



OPERATING OR RESERVE?

How Boards Can Make Better Decisions About Where Association Expenses Belong

A practical guide to protecting the operating budget, preserving reserve funds, and reviewing larger repairs before approving payment.

Because Communities Deserve Better!

Community Association Management, Limited

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Operating and Reserve Funds Have Different Jobs

An association may have money in both its operating and reserve accounts, but those funds are not interchangeable. Operating funds pay the recurring costs of running the community. Reserve funds are set aside for major repair, replacement, restoration, and capital needs involving significant association components.

The distinction matters because using reserves for routine operations can make the association look financially healthier in the short term while quietly weakening its ability to pay for future capital obligations.

The standard

Reserve funds are not a second operating account. Routine operations and general maintenance belong in the operating budget, even when an individual invoice is larger than expected.

Why Boards get into trouble

- An operating budget was set too low and the Board looks to reserves to cover the shortfall.
- A large maintenance invoice is assumed to be a reserve expense solely because of its dollar amount.
- A repair to a major component is paid from operations without considering whether it belongs in the reserve plan.
- The reserve study is not consulted when substantial repair or replacement work is approved.
- Repeated operating expenses are moved to reserves instead of correcting the annual budget.

1. Start With What the Expense Represents

The size of an invoice is important, but it does not determine the proper funding source by itself. The first question is what the association is actually buying or repairing.

Operating expenses

Operating expenses are the recurring, day-to-day costs of administering and maintaining the association. They should be anticipated through the annual operating budget and regular assessments.

- Landscaping, irrigation maintenance, janitorial service, pest control, and routine pool service
- Utilities, insurance premiums, management fees, administrative costs, and tax preparation
- Routine legal expenses and ordinary professional services
- General repairs and preventive maintenance that keep existing assets functioning
- Reserve studies and other planning reports, which support capital planning but are themselves operating expenses

Reserve expenses

Reserve expenses are generally non-recurring, significant costs associated with repairing, replacing, or restoring major association components. These costs are typically identified in the reserve study or otherwise part of the association's long-term capital plan.

- Roof replacement or major roof restoration
- Asphalt resurfacing or replacement
- Exterior painting when treated as a major cyclical component
- Pool replastering or significant pool-system replacement

- Elevator modernization
- Major HVAC, boiler, pump, gate, security, structural, or other component replacement

A large invoice is not automatically a reserve expense

A \$4,000 general-maintenance invoice does not become a reserve expense simply because it is large. A \$4,000 repair to a major association component may warrant reserve review because of what the work represents - not because it crossed a dollar threshold.

2. Community's \$2,500 Review Threshold

Community uses approximately \$2,500 as a review trigger for maintenance and repair invoices. It is not an accounting rule and it does not automatically change an operating expense into a reserve expense.

When a repair or maintenance invoice exceeds that threshold, the additional review helps determine whether the work is truly general maintenance or whether it involves a significant repair, restoration, or replacement of a major component that should be considered against the reserve study and capital plan.

Question	If YES, consider...
Is this recurring service or routine upkeep?	Operating budget.
Is this a significant repair to a major component?	Review against the reserve study and reserve policy.
Is this one of several similar invoices for the same component?	Whether the work is really part of a larger capital repair or replacement.
Is the component nearing the end of its useful life?	Whether continued repairs are economically sensible compared with planned replacement.
Is the operating budget simply short of cash?	Correcting the operating budget rather than using reserves as a substitute.

Why the threshold matters

Without a review point, larger component repairs can be paid from operations simply because they arrive as ordinary vendor invoices. The threshold creates a deliberate pause so the Board and management can classify the work correctly and understand its impact on both operating cash and reserves.

3. Maintenance, Repair, Restoration, and Replacement Are Not the Same

Type of work	Typical treatment	Example
Routine maintenance	Operating	Scheduled landscape service, routine pool service, preventive HVAC maintenance.
Ordinary repair	Usually operating	A localized plumbing repair or small electrical repair that restores normal operation.

