

FINOVATEPRO

CIRA ACCOUNTING MANUAL

HOAs · Condominiums · Cooperatives

finovatepro.com

Table of Contents

EXECUTIVE ORIENTATION & SYSTEM OVERVIEW	5
VOLUME 1 — CIRA FOUNDATIONS (FUND ACCOUNTING ENGINE)	16
CHAPTER 1 — FUND ACCOUNTING FUNDAMENTALS.....	16
CHAPTER 2 — CHART OF ACCOUNTS (CIRA STRUCTURE)	17
CHAPTER 3 — ASSESSMENTS (REVENUE ENGINE)	18
CHAPTER 4 — ACCOUNTS RECEIVABLE (DELINQUENCIES)	19
CHAPTER 5 — EXPENSE CLASSIFICATION (OPERATING VS RESERVE).....	19
CHAPTER 6 — RESERVE FUND ACCOUNTING.....	20
CHAPTER 7 — INTERFUND TRANSACTIONS	20
CHAPTER 8 — BUDGET STRUCTURE (CONTROL LAYER).....	21
CHAPTER 9 — FINANCIAL STATEMENTS (FOUNDATION LEVEL)	21
CHAPTER 10 — DOCUMENTATION & TRANSPARENCY	22
CHAPTER 11 — INTERNAL CONTROLS (FOUNDATION)	22
VOLUME 2 — CIRA DAILY OPERATIONS (EXECUTION LAYER)	24
CHAPTER 12 — ASSESSMENT BILLING (CORE ENGINE)	24
CHAPTER 13 — CASH COLLECTIONS (PAYMENTS)	24
CHAPTER 14 — DELINQUENCY MANAGEMENT (CRITICAL).....	25
CHAPTER 15 — ACCOUNTS PAYABLE (VENDOR EXPENSES).....	26
CHAPTER 16 — PAYMENTS TO VENDORS (CASH CONTROL).....	27
CHAPTER 17 — BANK & CASH MANAGEMENT	28
CHAPTER 18 — INTERFUND CASH MANAGEMENT	28
CHAPTER 19 — EXPENSE ACCRUALS & PREPAIDS.....	29
CHAPTER 20 — WORKFLOW CONTROL SYSTEM (CRITICAL)	29
CHAPTER 21 — DAILY / WEEKLY / MONTHLY OPERATIONS CADENCE	30
VOLUME 3 — CIRA CASH FLOW, BUDGETING & RESERVES (STRATEGY LAYER)	32
CHAPTER 22 — FINANCIAL STRATEGY OVERVIEW	32
CHAPTER 23 — CASH FLOW MANAGEMENT (SURVIVAL ENGINE).....	32
CHAPTER 24 — ANNUAL BUDGETING (CONTROL SYSTEM)	33
CHAPTER 25 — BUDGET VS ACTUAL (DISCIPLINE)	34
CHAPTER 26 — RESERVE FUND STRATEGY (LONG-TERM ENGINE).....	35
CHAPTER 27 — RESERVE STUDY (MANDATORY TOOL).....	35
CHAPTER 28 — RESERVE FUNDING METHODS	36
CHAPTER 29 — SPECIAL ASSESSMENTS (HIGH RISK).....	36
CHAPTER 30 — LONG-TERM FINANCIAL PLANNING	37

