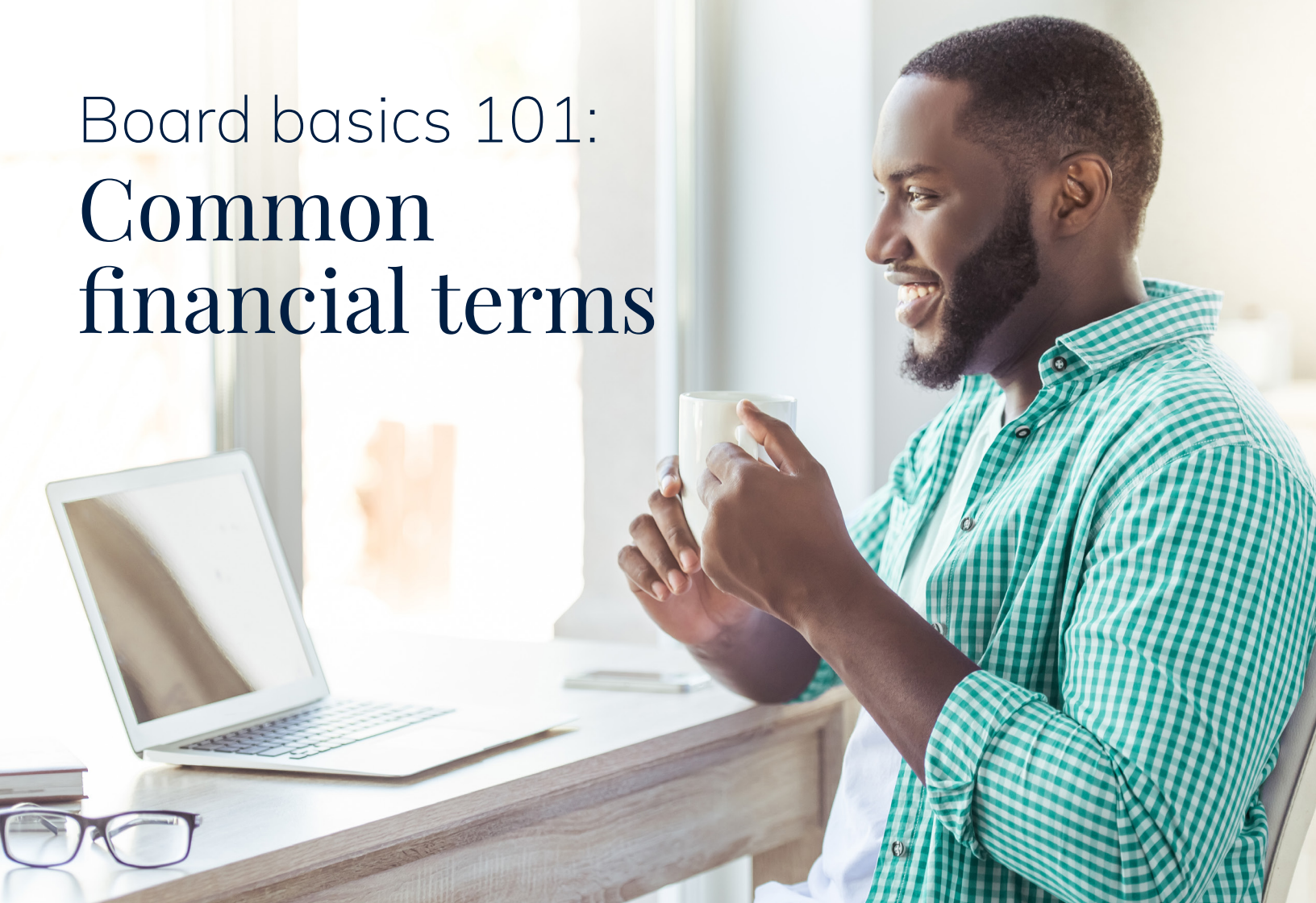


Board basics 101: Common financial terms



No one expects you to be a financial expert when you join the board of directors. To better equip yourself to help manage the community's finances and prepare budgets, understanding basic financial terms will go a long way.

Below are the basic terms you need to know when it comes to your a community's finances.

Accounts payable (AP): Money that the community owes to vendors and contractors. You can find the AP balance on the balance sheet.

Accounts receivable (AR): Money owed to the community. You can find the AR balance on the balance sheet. If you want a full list of owners and amounts owed, you can review the accounts receivable and prepaid report.

Annual meeting: A meeting that takes place once a year to inform homeowners what projects are complete, what to expect for the year, and present the new annual budget.

Assessments: Fees homeowners pay to the community to cover operating costs and the reserve fund.

Assets: Resources owned by the community that have economic value (e.g., bank account money).

Bad debt: Fees owed to the community that you don't expect to collect.

Balance sheet: A snapshot of the community's financial position. This lists all the assets, liabilities, and equity for the community.

Bank reconciliation: A process for comparing bank statements against the community's financial records and determining the cause of discrepancies (e.g., uncashed checks, deposits in transit).

Bylaws: The fundamental rules by which an community governs itself, including rules of conduct, election protocols, and board member responsibilities.

Capital improvements: Costs that are for the long-term improvement to the property. The addition or alteration to real property that:

- Substantially adds to the value or prolongs the useful life of the property.
- Becomes part of or permanently affixed to the property so that removal would cause material damage to the property or article itself.
- Is intended to become a permanent installation.

Deferred maintenance: Repairs that get postponed and marked as a lower priority status in order to save costs, meet budget funding levels, or realign available budgets.

Deficit: The amount by which spending exceeds income.

Delinquency rate: The percentage of homes that are behind on HOA fees.

Equity: The difference between the community's assets and liabilities. Also referred to as accumulated surplus.

General ledger: A complete and ongoing record of all financial transactions that the community has made over a designated period (month, year, lifetime).

Governing documents: A collection of documents that include the declarations, bylaws, operation rules, articles of incorporation, and other materials which regulate the community's day-to-day operations.

Liabilities: The community's financial obligations or debts.

Operating costs: The cost for the day-to-day operation of the community (e.g., maintenance, utilities, landscaping, and professional services).

Rent (for co-op only): Fees shareholders pay to the community to cover operating and capital costs.

Reserve fund: An account consisting of monies collected by homeowners in advance of required expenditures for major repairs and replacements.

Reserve study: A comprehensive analysis of an community's physical assets, accompanied by a financial plan to collect monies into the reserve fund to afford major repairs and replacements.

Revenues: Generated income before deducting expenses.

Special assessments: A one-time fee each homeowner pays the community for a major project, unplanned maintenance or repairs, or an emergency.

Statement of income and expense: A summary of the income and expenses in each month, the amount budgeted, the difference between the two, and year-to-date amounts.

Variance: The difference between expected and actual expenditures.

Working capital: The amount of money the community needs to have on hand to cover differences in cash flow.

Contact us to learn how FirstService Residential simplifies the budgeting process.