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# **TRAINING MONTHLY FINANCIAL STATEMENTS**

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## Monthly Financials

### Exhibit (Training, Understanding, Explanation)

The **Balance Sheet** is a snapshot of your financial affairs as of the date specified. This is the **asset** portion of your **Balance Sheet**. An explanation of each account follows.

			Balance Sheet
			As of 12/31/06
1			ASSETS
	1005	1st Community Bank - Operating	\$ 20,911.84
	1110	Delinquent Assessments	9,967.06
	1111	Collection Fee Receivable	2,199.52
	1310	Prepaid Insurance	1,032.66
2	1950	1st Community Bank - Reserves	116,552.11
	1952	1st Comm Bank - CD Exp 3/08	61,135.11
	1953	1st Comm Bank- CD Exp 3/08	139,066.72
3			

**1005** – This is your checking account. Assessments from owners are deposited here and this from this account expenses are paid. A healthy community should maintain a balance equal to one month's assessments in operating. Cash Operating may be higher at the end of the month (at the time financial statements are cutoff). It may be overstated by the line item prepaid assessments. That paying their fees a bit early each month for the next are shown as prepaid and this makes the operating cash higher.

**1110** – This is your unpaid owner assessments as of the balance sheet date. This is comprised of owners who owe one month or many months. It may or may not include legal costs as counsel maintains the ledger on these accounts.

**1111** – In addition to unpaid assessments, collection fees also remain unpaid on the delinquent accounts. Collection fees often belong to the management company as the association's documents may not allow it the ability to assess this penalty. The penalty is paid only if collected. The cost of services to the association may be offset by this provision.

**1310** – If this appears above, it is because insurance is paid in advance or before it is used. For example, lawn service is paid monthly as the amount is fixed and no early payment is required. Prepaid insurance often requires a down payment and payoff in less than a year. Since your insurance covers you for 12 months, any amounts paid early to be used late in the year are show as prepaid.

**1900** accounts are all some type of savings or reserve account. Due to the "Prudent Man" rule, investments are limited to CDs, CDARS and money markets. Note – reserves here in "Assets" reflect the amount of funds available. Your money market in reserves along with any reserve CDs is what is available to spend. Later the "Reserve" section of this Balance Sheet will show how much of these funds may be used for which reserve. The reserve section provides informational details. This asset section is the total cash. The reserve section shows the division of cash to be used for each reserve.



This is the **liability** and **equity** section of your **balance sheet**.

**2080** – This means that of the \$20,911.84 that you have in the operating account in the asset section (account 1005) belongs to people who have paid early. This means that those funds are really available for upcoming periods, in this case January or later. This amount is high at month end because many people pay their next assessment a bit early. So keep this in mind when you consider your expenses and budgeting.

TOPS Report View			
LIABILITIES & EQUITY			
CURRENT LIABILITIES:			
2080	Owner Assessments Paid Early	\$ 7,431.45	
	Subtotal Current Liab.		\$ 7,431.45
RESERVES:			
2700	Deferred Maintenance Reserves	\$ 6,620.07	
2710	Est. Re-Painting Reserves	204,951.34	
2712	Wall Paint Reserves	913.00	
2715	Roofing Reserves	93,322.13	
2739	Interest on Reserves	10,947.40	
	Subtotal Reserves		\$ 316,753.94
EQUITY:			
2840	Retained Earnings	\$ 15,999.41	
	Current: Under/(Over) Budget	10,680.22	
	Subtotal Equity		\$ 26,679.63
	TOTAL LIABILITIES & EQUITY		\$ 350,865.02
=====			

The **reserves** here (**2700 accounts**) are not actual dollars. Those are shown on the asset side of the balance sheet and discussed earlier. These reserves are a classification of how reserves may be used. This section of the balance sheet shows how much have been set aside so far.