CHAPTER 31 — FINANCIAL HEALTH METRICS	37
CHAPTER 32 — BOARD FINANCIAL REPORTING (DECISION LAYER)	37
CHAPTER 33 — RISK MANAGEMENT (FINANCIAL)	38
VOLUME 4 — CIRA MONTH-END CLOSE (JS MORLU REPORTING + RECONCILIATION)	39
CHAPTER 34 — CLOSE PHILOSOPHY (WHAT YOU ARE PROVING).....	39
CHAPTER 35 — THE 18-STEP CLOSE (NON-NEGOTIABLE)	39
CHAPTER 36 — CASH & BANK RECONCILIATION (CRITICAL CONTROL)	40
CHAPTER 37 — ACCOUNTS RECEIVABLE RECONCILIATION	40
CHAPTER 38 — ACCOUNTS PAYABLE RECONCILIATION.....	41
CHAPTER 39 — FUND RECONCILIATION (MOST IMPORTANT)	41
CHAPTER 40 — EXPENSE REVIEW & CLASSIFICATION.....	42
CHAPTER 41 — RESERVE FUND VALIDATION	42
CHAPTER 42 — BUDGET VS ACTUAL REVIEW	42
CHAPTER 43 — FINANCIAL STATEMENTS (JS MORLU FORMAT).....	42
CHAPTER 44 — CLOSE FILE (AUDIT PACKAGE)	43
CHAPTER 45 — PERIOD LOCK & CONTROL.....	44
CHAPTER 46 — CLOSE TIMELINE (BEST PRACTICE)	44
VOLUME 5 — CIRA AUDIT, BOARD REPORTING & COMPLIANCE (DEFENSE LAYER).....	46
CHAPTER 47 — WHAT AN HOA AUDIT REALLY IS.....	46
CHAPTER 49 — INTERNAL CONTROLS (CORE DEFENSE)	47
CHAPTER 50 — DOCUMENTATION & AUDIT TRAIL.....	48
CHAPTER 51 — BOARD REPORTING (DECISION SYSTEM)	48
CHAPTER 52 — HOMEOWNER TRANSPARENCY	49
CHAPTER 53 — RESERVE DISCLOSURES (CRITICAL).....	49
CHAPTER 54 — COMPLIANCE REQUIREMENTS.....	50
CHAPTER 55 — COMMON AUDIT FINDINGS	50
CHAPTER 56 — AUDIT DEFENSE PLAYBOOK.....	50
CHAPTER 57 — PRE-AUDIT CHECKLIST.....	51
CHAPTER 58 — FINOVATEPRO ADVANTAGE.....	51
VOLUME 6 — SPECIAL ACCOUNTING TREATMENTS (ADVANCED EDGE CASES).....	53
CHAPTER 59 — PURPOSE OF SPECIAL ACCOUNTING TREATMENTS	53
CHAPTER 60 — CUSTODIAL / THIRD-PARTY MANAGED FUNDS	53
CHAPTER 61 — DISTRIBUTIONS / RETURN OF FUNDS TO HOMEOWNERS.....	54
CHAPTER 62 — APPROPRIATED VS UNAPPROPRIATED FUND BALANCE	55
CHAPTER 63 — INSURANCE PROCEEDS & DISASTER EVENTS	55

CHAPTER 64 — CAPITAL EXPENDITURES VS REPAIRS	56
CHAPTER 65 — SPECIAL ASSESSMENTS (ADVANCED TREATMENT).....	56
CHAPTER 66 — INTERFUND BORROWING (HIGH RISK)	57
CHAPTER 67 — RELATED PARTY TRANSACTIONS.....	57
CHAPTER 68 — DEVELOPER TRANSITION ACCOUNTING	58
CHAPTER 69 — COMMITMENTS & CONTINGENCIES	58
CHAPTER 70 — OTHER COMPLEX SCENARIOS	59
CORE CASE STUDIES (CIRA READY).....	60
CASE STUDY 1 — Mixing Operating and Reserve Funds	60
CASE STUDY 2 — Uncollected Assessments.....	60
CASE STUDY 4 — Lack of Transparency.....	61
CASE STUDY 5 — Budget vs Actual Breakdown.....	62
CASE STUDY 6 — Special Assessment Misuse	62
CASE STUDY 7 — Bank Reconciliation Failure	63
CASE STUDY 8 — Audit Failure	63
CASE STUDY 9 — Overpayment & Refund Confusion	64
CASE STUDY 10 — Developer Transition Disaster	64
APPENDIX 1: COMMON ACCOUNTING ERRORS & AUDIT FINDINGS (CIRA)	66
APPENDIX 2: LAWSUITS & COURT CASES (CIRA)	72
APPENDIX 3: HOA FINANCIAL STATEMENTS (JS MORLU FORMAT)	78
APPENDIX 4: MONTHLY CLOSE CHECKLIST (CIRA / HOA)	85
APPENDIX 5: 50-STATE HOA / CIRA AUDIT-AND-REVIEW REQUIREMENT MATRIX	90

EXECUTIVE ORIENTATION & SYSTEM OVERVIEW

1. PURPOSE OF THIS MANUAL

This manual is designed to enable board members, property managers, and accounting staff to maintain **accurate, transparent, and compliant financial records** for Common Interest Realty Associations (CIRAs), including:

Homeowners Associations (HOAs)

Condominium Associations

Cooperative Housing Entities

The objective is to ensure:

financial transparency to homeowners

proper stewardship of association funds

compliance with applicable accounting standards

audit-ready financial reporting

2. WHAT MAKES CIRA ACCOUNTING DIFFERENT

CIRA accounting is not standard business accounting.

