## Generally Accepted Accounting Principles for HOA

### Essential Guidelines for The Village at Riverview Homeowner Association

The Village at Riverview Homeowners Associations should follow sound financial principles to ensure the long-term stability and success of our community. Proper budgeting is crucial; we must prepare annual budgets that accurately reflect expected income and expenses, including reserves for future repairs and contingency for emergencies. Transparent financial reporting helps build trust among members by providing regular updates on the association's financial health.

Effective collection practices are important to maintain adequate cash flow. We should establish clear policies for collecting dues and handling delinquencies. Additionally, prudent reserve planning ensures funds are available for major capital projects and non-emergency unexpected costs.

By adhering to these financial principles, we can protect property values, maintain community standards, and foster a sense of shared responsibility among residents.

The Village at Riverview maintains an accrual-basis accounting system. The accrual basis of accounting is a method that records revenue when earned and expenses when incurred, rather than when cash moves. It adheres to the matching principle, pairing revenues with related expenses in the same period to provide a precise picture of our financial position. We divide our budget into four categories for operational purposes.

- Revenue-Assessments, late fees, and fines. For planning purposes revenue is total units x monthly assessment. A 2% delinquency allowance is calculated for late payments based on past budget analysis.
- Expenses- Services provided to/for the HOA. Irregular and fixed.
- Reserves-Funding for projects and non-emergency budget short falls.

- Contingency-Funding for emergencies.

The Board constantly monitors the budget to ensure there are no surprises. We use a traffic light system (Green, Yellow, Red) to quickly visualize the overall financial health.

**GREEN**: Revenue and expenses are within the planned budget.

**YELLOW:** The budget is not currently in crisis, but if not addressed, it may lead to overspending.

**RED**: Significant overspending

The Board must approve any overspending of the budget. Project spending, and budget short falls will come out of the reserve, and emergency spending will come out of the contingency. The Board also has the option to suspend services until adequate revenue is obtained.

We use color-coding (Green, Red, Black) for quick monthly financial analysis.

**GREEN**: **(Good)** Revenue is above target and/or spending is below budget.

**RED: (Warning)** Revenue is below target and/or spending has exceeded budget.

**Black:** **(Neutral)** Shows on target spending and/or revenue.

We have irregular spending and fixed spending. Irregular spending examples are mailings, copies, meeting expenses, etc. Fixed expenses are landscaping, pest control, power washing, gutter cleaning, Electricity, etc..

Our monthly budget for irregular spending is the actual spending for the service. We project what our annual cost will be for irregular spending based on past spending and inflation analysis.

Our monthly budget for fixed spending is what our contract/invoice states. We should know what our annual cost will be for these services.

**Reserve:** Funding that is utilized for projects. Will not be a cap on reserve funding. Typically, the reserve is funded by unused budget money. Excess budget funds go directly to reserves by default.

**Contingency:** Contingency funding is for emergency purposes. 10% of the operating budget is set aside for contingency. Contingency funding is capped at 10% of the operating budget.

As a board member we have a fiduciary responsibility to exercise due care and diligence when overseeing the community and its funds. The Board is directly responsible for the financial health of the Home Owners Association.

These guiding principles will ensure we accurately budget and report the financial health.

**Important HOA Financial Reports**

**Aged Delinquency Report**-This aged delinquency report/ aged owner balance report shows who is behind in their assessments. Different reports can also break out the delinquency by type of charge owed (assessment, late fees, etc.). The board needs to review this at every board meeting to see what action needs to be taken at certain late dates (30, 60 days) like sending a demand letter or turning the account over to a collection attorney or agency. If you get behind in collections it can cause a problem with services at your community and worse, you may not be able to collect the entire past due amount depending on your state laws and how long it took you to commence a legal action. Some states only guarantee collection of 9 months past due assessments, and it takes a few months for the action to work itself through the courts so if you are owed a year, you may only get 9 months – ouch!

**Comparative Income & Expense Report**-The Income Statement is meant to inform how the association is **doing** compared to budget. It shows the current period actual expense, budgeted expense and any variance between the two. It also shows the same thing for the year to date. When you see a variance, it is a warning flag to ask why and dig deeper. It can also allow you to make up any shortfall quickly, so you don't cripple your community's cash flow and vendor payments. For example, if you are spending more on snow removal than budgeted due to an extreme winter you can do a special assessment right away to cover the shortfall while it is still cold and owners are more understanding.

**Balance Sheet-**A balance sheet is an important part of the financial package. It tells where the association stands with their asset, liability and reserves at a particular point in time. There are three key accounts on a balance sheet that HOA officials should pay special attention to:

1. Cash in the Operating Checking Account – shows ability to meet current operating expenses.
2. Accounts Payable – shows how much is owed to vendors and service providers.
3. Capital Reserves – shows how much is available for major capital repair and replacement projects in the near and distant future.

**Bank Reconciliation Report**-The Bank Reconciliation report is used to "prove" that the cash assets shown on the association's books and balance sheet agree with what the bank statement shows. The reconciliation considers outstanding checks that have not been processed by the bank as well as deposits of cash that have not been processed by the bank. There should not be any difference it should be $0 but if there is a difference it is a flag for you to investigate something further. This report is a great tool to ensure you are not a victim of embezzlement.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors adopted by unanimous consent on August 1, 2026.

Signed,

Tim Oerman, President
The Village at Riverview

**Mission Statement**
To enhance property values, maintain high-quality common areas, and foster a safe, engaged community through proactive management and transparent communication.
**Vision Statement**
To be a premier, desirable, and harmonious neighborhood that residents are proud to call home.