**Equity** is a profit and loss concept. Also accrual based accounting is a system that requires that *assets = liability and owners equity*. Equity is the sum of the years in operation where the annual (over) or under budget amounts accumulate. These differences accumulate to make this equation balance. Without accounting training or education it is most difficult to understand as there are many nuances that make it confusing. Please do not expect your manager to know any more than this. The preparer of this instructional has a Bachelor of Science in Accounting and is unable to explain it to most laypersons. Please note that the *Current Under/(Over) Budget* will be the last line item on your profit and loss statements.



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## You're monthly **Reserve Statement**...

This schedule reflects the increases to and deductions paid from your reserve accounts. These are balance sheet accounts similar to equity. Recall that the amounts below reflect an accounting of reserves. The amounts below reflect how much may be used from the total available funds reflected for reserves in the bank (asset) accounts of **1920-1921** – money markets and CDs and CDARS if any.

As of 12/31/06				
	BEGINNING OF YEAR	YTD ALLOCATION	YTD DISBURSEMENT	AVAILABLE BALANCE
RESERVES:				
2700 Deferred Maintenance Reserves	3,282.07	4,830.00	1,492.00	6,620.07
2710 Est. Re-Painting Reserves	133,996.34	76,622.00	5,667.00	204,951.34
2712 Wall Paint Reserves	0.00	913.00	0.00	913.00
2715 Roofing Reserves	58,906.13	36,749.33	2,333.33	93,322.13
2739 Interest on Reserves	1,753.65	9,252.24	58.49	10,947.40
Subtotal Reserves	197,938.19	128,366.57	9,550.82	316,753.94
TOTAL RESERVES	197,938.19	128,366.57	9,550.82	316,753.94

For example, this shows that your total reserves in money markets, CDs and CDARs are \$316,793.94 (which is shown in the asset section of your balance sheet). This also shows that you may use up to but no more than \$93,322.13 for roof replacements.

Deferred Maintenance Reserves may be used for any reserve expense. It is general in nature. Interest on Reserves may be used for one of the other reserve expenditures such as Roofing, Wall, or Painting. It may also be allocated to all. This is a Board decision.

In summary, the first column shows the reserve balance available to a particular reserve item. The second column shows the reserve transfers as discussed in previous pages. The third column is reductions to the reserve account and the final column, is a product of the math of the first three and what remains at year end.

When reserves are used, it decreases your money market account in assets and it decreases the amount available reserve say roofing, paving or painting. When reserves are spent, they show up here, not on the Under/(Over) Budget Statement.



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## Profit and Loss or Under / (Over) Budget Statement

You will receive two types of these statements referred to as Profit and Loss statements in the business world but not applicable to communities. This first of the two shows you assessments and expenses for the current month to the left and as accumulated throughout the year to the right.

The **current period** shows the budget for **one month** and the accrued income for one month. Accrued income is exactly the sum of all assessments due in any given month. Again – *Due, not collected*. Go to the balance sheet to look at *unpaid assessments* to see what outstanding year to date is.

Income/Expense Statement								
Period: 12/01/06 to 12/31/06								
Actual	Current Period Budget	Variance	Account	Description	Actual	Year-To-Date Budget	Variance	
INCOME:								
19,980.00	20,033.51	(53.51)	03030	Owner Assessments	239,680.00	240,401.79	(721.79)	
.00	.00	.00	03060	NSF Fees Income	175.00	.00	175.00	
.00	.00	.00	03100	Misc Income	1,095.00	.00	1,095.00	
3.99	.00	3.99	03130	Interest Income - Operating	25.36	.00	25.36	
300.00	.00	300.00	03200	Collection Fee Income	198.52	.00	198.52	
20,283.99	20,033.51	250.48		Subtotal Income	241,173.88	240,401.79	772.09	
EXPENSES								
Grounds Maintenance								
7,789.08	7,585.75	(203.33)	06105	Lawn Maintenance	92,419.49	91,029.00	(1,390.49)	
1,480.00	.00	(1,480.00)	06110	Landscaping Expense	1,730.00	.00	(1,730.00)	
.00	1,324.49	1,324.49	06115	Grounds Maint Contingency	.00	15,893.00	15,893.00	

The **Year to Date** column is by far the most meaningful. This is the culmination of your financial matters as the year progresses. *Budget to actual* costs means something here because you are looking at the big picture. The preparer of this document spends little time reviewing the current columns because timing differences can easily distort the true picture. What happens if two lawn service bills are paid in one month? This will provide a distortion to two months: the month with no payment and the month with two payments.

