



# Three Simple Steps to Establish a Capital Reserve Account

by Tim Cool

**CAPITAL RESERVE ACCOUNTS** are a helpful tool to keep church facility humming. These simple steps can be extremely helpful and useful as congregations come to the end of the calendar year and start the process of planning for new budgets. This is a very simple, and yet effective way of establishing a capital reserve account. Even if you are not an accountant you need to be aware of how to establish certain mathematical equations and apply them to our field of endeavor.

According to Investopedia.com, capital reserve is “a type of account on a municipality’s or company’s balance sheet that is reserved for long-term capital investment projects or any other large and anticipated expense(s) that will be incurred in the future.” This type of reserve fund is set aside to ensure that the company or municipality has adequate funding at least to partially finance the project.

In short, a capital reserve account is one that is established to save up monies to pay for a major capital expenditure when its effective life is over. For example, the average life of your HVAC systems may be fifteen years. So, if you spend \$100,000 on a new HVAC system today, how much

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should you set aside in a reserve account to have the adequate funds to replace it in fifteen years? Is it \$100,000? Is it more? Is it less?

To help with this kind of planning...on a very simplistic basis... here is a “calculator.” This tool will help establish an annual amount to be set aside in this type of account. You will only need to input three items (besides the name).

- 1. Current replacement value ÷**
  - 2. Expected life in years +**
  - 3. Inflation rate (%) =**
- Annual amount needed**

By inputting these three simple items, you can project the total replacement cost and the annual amount needed to be set aside. This simplistic approach is not 100% fool-proof...but it will get you close, and my guess is that it will get you a LOT closer than what you are currently saving for these items. There are going to be times when the percentage of inflation is

going to be off or the years of life could be misjudged, but regardless, you will have set aside money to help you cover the cost instead of having to do a capital campaign just to replace carpet or buy a new HVAC unit.

This is part of being proactive vs. reactive. We have looked at this many times...now it is time to start to take action. 

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