

HOA Reserve Funds

Homeowners' associations usually set up and maintain two types of funds. These are the Operating Fund and the Reserve Fund. The Operating Fund covers the cost of routine expenses such as management fees, vendor fees, utility costs and insurance premiums. The Reserve Fund is essentially a savings account. It is where the HOA saves money for more costly repairs and replacements.

What's an HOA Reserve Fund?

An HOA Reserve Fund is money set aside by a community association for additions to major components the association is obligated to maintain and future replacements and repairs that don't occur on an annual basis.

Why does my HOA need a Reserve Fund?

A Reserve Fund is your community's way to plan and prepare for the inevitable repairs and updates you know will happen, such as replacing a shared roof or resurfacing common roads and driveways. An up-to-date Reserve Fund is critical to the financial management of a community.

How are HOA reserves funded?

Reserves are funded by association member assessments, dues, fees and fines. Additional money can come from interest and returns earned from existing reserve funds.

How much money should an HOA have in its Reserve Fund?

Every HOA is unique and will require a different reserve amount depending on its needs, size, type, location and other factors. Ideally, your community wants to have a 100 percent funded HOA Reserve Account, meaning that it has enough money to cover all anticipated costs. A Reserve Account that is less than 70% funded, however, and the HOA faces the likelihood of needing to leverage special assessments or increase association dues to cover costs.

To decide how much money is enough for your community, the HOA needs to identify what the association owns, estimate when things will need to be replaced, and then calculate how much everything is going to cost. Pioneer Hills HOAs in 2019 engaged a third-party firm to provide a professional Reserve Study to help determine the appropriate amounts required for future expenses.

What are HOA Reserve Funds used for?

A Reserve Fund covers the cost of major replacements or repairs that will eventually come up. Physical assets will deteriorate over time, and your HOA will need to replace or repair them down the road.

Reserve fund expenditures often include, but are not limited to:

- Roof replacements
- Pool pump/heater
- Playground equipment
- Replacing fencing in common areas
- Major landscaping projects
- Road and sidewalk resurfacing