The income line item called Owner Assessments will be almost identical month after month. It will vary due to slight adjustments. In accrual accounting, income is reported when it is due. So looking at income on these statements each month with respect to the budget is meaningless. But this is accrual accounting and one of the nuances.

Other income items vary such as laundry, vending and miscellaneous fees. Unless one has a good understanding of these income items, they should not be considered as revenue for budgeting purposes.



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## Profit and Loss or Under / (Over) Budget Statement

### An explanation of the **Year-To-Date budget** and the **Yearly Budget**

This portion of this financial statement is to help you figure out how much you have available at the time of the statement period in any budget income but typically expense account. This monthly statement is for the last month of the accounting year. This means that the *Year-To-Date Budget* of \$240,401.79 is equal to the *Yearly Budget*. Last month this would not have been so. For the month of November the Year-To-Date budget would have been only 11/12 into the year or about \$20,000 less.

With respect to income below, again, because of accrual accounting, the variance between actual income and budgeted income has to do with small amounts collected or adjusted from prior periods and should not be a matter of consequence or discussion.

MILBROOK HOMEOWNERS ASSOCIATION, INC.					
Income/Expense Statement					
Period: 12/01/06 to 12/31/06					
Amount	Description	Actual	Year-To-Date Budget	Variance	Yearly Budget
1	Owner Assessments	239,680.00	240,401.79	(721.79)	240,401.79
	NSF Fees Income	175.00	.00	175.00	.00
	Misc Income	1,095.00	.00	1,095.00	.00
	Interest Income - Operating	25.36	.00	25.36	.00
2	Collection Fee Income	198.52	.00	198.52	.00
	Subtotal Income	241,173.88	240,401.79	772.09	240,401.79

One very helpful column when viewing this particular statement is the column to the far right. This shows the budget for the entire year for each income and expense item. This is particularly handy when considering your remaining budget for the year.

You would not bother doing this on the income side but if your landscaping for the Yearly Budget showed \$10000 and your Year-To-Date actual for any given period showed \$8000, you can easily see, without going to another report that your target to stay on budget is \$2000.



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## Profit and Loss or Under / (Over) Budget Statement

Here is a snapshot of a portion of your monthly expenses on one of your two Under / (Over) Budget reports. You can review a full financial to compare to this, but the advantages of this report is that it contains an incredible amount of information. From left to right: Actual Costs, then Actual Budget, then Variance for the current month. The account number and description follows. Then Actual Costs, then Actual Budget, then Variance for year to date follow. The final column shows the budget for the entire year. Since this is a year end statement, the budget for the entire year is equal to the year to date budget column.

