



— QUICK REFERENCE —

Director Financial Glossary

Financial Education

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SECTION 01

Accounting Basis And Presentation

Accrual basis Accounting that records revenue when it is earned (assessment billed) and expense when it is incurred (vendor invoice received), regardless of when cash actually moves. The basis most community associations use.

Cash basis Accounting that records revenue only when cash is received and expense only when cash is paid. Simpler than accrual but less informative for boards. Rare in mid-sized associations.

Modified accrual basis A hybrid -- assessment revenue recognized on billing cycle, most expenses recognized on invoice, but some items (such as prepaid insurance) tracked on a cash-basis approximation. Many associations use a modified accrual.

SECTION 02

Fasb Asc 958-205

The Financial Accounting Standards Board codification that governs not-for-profit financial statement presentation, applicable to most community associations. Defines fund accounting, restricted net assets, and disclosure requirements.

GAAP (Generally Accepted Accounting Principles) The accounting standards by which the association's books are expected to be kept. The audit, review, or compilation tests conformity to GAAP.

SECTION 03

The Financial Statements

Balance sheet A snapshot of the association's financial position on a single date. Lists every asset (cash, receivables), every liability (payables, prepaid assessments), and every component of fund balance. Tells you what the association owns, what it owes, and what it has built up. Also called a statement of financial position.

Income statement Reports revenue and expenses for a period (the month, the year-to-date). Shows what happened across the period. Also called a statement of activities or a profit-and-loss statement.

Operating income statement The income statement for the operating fund -- the money used for day-to-day expenses.

Reserve income statement The parallel income statement for the reserve fund -- the money set aside for long-term capital projects. Structurally identical to the operating income statement, but the numbers behave very differently. Quiet most months, very loud the month a capital project executes.

Budget comparison Actual vs. budget for the current month and year-to-date, with dollar and percent variance columns. The report that answers "are we on track?"

12-month income statement A forward-looking grid showing each line item across all twelve months -- actuals for closed months, budget for remaining months -- with a Variance Estimate column projecting where the year will end if current patterns hold.

General ledger (GL) The chronological list of every transaction posted during the period, organized account by account. The source-of-truth detail underneath every summary statement.

AR past-due report Every owner with an outstanding balance at period end, organized by aging bucket, with the collection status of each account.

AP check register Every payment the association sent during the period, in date order -- checks, ACH, electronic transfers, auto-debits.

Bank reconciliation (expanded detail) The report that ties the books to the bank for each account every period, explaining the timing differences that produce the gap between general ledger balance and statement balance.

SECTION 04

Funds And Fund Balance

Operating fund The fund used for the association's day-to-day expenses -- landscape, insurance, utilities, management fee, repairs, legal. Funded by regular assessments.

Reserve fund The fund used to accumulate cash for major long-term capital projects identified in the reserve study. Restricted by law, policy, or governing document to capital expenditures.

Sub-fund (service area, limited common element, neighborhood fund) A subordinate fund within the association that accounts for costs and reserves allocated only to a subset of owners -- often used in mixed-amenity or sub-association arrangements.

Fund balance What is left over after subtracting liabilities from assets within a fund. The accumulation of all prior fund changes plus the initial capitalization. The not-for-profit equivalent of "equity" or "net assets."

Fund change Revenue minus expense for a fund within a period. The period-to-period movement in fund balance.

Restricted net assets Funds whose use is restricted by law, by governing documents, or by donor intent. Reserve funds are typically presented as restricted under FASB ASC 958-205.

Unrestricted net assets Funds the board may use for any lawful association purpose, subject to the governing documents.

SECTION 05

Revenue -- Assessments And Related

Assessment The amount each owner is obligated to pay to fund the association's operating budget and reserve contributions. Generally created by the recorded declaration and sized annually by the board through the budget.

Regular assessment The recurring assessment (usually monthly or quarterly) that funds the operating budget and ongoing reserve contributions.

Special assessment A one-time assessment levied for a specific purpose -- a capital project, a reserve shortfall, an insurance deductible after a casualty loss, or another unbudgeted need. Often requires a member vote depending on the declaration and state law.

Assessment income Recognized revenue from billed assessments under accrual accounting. Differs from cash collected by the amount of outstanding receivables.

Prepaid assessment An assessment paid by an owner in advance of the due date. Recorded as a liability on the balance sheet until the period the assessment applies to, then recognized as income.

Working capital contribution A one-time fee paid by a new owner at closing, often equal to one to three months of regular assessments. Usually added to reserves or operating cash; recorded per the governing documents.

Late fee A fee charged when an assessment payment is not received by a defined date. Set in the board's collection policy.

AR fee income Fees recovered by the association during the collection process -- typically administrative or processing fees the collection policy assigns to delinquent accounts.

Legal expense reimbursement Funds recovered from owners after the association paid attorneys to pursue collection. Recorded as income when recovered.

SECTION 06

Expenses And Controls

Operating expense Recurring costs of running the association -- landscape, pool service, utilities, management fee, insurance, legal, administrative.

Capital expense Costs associated with major capital projects (roofs, paving, pools, equipment). Generally funded from reserves and recorded separately from operating expense.

Reserve transfer The planned movement of cash from operating to reserves to fund long-term capital. Appears as an outflow on the operating income statement and as an inflow on the reserve income statement.

Transfer proof The reconciling line on the reserve income statement showing the inflow side of an operating-to-reserve transfer, shown in netting convention (negative sign). Together with the operating-side outflow, it nets to zero across the consolidated picture.

Dual-signature threshold The dollar amount above which a check or electronic payment requires two authorized signatures. Set by board policy and enforced by the bank's signature card and the management company's payment workflow.

