E.g. If the item had a replacement cost of \$1000, an expected life of 10 years, and a salvage value of \$100, then the straight line depreciation would be \$90 per year. The proposed annual contributions to the reserve funds are based on this column.
8. **Current Equipment Value** – The value of the equipment on September 30, 2003, based on the age, the depreciation, and the replacement cost
9. **Amount Needed in Fund Now** – The amount that should be in the fund as of September 30, 2003, in order to have accumulated the replacement/refurbishment cost by the end of the component's useful life, if annual contributions match the "Yearly Depreciation", and if interest earned offsets inflation.

Observations

Based on the figures shown in the "Amount Needed in Fund Now" column, on October 4, 2003, the Board reallocated existing reserve funds among the categories shown so that we have generally sufficient balances.

The annual contribution of \$1,000 to each of three reserve funds (equipment, pool, and roads) was a reasonable practice when the Association first started business. Nonetheless, this study shows that higher contributions are now required in order for us to keep up with the amounts needed as our equipment and facilities age.

Many of these numbers will need reevaluation in the future once more information is available. In particular, we expect to get better numbers on the replacement or refurbishment cost of certain pool components in the near future.

Footnote: The legal reserve fund is outside the scope of this study, since it is not, nor is it closely related to, a capital component. Current practice is to deposit in this fund any monies received from late fees on annual assessments.

* The swimming pool date purchased refers to the last time that it was refurbished.