EXPENSES									
<b>Grounds Maintenance</b>									
7,789.08	7,585.75	(203.33)	06105	Lawn Maintenance	92,419.49	91,029.00	(1,390.49)	91,029.00	
1,480.00	.00	(1,480.00)	06110	Landscaping Expense	1,730.00	.00	(1,730.00)	.00	
.00	1,324.49	1,324.49	06115	Grounds Maint Contingency	.00	15,893.00	15,893.00	15,893.00	
.00	442.62	442.62	06120	Irrigation Repairs	1,737.13	5,311.00	3,573.87	5,311.00	
9,269.08	9,352.86	83.78		<b>Grounds Maintenance</b>	95,886.62	112,233.00	16,346.38	112,233.00	
<b>General Services</b>									
258.16	23.74	(234.42)	06520	Property & Liability Insuran	3,348.04	284.00	(3,064.04)	284.00	
(135.06)	41.74	176.80	06525	Legal & Collections	1,243.94	500.00	(743.94)	500.00	
.00	25.00	25.00	06530	Tax Return Preparation, Audit	170.00	300.00	130.00	300.00	
.00	5.62	5.62	06540	Licenses, Taxes, Fees	443.40	67.00	(376.40)	67.00	
.00	5.00	5.00	06542	Annual Corporate Report	61.25	60.00	(1.25)	60.00	
123.10	101.10	(22.00)		<b>General Services</b>	5,266.63	1,211.00	(4,055.63)	1,211.00	
<b>Utilities Expense</b>									
38.22	.00	(38.22)	06707	Telephone	183.83	.00	(183.83)	.00	
38.22	.00	(38.22)		<b>Utilities Expense</b>	183.83	.00	(183.83)	.00	
<b>Administrative Expense</b>									
(20.00)	83.37	103.37	06801	Bank & Check Charges	1,941.45	1,000.00	(941.45)	1,000.00	
36.63	.00	(36.63)	06802	Postage	936.14	.00	(936.14)	.00	
459.88	72.99	(386.89)	06805	Office and Admin	2,413.89	875.00	(1,538.89)	875.00	
86.60	100.00	13.40	06807	Printing & Reproduction	1,250.10	1,200.00	(50.10)	1,200.00	
999.00	962.00	(37.00)	06810	Management Fees	11,543.00	11,544.00	1.00	11,544.00	
.00	111.00	111.00	06820	Social Events	.00	1,332.00	1,332.00	1,332.00	
1,562.11	1,329.36	(232.75)		<b>Administrative Expense</b>	18,084.58	15,951.00	(2,133.58)	15,951.00	

*A word on Budgets...* Budgets are estimates and nothing more. Budgets are a guideline. Without a guideline, spending would become confusing and distorted. Funds would be used quickly and without consideration to total costs one would expect in the course of a year.

Some think of budget items as money in the bank for this item. Not so. Again, a budget is an estimate of how a prudent Board hopes to use the money in the bank. A budget is a guide for a prudent board to contain expense.

If insurance costs rise and the budget does not consider this increase, you may cut back elsewhere and blow the line item of the insurance budget or you may special assess. It does not matter; a prudent board never places more consideration on meeting a budget than providing necessary services.

There is no penalty for going over or under a budget. The Board either estimated well or not. The only time a Board is not fulfilling their fiduciary duties to the membership is when they fail to consider all realistic expenses and reserves when preparing their budget. In essence they are contriving to keep fees unrealistically low. They may do this out of fear or concern for those on a fixed income, but that fear or concern is personal and not in the best interests of the community.



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A cash flow consideration (not spending a line item now because of a big recurring expense that comes later in the year) is one of the primary purposes of reviewing your financials before you spend money. Money may be in the bank now, but if you will need it in three months, say for a large insurance down payment, you can't use it now.

## Profit and Loss or Under / (Over) Budget Statement

### Reserves Expense:

It is these statements that reflect this transfer of reserve funds from the monthly operating bank account to the money market account. You will notice that the actual always equals the budgeted amount. Any differences have to do with rounding.

Since this is not a profit and loss statement, but one dealing with budgeting, this section of information in your reports reflects that the transfers to reserves have been properly recorded.

Income/Expense Statement Period: 12/01/06 to 12/31/06								
Current Period			Account	Description	Year-To-Date			Variance
Actual	Budget	Variance			Actual	Budget	Variance	
399.00	398.87	(.13)	09700	Deferred Maintenance Reserve	4,788.00	4,786.00	(2.00)	
5,906.00	5,905.75	(.25)	09710	Est. Re-Painting Reserves	70,872.00	70,869.00	(3.00)	
83.00	83.37	.37	09712	Wall Paint Reserves	996.00	1,000.00	4.00	
2,868.00	2,867.74	(.26)	09715	Roofing Reserves	34,416.00	34,412.00	(4.00)	
9,256.00	9,255.73	(.27)		Reserves	111,072.00	111,067.00	(5.00)	
20,248.51	20,039.05	(209.46)		TOTAL EXPENSES	230,493.66	240,462.00	9,968.34	
35.48	(5.54)	41.02		Current Year Net Income/(los	10,680.22	(60.21)	10,740.43	
=====					=====			

Above is all that you really need to know. However the question of how reserve expenses are reflected on these statements often arises.

