

Level II
Class Problem # 5
Development of Reserve for Replacements

The following are capital items on the Gateway SC that have to be replaced periodically.

The roof costs \$30,000 to replace and typically lasts 15 years.
The HVAC equipment lasts 20 years and costs \$20,000 to replace.

The parking lot has to be re-paved every 10 years at a cost of \$40,000.
The awnings and store fronts need updated every 15 years at a cost of \$50,000.

Set up the Reserve for Replacements Account that you will use in your reconstructed operating statement. Determine the annual expense for these items.

Level II
Class Problem # 5 Answer
Development of Reserve for Replacements

Set up the Reserve for Replacements Account that you will use in your reconstructed operating statement. Determine the annual expense for these items.

Item	Cost to Replace	Typical Life	Reserve
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Roof	\$30,000	15	\$2,000
HVAC	\$20,000	20	\$1,000
Parking Lot	\$40,000	10	\$4,000
Store Fronts	\$50,000	15	\$3,333

Total

\$10,333

The total Reserve for Replacements would be :

\$10,333