



**FirstService**  
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## Board Basics 101: Financial Literacy

# Financial Terms: The Basics

Part of being an effective board member is taking the time to get to know the financial terminology and phrases you may come across in important documents or during conversations. But what do some of these terms actually mean?

Whether you're a new board member looking for resources or someone who just needs to brush up on their knowledge of HOA terminology, FirstService Residential is here to help. We understand there is a lot to learn, which is why we've put together a brief list of common industry terms to help you better understand the ins and outs of your association.

By learning the language of your organization, you can help to better manage the community while nurturing your skillset as a board member.



# Financial Terms: The Basics

## A

### Accounts Payable

Money that the association owes to vendors and contractors for services provided.

### Accounts Receivable

Assessments owed to the association.

### Administrative Costs

Costs incurred to support the functioning of a business, but which are not directly related to the production of a specific product or service.

### Annual Meeting

A meeting that takes place on an annual basis (often the date is set in the CC&R's) to inform association/corporation members what projects are complete, what to expect for the year, to celebrate accomplishments and often times to approve the next years budget and/or to hold an election for board members.

### Assessments

Mandatory fees that owners/members must pay on a monthly or annual basis and can differ based on the type of project and/or operating costs that need to be covered in the development.

- » **Special Assessment:** A one-time fee each homeowner pays the association to cover costs for a major project, unplanned maintenance or repairs, or an emergency.

## Assets

Resources owned by the association that has economic value (e.g., bank account money).

## B

### Bad Debt

Assessments owed to the association that you don't expect to collect.

### Balance Sheet

A statement that shows a snapshot of the financial position of the association.

### Bank Reconciliation

A process for comparing bank statements against the association's financial records and determining the cause of discrepancies (e.g., uncashed checks).

### Budget

The financial plan for an association which estimates income, expenses, and reserves for a certain period of time.

### Bylaws

Include the conduct, elections, and responsibilities of members of the board as well as provisions on the board of directors, internal governance, and the association's operation.

## C

### **Capital Improvements**

The addition or alteration to real property that:

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

## D

### **Deferred Maintenance**

Complete specific maintenance to extend the useful life of association assets.

### **Deficit**

The amount by which spending exceeds income.

### **Delinquency Rate**

The percentage of homes that are behind on association fees.

## E

### **Equity**

The difference between the association's assets and liabilities.

## F

### **Fiduciary**

The ethical and moral obligation of the board to make decisions for the benefit of everyone in the community in a fair and prompt manner.

## G

### **General Ledger**

A complete and ongoing record of all financial transactions that your association has made over a designated period (month, year, lifetime).

### **Governing Documents**

A collection of documents that include the articles of incorporation, declarations, bylaws, operation rules, and other materials which regulate the association's day-to-day operations. Often referred to as Covenants, Conditions, and Restrictions (CC&R's).

## L

### **Liabilities**

The association's financial obligations or debts.

## O

### **Operating Costs**

The cost for the day-to-day operation of the association or corporation (e.g., maintenance, utilities, landscaping, and professional services).

## R

### **Reserve Fund**

The reserve fund is an account where the association reserves money for the future repair and/or replacement of common elements, equipment and community systems/infrastructure. The reserve fund amount is often set by a reserve specialists reserve study.

### **Reserve Study**

Provides long-term financial planning by assessing the current reserve fund and determining how much funding will offset ongoing wear and tear and future community enhancements. The reserve study consists of a comprehensive analysis of the community's assets and a detailed financial analysis.

### **Revenues**

Assessments and ancillary income.



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## S

### **Statement of Income & Expense**

A summary of the monthly and year-to-date income and expenses comparing actual to budget.

## V

### **Variance**

The difference between expected and actual expenditures.

## W

### **Working Capital**

The amount of money the association needs to have on hand to cover differences in cash flow.

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Let's start the conversation!

Email [learnmore.east@fsresidential.com](mailto:learnmore.east@fsresidential.com) today!