These statements do not show expenditures from the reserve accounts (2700 accounts on balance sheet). There is a separate statement that reflects the deposits to and expenses paid from the various reserve accounts. This will be addressed shortly.



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## Profit and Loss or Under / (Over) Budget Statement

This is the last bit of information on your Profit and Loss or Under / (Over) budget statement.

This statement reflects a positive outcome for the year. Note the *Under / (Over) Budget* of \$10,680.22. It is not in brackets – this means it is under budget. This is significant in dollars and percent. However, this is not necessarily a reason to celebrate or buy services not planned for.

Often there are reasons other than abstinence that cause a year to go under budget. Perhaps the association is accumulating money to mulch their community in the spring. Perhaps it was budgeted this year, but prices will be better or services were unavailable during this year.

Many associations have to accumulate funds for their initial insurance payment each year. The down payment may be 25-40% of the total policy costs. The point to be understood is that an analysis of costs and where they were saved will determine if a celebration is in order.

Income/Expense Statement					
Period: 12/01/06 to 12/31/06					
nt	Description	Actual	Year-To-Date Budget	Variance	Yearly Budget
1	Deferred Maintenance Reserve	4,788.00	4,786.00	(2.00)	4,786.00
	Est. Re-Painting Reserves	70,872.00	70,869.00	(3.00)	70,869.00
	Wall Paint Reserves	996.00	1,000.00	4.00	1,000.00
	Roofing Reserves	34,416.00	34,412.00	(4.00)	34,412.00
2	Reserves	111,072.00	111,067.00	(5.00)	111,067.00
	TOTAL EXPENSES	230,493.66	240,462.00	9,968.34	240,462.00
	UNDER OR (OVER) BUDGET	10,680.22	(60.21)	10,740.43	(60.21)
		=====	=====	=====	=====
3					

One very helpful column when viewing this particular statement is the column to the far right. This shows the budget for the entire year for each income and expense item. This is particularly handy when considering your remaining budget for the year.



You would not bother doing this on the income side but if your landscaping for the Yearly Budget showed \$10000 and your Year-To-Date actual for any given period showed \$8000, you can easily see, without going to another report that your target to stay on budget is \$2000.

You will encounter Reserves on both your Balance Sheet and Under / (Over) Budget Statements.

When owners pay their assessments, the money goes into the monthly operating account. Then each month 1/12 of it is transferred automatically into a money market account where it accumulates.

### **Profit and Loss or Under / (Over) Budget Statement**

**This is the second of the two Under / (Over) Budget reports that you will receive each month.**

This is merely a different format than the one just covered that reflects the current month, year to date month, and the budget for both periods.

**This report shows is a great overview of expenses in an easy-to-read format.** You only see what expenses were paid and when. Unlike the other, this report does not have your budget. This report makes it easy to note deviations to your average or typical expense. For example, lawn maintenance is \$10, 269 in October and \$5569 in November.

By reviewing your statements monthly, you make a note on your statements for future budgeting purposes. Try to figure matters out on your own and you will become proficient very quickly. If you get bogged down, come to your manager. Please bring your questions to your manager a week or so before a meeting, not the day of or at the meeting. Your manager handles a number of associations and expenses often have to be researched and take time. Also if you wait till the meeting and your treasurer cannot answer your questions for whatever reason, it reflects a lack of preparation on all parts; yours for not planning and hers for not knowing and the managers for not having – with none of this being fair or reasonable.

Furthermore, it is an accepted business practice that Board questions come to the treasurer. Many of our contracts call for the treasurer to be the accounting liaison to the manager.

Your association's accounting is referred to as Modified Accrual. Income is the same each month because it is accrued which means whatever is due on the first of the month whether paid or not is reported as assessment income. Expenses however are reported and shown when paid. Most Board Members would prefer cash basis accounting. This means expenses are shown when paid. Accounting standards allow us this flexibility to make the presentation of your statements as meaningful to you as possible.