Type of work	Typical treatment	Example
Major component repair/restoration	Review for reserves	A significant roof repair, structural restoration, or substantial paving repair tied to a reserve component.
Replacement	Reserve	Replacing a roof, resurfacing asphalt, modernizing an elevator, or replacing a major mechanical system.
New capital improvement	Board-specific review	A new amenity or improvement may require separate authority, funding analysis, and governing-document review.

The reserve study should inform the decision

The reserve study is more than a list of future replacements. It provides context about the component, its anticipated life, expected cost, and funding assumptions. When substantial work occurs on a component listed in the study, the Board should understand how the work affects that component's remaining life, future replacement timing, and reserve funding plan.

Emergency does not automatically mean operating

An unexpected failure can still involve a reserve component. The fact that the work was not scheduled does not, by itself, determine the funding source. The Board should evaluate the nature of the component and work, the reserve plan, available funds, governing documents, and professional guidance where needed.

4. Why Accurate Classification Matters

Expense classification affects much more than which bank account pays an invoice. It affects the accuracy of the association's financial reporting and the Board's understanding of what it truly costs to operate and preserve the community.

- Operating results can look artificially strong when normal expenses are shifted to reserves.
- Reserve balances can appear adequate even while money is being consumed for purposes that were never included in the capital plan.
- Budget decisions become distorted because recurring costs are hidden outside the operating budget.
- Reserve funding projections become less reliable when withdrawals do not correspond to the components and assumptions in the reserve plan.
- Future Boards and owners inherit a less accurate picture of the association's financial obligations.

Do not use reserves to make the operating budget work

If the association cannot pay predictable operating costs from regular assessments and operating cash, the solution is to address the budget - not to routinely transfer those costs to reserves.

5. What the Board Should Ask Before Approving a Larger Invoice

- ☐ What exactly is being repaired, replaced, or maintained?
- ☐ Is the expense recurring, preventive, corrective, restorative, or a full replacement?

- ☐ Is the component included in the reserve study?
- ☐ Is this invoice part of a larger series of repairs or an emerging capital project?
- ☐ Would paying this from reserves be consistent with the association's reserve plan and governing documents?
- ☐ If the expense is operating, does the budget have sufficient funding - and if not, what needs to change?
- ☐ Does the reserve study need to be updated because the component's condition, timing, or cost has changed?

How Community Approaches Operating and Reserve Expenses

Community separates routine operating activity from long-term capital planning so Boards can see the true cost of running the association and the true resources available for future major repairs and replacements.

- Routine operations and general maintenance are budgeted and paid as operating expenses.
- Maintenance and repair invoices of approximately \$2,500 or more receive additional review to determine whether the work involves a major reserve component.
- Major component work is evaluated against the association's reserve study and long-term capital plan.
- Financial reporting keeps operating and reserve activity visible so the Board can understand both current performance and long-term funding.
- When classification is unclear or the decision has legal, tax, accounting, or reserve-planning implications, the appropriate professional should be consulted.

The question to ask

Are we paying this expense from reserves because it truly belongs there - or because the operating budget was not prepared to absorb it?

Board Review Checklist

- ☐ Our operating budget includes the association's recurring costs and general maintenance.
- ☐ Our reserve funds are not being used as a routine source of operating cash.
- ☐ Larger maintenance and repair invoices receive an additional classification review.
- ☐ The Board understands that \$2,500 is a review trigger - not an automatic reserve designation.
- ☐ Major component work is compared with the reserve study before payment is classified.
- ☐ The Board understands how reserve withdrawals affect the long-term funding plan.
- ☐ When in doubt, we obtain appropriate professional guidance before approving the funding source.

Educational Notice

This white paper is intended for general educational purposes and is not legal, tax, accounting, engineering, reserve-study, or other professional advice. Association governing documents and applicable law vary. Boards should consult the appropriate professional when a specific issue requires legal, accounting, tax, engineering, or reserve-planning guidance.