

Worried About Financial Planning for Your Community?

CAI Public Policy Can Help.

COMMUNITY ASSOCIATION BUDGETS AND RESERVES

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This is the fourth in a series of articles about public policies developed by the Government and Public Affairs Committee of the Community Associations Institute (“CAI”). These public policies are designed to provide guidance to associations and set the standards to which common interest associations and those who support the work of community associations may aspire.

The financial health of a community association, both short and long term, is one of the most important factors in establishing a successful community. Adopting and using a transparent financial planning and budget process to determine annual operating costs and address reserve requirements can help developers as well as owner-controlled governing boards ensure that the financial obligations of a community can be met without undue or costly strain on owners.

CAI Public Policy – *Community Association Budgets and Reserves* - provides guidance and offers suggestions on how to make the budgeting process and funding for reserve requirements successful. CAI recommends several actions that are best practices to support financial well-being by developers and associations. CAI recommends that *developers* should:

- Use an independent and qualified professional to prepare the budget or provide guidance to the developer on recommended changes to the budget.
- Develop the budget, preferably prior to the sales phase, in accordance with generally accepted accounting principles so that potential purchasers are provided with reliable information, including not only the annual operating costs but also the initial funding of reserves that are necessary.
- Use an independent and qualified professional to prepare a reserve study that accounts for the annual contributions necessary for long-term maintenance, repair and replacement of association facilities.
- Ensure that the association has authority to borrow funds.
- Ensure that common areas or common elements are accurately identified to include all interests for the benefit of owners which are subject to the declaration.

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CAI also recommends that *associations* should:

- Adopt formal policies for meeting maintenance, repair and replacement obligations, to include attainable goals for funding and investing reserve accounts.
- Use an independent and qualified professional to prepare a reserve study that accounts for the annual contributions necessary for long-term maintenance, repair and replacement of association facilities.
- Fund, in whole or in part, reserves based upon replacement cost estimates so that sufficient funds are available when needed without implementation of special assessments.
- Refrain from establishing reserves solely as a fixed percentage of the budget or of the value of improvements.
- Comply with state law requirements for funding reserves and provide members with an update on the status of reserve accounts at least annually.

In addition, CAI encourages owners to become familiar with risk management and insurance requirements for a community as well as costs associated with self-insurance and the funding of insurance deductibles that should be accounted for during the budgeting process. More detailed information about this topic can be found in CAI's *Community Association Risk Management and Insurance Policy*.

Developers and owner-controlled governing boards have a fiduciary duty to determine and plan for the short and long term financial needs of the community association. With the CAI policy – *Community Association Budgets and Reserves* - as a guide, developers and owners will be in a much better position to ensure the financial health and thereby the success of the community.

Sidebar:

A list of CAI's *Public Policies* is available online at:

<https://www.caionline.org/Advocacy/PublicPolicies/Pages/default.aspx>

CAI's Public Policy on *Community Association Budgets and Reserves* is available online at:

<https://www.caionline.org/Advocacy/PublicPolicies/Pages/Community-Association-Budgets-and-Reserves.aspx>

The *Community Association Risk Management and Insurance Policy* can be found at:

<https://www.caionline.org/Advocacy/PublicPolicies/Pages/Community-Association-Risk-Management-and-Insurance.aspx>