MEMO: GAAP ACCOUNTING FOR A SEGREGATED BUILDING PRESERVATION RESERVE

Date: July 2026

1. Executive Conclusion:

A monthly transfer into a segregated Building Preservation Reserve is **not an expense and does not create a liability.** It is a transfer between asset accounts and, if approved by the governing board, a designation within net assets without donor restrictions. Total assets and total net assets do not change merely because funds are segregated or designated.

2. Income-Statement Treatment:

- Monthly reserve funding: No revenue or expense is recognized. Moving cash from an operating account to a separate reserve account has no effect on the statement of activities.
- Repairs and maintenance: Recognize expense when the work is performed or the obligation is incurred, subject to normal accrual-accounting rules.
- Capital improvements: Capitalize expenditures that materially extend useful life, increase capacity, or improve the building; record depreciation over the applicable useful life.
- Investment income: Interest and investment returns earned by the reserve are reported as investment income. A board designation alone does not make that income donor restricted.

3. Balance-Sheet Treatment:

- Report the segregated funds as cash, cash equivalents, or investments, according to their nature. The account may be separately captioned or described in the notes.
- Report the corresponding designation within net assets without donor restrictions, for example: Board-designated - Building Preservation Reserve.
- Do not report a reserve liability unless an actual present obligation exists, such as contracted work already performed or an enforceable commitment that meets GAAP recognition criteria.
- Disclose the amount and purpose of the board designation and consider its effect on financial-asset availability and liquidity disclosures.

4. Illustrative Monthly Accounting:

Action	Illustrative Entry	Financial-Statement Effect
Transfer cash monthly	**Dr. Reserve cash Cr. Operating cash**	Asset-to-asset transfer; no income-statement effect and no change in total assets.
Record board designation	**Reclassify within net assets without donor restrictions**	No change in total net assets; designation may be recorded in the ledger or disclosed only.
Pay qualifying future costs	**Dr. Expense or building asset Cr. Cash/payable**	Expense repairs when incurred; capitalize and depreciate qualifying improvements.

5. Donor-Restricted Funds and Governance:

If a donor restricts a contribution to future building preservation, report it as net assets with donor restrictions until the restriction is satisfied. A board cannot convert unrestricted resources into donor-restricted resources. The governing board should approve a written reserve policy identifying the funding target, permitted investments and uses, authorization requirements, and circumstances in which the designation may be modified.

6. Applicable GAAP:

ASC 958-210-45-11 addresses board designations for specific future expenditures. ASC 958-210-50-3(f) requires disclosure of the amounts and purposes of board-designated net assets when not presented on the face of the statement of financial position. ASC 958-210-50-1A requires liquidity and availability disclosures that consider internal limits imposed by governing-board decisions.

Source: Financial Accounting Standards Board, ASC Topic 958, including ASC 958-210-45-11, 958-210-50-3(f), and 958-210-50-1A; FASB ASU 2016-14.