Capital Improvements vs. Repairs and Maintenance and the use of the Replacement Reserve Account

Roof Replacement-Capital Improvement

Roof Repair-Repairs & Maintenance
• **Capital expenditures** are costs that a company incurs to purchase an asset, *extend* its life, or *increase* its capacity or efficiency.

• **Repairs and maintenance expenses** only *maintain* an asset’s life or current condition.

• The distinction is generally clear, although there are times when a judgement call is needed for a particular expense. (i.e. Water Line Repairs)
Capital Improvement Plan

During the process of buying your community, a property conditions assessment report is completed to assess the life expectancy of your asset-infrastructure (i.e. water, sewer/septic, electrical, roads, drainage, buildings, etc.). A capital improvement plan is completed at that time based on the findings from the property conditions report.

The capital improvement plan shows the infrastructure items that are in need of replacement and an estimated budget amount is given to each line item. From that capital improvement plan an initial deposit amount to the replacement reserve account is determined.
Replacement Reserve Account

The replacement reserve account is a bank account setup on behalf of the borrower at closing and held by ROC USA Capital to pay for Capital Improvements. The initial deposit that was determined from the capital improvement plan is deposited into the reserve account. The borrower makes monthly reserve contributions as part of their mortgage payment to ensure adequate funding for current and future planned and unexpected capital improvements.
Why does the lender require the borrower to have a replacement reserve account?

*It is very important to have money set aside to complete expected and unexpected capital improvements. Making sure capital improvements are completed will help to keep operating expenses lower because there will be less repairs and more efficient systems that cost less to operate.

*Regular monthly deposits to the reserve help to ensure that money is available for current and future capital improvements.

*The reserve contribution amount should be evaluated during the budget process to make sure it is sufficient for any current or future capital improvement needs.
REPLACEMENT RESERVE DISBURSEMENT
REQUEST FORM

RESIDENT OWNED COMMUNITY: ________________________________

DATE OF REQUEST: ________________________________

CHECK MADE PAYABLE TO: ________________________________

AMOUNT: ________________________________

DESCRIPTION: ___________________________________________

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________

APPROVED BY THE BOARD OF DIRECTORS □

*Two signatures necessary for payment approval only if required in your by-laws

BOARD MEMBER SIGNATURE: ________________________________________

TITLE: ______________________________________

BOARD MEMBER SIGNATURE: ________________________________________

TITLE: ______________________________________

*Attach a copy of the invoice to be paid and any other required documentation.*
Reserve Disbursement

- Complete Reserve Request Form
- Check made payable to Vendor or Contractor
- Provide copy of the invoice or receipts
- Provide copy of estimate or proposal
- Provide copy of contract
- Additional documentation may be required dependent on the job
- Deposits for contracts are the only payments that will be made in advance

Reserve Reimbursement

- Complete Reserve Request Form
- Check made payable to Borrower
- Provide copy of the invoice or receipts
- Provide copy of estimate or proposal
- Provide copy of contract
- Additional documentation may be required dependent on the job
- Provide copy of canceled check showing payment
- Reimbursement Request should be submitted no later than 60 days after complete and should not cross between fiscal years.

Please allow 5-10 business days for processing of reserve request payments.