

Understanding HOA Reserve Transfers

Overview:

HOA reserve funds are established to pay for the major repair and replacement of common area components such as roofs, asphalt, paint, elevators, and plumbing infrastructure. In California, reserve funds are considered restricted funds. Boards may not freely use them to solve routine operating shortfalls. The Davis-Stirling Act allows limited transfers under strict conditions designed to protect reserve integrity and homeowner transparency.

Legal Purpose of Reserve Funds:

Reserve funds may only be used for:

- Repair, replacement, restoration, or maintenance of major components
- Litigation related to those components when permitted by statute

Using reserve funds outside of these purposes exposes the association and board members to fiduciary risk.

Signature Requirements:

Withdrawals from reserve accounts require:

- Two directors
- One director and one officer who is not a director

This requirement is a statutory internal control intended to prevent misuse.

Temporary Transfers to Operating Accounts:

California Civil Code §5515 allows a temporary transfer from reserves to operating funds only when specific procedural steps are followed.

Required conditions include:

- The intent to consider the transfer must be disclosed in the open meeting notice
- The notice must explain why the transfer is needed
- The notice must describe repayment options
- The notice must disclose whether a special assessment may be required

If approved, the board must state this in the meeting minutes and explain:

- Why the transfer is necessary
- When the money will be repaid
- How repayment will occur

Transferred funds must generally be repaid within one year. A delay beyond one year requires additional notice and a new written finding that postponement is in the best interests of the association.

Member Disclosure and Ongoing Transparency:

Reserve transfers are not just a board decision. They directly affect the association's long-term financial health and homeowner trust. In addition to meeting notice and minute requirements, boards should ensure that reserve transfers are clearly reflected in financial reports and future budget disclosures.



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Boards should:

- Ensure the transfer appears clearly in monthly financial statements
- Track repayment separately to avoid commingling operating and reserve balances
- Disclose the transfer and repayment status in the next annual budget report
- Be prepared to answer homeowner questions regarding reserve impact

Clear disclosure helps demonstrate that the board acted prudently, temporarily, and in good faith. It also reduces the risk of homeowner challenges or allegations of improper reserve use.

Best Practices for Boards:

While legal in limited circumstances, reserve transfers should be treated as a last resort. Sound financial practices include proactive budgeting, realistic insurance forecasting, consistent reserve contributions, and close monitoring of delinquencies and cash flow.

How PMG Helps

PMG helps boards maintain reserve integrity through compliant budgeting, cash flow planning, and clear documentation. When reserve transfers are unavoidable, we ensure the process is legally defensible and properly communicated to members.

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