



## APPROPRIATE USES OF CAPITALRESERVES FUNDS

### RESERVES DEFINED

“Actual funds at a given point in time identified by the association to defray the future repair or replacement costs of those major components the association is obligated to maintain. Also known as reserves, reserve accounts or cash reserves.” CAI National Reserve Study Standards.

### APPLICABLE IRS RULINGS 74-563, 75-370, AND 75-371

Consult with your tax advisor regarding exemptions, exclusions, establishment of bank accounts and qualified transactions.

Maintain at least two separate bank accounts: Operating and Capital Reserve Accounts.

Funds for non- tax exempt components such as painting, power washing and seal coating are not considered capital reserve components under IRS Rulings .

Funding for new capital improvements requires a separate capital improvement reserve account.

Provide separate accounts in the General Ledger for reserve transactions.

The purpose of the reserve assessment must be capital in nature.

Inter fund borrowing is generally not allowed.

Deposit assessments in Operating Account first then within two weeks transfer the appropriate funds to the Reserve Account or Maintenance (Reserve) Account as appropriate.

Take reserve expenditures directly from the Reserve Account.

### MANAGEMENT OF RESERVES

Members or unit owner-stockholders must have advance notice as to the intent of the purpose of the contribution.

The money contributed must be accounted for as a capital contribution.

The money must be held for that purpose and for no other purpose.

The money must be actually expended for the intended purpose.

The money must increase the capital account of the member or unit owner-stockholder.

Boards can decide to have painting and other maintenance items included in a Capital Reserve Budget for “book” or GAAP purposes” but these items will require separate accounting considerations for tax purposes.

Maintenance and ongoing expenses should be funded from the Operating Account.

Non annual recurring maintenance for items such as painting, caulking, power washing, and seal coating can be funded from a separate Deferred Maintenance Fund.

Vehicles and equipment can be funded from a Depreciation Fund which utilizes a separate accounting and depreciation schedule for each item.

The amount of additional money set aside for reserves should be determined based on a long term, professional Reserve Study.



## Interactive Reserve Analysis

Select a funding plan strategy:

- Full Funding – maintain reserves close to 100%
- Baseline Funding – keep reserve fund above zero.
- Threshold Funding – keep balance at a determined amount.
- Statutory Funding – maintain amounts required by law.
- Decide upon an acceptable assessment contribution to reserves.
- Support shortfalls with special assessment or bank loans.
- Defer expenditures as needed to maintain the reserve funding balance objective.

**If you have additional questions about DMA reserve studies, please contact us at our office at 804-644-6404 or by e-mail at [admin@dma-va.com](mailto:admin@dma-va.com).**