Auto-debit A configured recurring debit against an association bank account -- typically the management fee or administrative recovery. Posts on schedule without a manual approval each period.

Voided check A check cut but cancelled before clearing the bank. Does not represent cash leaving the account.

Reissued check A replacement check issued after a void, typically for the same vendor and amount.

SECTION 07

Receivables, Collections, And Credit

Accounts receivable (AR) Amounts owed to the association, primarily by owners for unpaid assessments and related charges.

Aging buckets The four columns of the AR past-due report classifying each piece of an owner's balance by days past due: current, 30-59 days, 60-89 days, and over 90 days.

Allowance for doubtful accounts A balance sheet contra-asset reducing accounts receivable for amounts management estimates will not be collected. Required under GAAP for material uncollectible balances.

Bad debt expense The expense recognized when an account is written off as uncollectible.

Collection escalation The defined sequence of steps the management company and counsel follow on a delinquent account -- reminder notice, demand letter, final notice, intent to lien, attorney referral, lien filing, suit.

Cure period The defined period an owner has to bring a delinquent account current before further collection action. In Texas, Sec. 209.0064 requires a 45-day cure for residential subdivision associations (NOT 30 days). Florida procedures differ between HOAs (Sec. 720.3085) and condominiums (Sec. 718.116).

Lien A legal claim recorded against the owner's property for unpaid assessments. Procedure and timing vary by state.

SECTION 08

Reserves And Capital Planning

Reserve study A periodic engineering and financial analysis identifying the association's physical components, their useful lives, their replacement costs, and a recommended funding plan over 20-30 years.

Component schedule The reserve study's inventory of the association's funded components and their projected replacement dates and costs.

Percent funded The ratio of actual reserve cash to the "fully funded" balance the reserve study calculates as appropriate at the measurement date. CICSC's general adequacy benchmark is 70%; below that warrants explicit board discussion of long-range funding.

Fully funded A reserve funding method that targets 100% of the straight-line accrual of replacement costs for all funded components.

Threshold funding A reserve funding method that targets keeping reserve cash above a defined minimum threshold, rather than at fully funded.

Baseline funding A reserve funding method that targets enough cash to cover projected expenditures without falling below zero. Highest risk; lowest annual contribution.

Capital reserves Funds set aside for major capital projects identified in the reserve study.

Structural integrity reserve study (SIRS) Under Florida condominium law (post-2022 reform), a specialized engineering study for buildings of qualifying height covering specific structural components. Distinct from the general reserve study.

SECTION 09

Audit, Review, And Compilation

Audit The highest-assurance independent engagement by a CPA. Tests internal controls, samples transactions, and provides an opinion that the financial statements are fairly presented under GAAP. Typically required for larger associations or by governing-document threshold.

Review A mid-tier independent engagement. The CPA performs analytical procedures and inquiries but does not test internal controls. Issues limited assurance.

Compilation The lowest-assurance independent engagement. The CPA assembles the financial statements from data the association provides but does not test or verify. No assurance issued.

Management representation letter A letter from association management to the auditor confirming the completeness and accuracy of information provided during the audit.

Audit adjustments Entries made during the audit to bring the books into GAAP compliance.

Going concern An audit consideration of whether the association can continue operating for the next 12 months without significant funding changes.

SECTION 10

Budget Concepts And Variance

Annual budget The board-adopted plan for revenue and expense for the fiscal year. Drives the assessment rate.

Line item A single revenue or expense category in the budget or income statement (landscape, insurance, legal, utilities).

Variance The difference between actual and budgeted amounts. Dollar variance is actual minus budget; percent variance typically uses (budget minus actual) / budget, which flips the sign relative to dollar variance.

Timing variance A variance that reflects a different month's billing or recognition than the budget assumed, but will self-correct by year-end.

Structural variance A variance that will not self-correct. The line is on track to end the year materially over or under budget.

Annualized A monthly or year-to-date amount converted to a full-year equivalent for comparison.

Materiality The threshold below which a variance or finding does not warrant board attention. Set by the board's policy or by judgment based on the size of the line.

SECTION 11

Balance Sheet Elements

Asset Anything the association owns or is owed -- cash, receivables, prepaid expenses, equipment.

Liability Anything the association owes -- payables, prepaid assessments, accrued expenses.

Prepaid expense An expense paid in advance of the period it covers -- prepaid insurance is the most common example. Recorded as an asset and amortized over the coverage period.

Accrued expense An expense incurred but not yet paid. Recorded as a liability and an expense at period-end.

Deferred revenue Cash received before the period it applies to. Most often prepaid assessments. Recorded as a liability until earned.

Encumbrance A commitment of funds for a future expense -- a purchase order, a contract obligation. More common in governmental accounting than in private association accounting but occasionally used.

Restricted cash Cash whose use is limited by law, contract, or governing document -- typically reserve cash.

SECTION 12

Cdars / Ics

Insured cash sweep programs that spread association reserve cash across multiple FDIC-insured banks to maintain insurance coverage above the per-bank limit.

SECTION 13

Tax And Regulatory

Form 1120-H The IRS tax return form most homeowner associations file electing the safe-harbor treatment for membership income.

Form 1120 The standard corporate tax return. Sometimes used by associations whose mix of income makes the safe harbor unfavorable.

1099 reporting IRS-required information returns reporting payments above a threshold to certain vendors. Filed by the association annually.

Insurance: fidelity / crime bond Coverage protecting the association against theft or defalcation by directors, officers, or employees. Often required by governing documents or state law in an amount tied to operating cash and reserves.

Insurance: directors and officers (D&O) Coverage protecting individual directors and officers against personal liability for governance acts taken in their official capacity.

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