



Interactive Reserve Analysis

SEPARATE BANK OR DEPOSIT ACCOUNT

Many of the financial statements that we examine do not provide for a separate reserve bank account or deposit account. In many cases the accountant has simply identified the monies for reserves as an equity balance or balances for individual components. In doing so, the accountant has met the generally accepted principles of accounting. However these balances are often represented to a large extent by a single cash account and to a lesser extent by savings accounts or deposit accounts. This is fine from an accounting standpoint but it comingles journal entries and check writing in the cash account for operating expenses with those for capital expenditures.

Depending upon the Association's Federal tax filing status, the IRS has some distinct rules about keeping separate bank or deposit accounts and they have distinct restrictions against the comingling of operating funds with reserve funds. Most of the generally accepted guidelines for reserve studies recommend setting aside reserve funds in separate bank or deposit accounts. Also, separate bank or deposit accounts are often required by the governing documents.

It is our recommendation that reserve funds and any accrued interest should remain in a separate reserve bank or deposit account or accounts, and should be used only for authorized reserve expenditures. Emergency transfers should be approved by a vote of the membership. Refunding of the Reserve Account should be done in a timely manner. Allocations to the Reserve Account from the general assessments should be done in a timely manner. Special assessments earmarked and approved by the membership should go directly to the Reserve Account. Bank loans should go directly to a Reserve Account and the bank will undoubtedly insist that this be the case. Using this simple method of separate accounting will alleviate any misuse or misunderstanding as to the use of monies set aside for capital reserves. Multiple investment accounts holding reserve funds can be better managed and coordinated with the time line when funds are needed.

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.