Capital Improvements vs Reserve Fund Expenses

Capital Improvements:

Capital improvements are projects where a new asset is added to the community. It is a project that, once installed, will then create operating expenses and future reserve expenses. A good example of a capital improvement type expense would be the installation of tennis courts when they do not already exist. Capital improvement projects typically require membership approval before the project begins. Because capital improvements are generally “new” to the community, no reserve funds have been set aside to pay for this project. The Board will have to re-allocate existing funds to pay for this asset, or pass a special assessment to fund the project. It is important to note, this new asset will need to be added to the reserve component list and future Reserve Studies should be updated to reflect this new addition.

Reserve Fund Expenses:

Reserve expenses are costs associated with existing component repairs and replacements. To demonstrate, we’ll take a look at a few examples: An irrigation sprinkler fails and needs replacement, cost $250. This expense is considered to be immaterial and should be handled as an Operational expense. An irrigation controller fails after 10 years and requires replacement, cost $1,200. This would be considered a Reserve expenditure. Associations should refer to their Reserve Study for replacement costs and remaining life on each component. A proper Reserve Study will provide projections and funding plans to offset future repairs and replacements. Reserve funds should be held in a separate bank account that is designated for reserve related expenses. Refer to your association's Reserve Policy regarding reserve fund uses.