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EXPENSES													
Grounds Maintenance													
Lawn Maintenance	7437	7437	7437	7437	7809	7809	7809	7809	7809	10269	5569	7789	92419
Landscaping Expense	100	0	50-	50	150	0	0	0	0	0	0	1480	1730
Irrigation Repairs	195	0	0	531	417	266	58	55	0	215	0	0	1737
Grounds Maintenance	7732	7437	7387	8018	8376	8075	7866	7864	7809	10484	5569	9269	95887
General Services													
Property & Liability Insu	234	234	234	258	581	258	258	258	258	258	258	258	3348
Legal & Collections	50	70-	190-	250	100-	505	575	155	0	50	154	135-	1244
Tax Return Preparation, A	0	0	0	0	170	0	0	0	0	0	0	0	170
Licenses, Taxes, Fees	0	0	0	0	430	0	13	0	0	0	0	0	443
Annual Corporate Report	0	61	0	0	0	0	0	0	0	0	0	0	61
General Services	284	225	44	508	1081	763	847	413	258	308	412	123	5267
Utilities Expense													
Telephone	0	6	2	9	14	19	3	10	34	0	50	38	184
Utilities Expense	0	6	2	9	14	19	3	10	34	0	50	38	184



The information below may be helpful to some. If you find it confusing, don't bother with it. An understanding of the principles explained before this will provide you with an excellent understanding of your community's affairs. However, for the rest of you.....

*The basic principle of accounting is:*

$$\textbf{ASSETS} = \textbf{LIABILITIES} + \textbf{EQUITY}$$

### **I. Two Accounting Methods:**

- **CASH** – records transactions in the General Ledger only when they affect the cash balances
- **ACCRUAL** – matches the income for the period to the expenses for the period regardless of when cash is received or paid out. Accrual entries to record income and expenses for a period are used to achieve this result.

### **II. Types of Accounts:**

- **ASSETS** - The entries on a balance sheet showing all properties, both tangible and intangible, and claims against others that may be applied to cover the liabilities of a person or business. Assets can include cash, stock, inventories, property rights, and goodwill.
- **LIABILITIES** - That which one is under obligation to pay, or for which one is liable. Specifically, the sum of one's pecuniary obligations
- **EQUITY** - The residual value of a business or property beyond any mortgage thereon and liability therein.  
The market value of securities less any debt incurred. Common stock and preferred stock. Funds provided to a business by the sale of stock.

### **III. Double Entry Accounting:**

For every DEBIT there must be an equal and offsetting CREDIT in the same accounting period. Unbalanced Journal Entries cannot be posted. One way to determine where the adjustments have to go is to do what is called a T Account. This sometimes helps to understand the effect of a transaction on the General Ledger accounts. You do this using the following steps.



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## Examples of types of accounts

Assets:		
Account	Description	Accounting Method
1. Bank Accounts	Cash in banks, petty cash	All
2. Reserves		All
3. CD's		All
4. Building and Equipment		All
5. Interest		All
6. Accounts Receivable	Money owed to you billed and waiting for payment	Accrual
7. Notes Receivable	If <u>owner</u> gives you promissory note	Accrual
8. Insurance	Prepaid by the association/ <u>mgmt</u> company	Accrual
Liabilities		
Account	Description	Accounting Method
1. Accounts payable	Invoices for supplies, goods and services, contractual labor, etc that have been entered into the <u>A/P</u> module but checks not printed yet	Accrual
2. Bank loans/line of <u>credit</u>		All
3. Notes payable	promissory notes, secured notes	All
4. Accrued liabilities	Invoices and expenses that have not been entered in the A/P module; interest on loans payable	Accrual
5. Dividends payable		Accrual
6. Taxes payable		Accrual
7. Long term debt	Only portion to be paid this year	Accrual
8. Payroll taxes	Withholdings and related items	All
9. Unearned Revenues		Accrual
10. Prepaid credit from owners		Accrual



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***"Our primary goals revolve around providing core competency, unwavering transparency, effective communication, and the consistent delivery of value." -HOA UNLIMITED LLC***

*Thank You!*