It is not about profit.

It is about accountability, stewardship, and fund tracking.

Key Differences

Business Accounting	CIRA Accounting
Focus on profit	Focus on fund balances
Owners = investors	Owners = members
Revenue = earnings	Revenue = assessments
Expenses drive profit	Expenses drive fund usage

Core Principle

Every dollar collected must be tracked by purpose and use

3. THE THREE GOVERNING FRAMEWORKS

1. GAAP (CIRA-Specific Guidance)

Focuses on:

fund accounting

reserve vs operating funds

revenue recognition for assessments

financial statement presentation

2. Governing Documents

These include:

bylaws

CC&Rs (Covenants, Conditions & Restrictions)

board policies

These define:

assessment structure

spending authority

reserve requirements

3. State Laws

These may require:

audits or reviews

reserve studies

disclosures

4. THE FIVE-TEST TRANSACTION RULE (CIRA VERSION)

Every transaction must pass:

Is it valid? (real and approved)

Is it recorded correctly? (GAAP)

Is it assigned to the correct fund?

Is it authorized by governing rules?

Is it transparent to members?

If not → it creates financial and legal risk

5. CORE ACCOUNTING MODEL — FUND ACCOUNTING

CIRAs must track money by **fund**, not just by account.

Primary Funds

Operating Fund

day-to-day expenses

utilities, landscaping, maintenance

Reserve Fund

long-term capital repairs

roofs, roads, elevators

Special Assessment Fund

specific projects approved by members

Critical Rule

Funds must not be mixed

6. CRITICAL ACCOUNTING DISTINCTIONS

6.1 Assessments vs Revenue

Assessments are:

not profit

but member contributions

6.2 Operating vs Reserve Expenses

Operating = short-term

Reserve = long-term capital

Misclassification leads to:

misleading financials

homeowner disputes

6.3 Restricted vs Unrestricted Funds

Some funds:

must be used for specific purposes

7. SYSTEM FAILURE POINTS (COMMON ISSUES)

Most CIRAs fail due to:

mixing operating and reserve funds

poor assessment tracking

weak receivable management

lack of transparency

incomplete documentation

8. DOCUMENTATION STANDARD

Every transaction must include:

invoice or support

board approval (if required)

fund classification

purpose

Homeowners must be able to understand it.

9. SYSTEM READINESS EXPECTATION

At any time, the association must be able to:

show how funds were collected

show how funds were spent

reconcile bank balances

explain reserve balances

support financial statements

10. OPERATING PRINCIPLE

You are managing other people's money—not your own

11. CIRA (HOA / CONDO) ACCOUNTING — AUTHORITATIVE GAAP & PPC FRAMEWORK

1. PRIMARY GAAP AUTHORITY FOR CIRAS

The governing GAAP guidance for Common Interest Realty Associations comes from:

ASC 972

This is part of Financial Accounting Standards Board (FASB).

What ASC 972 Covers

ASC 972 defines:

how HOAs account for **assessments (revenue)**

how to treat **operating vs reserve funds**

financial statement presentation

disclosures required for members and auditors

2. CORE GAAP PRINCIPLES (CIRA-SPECIFIC)

2.1 Revenue Recognition — Assessments

Rule:

Assessments are recognized as revenue when:

they are **levied (due)**, not when collected

This follows accrual accounting.

Example:

Month	Assessment	Collected	Revenue
January	\$100,000	\$80,000	\$100,000

Key Principle

Revenue ≠ cash

2.2 Fund Accounting (Not Optional)

CIRAs must use **fund accounting presentation**:

Required Funds:

Operating Fund

Replacement (Reserve) Fund

Special Assessment Fund (if applicable)

Rule:

Funds must be accounted for separately

Even if cash is in one bank account.

2.3 Replacement (Reserve) Fund Accounting

Rule:

Reserve funds are:

designated for **future major repairs/replacements**

Examples:

roof

elevators

roads

GAAP Treatment:

Contributions → equity/fund balance

Not treated as deferred revenue

Critical Point:

Reserve funds are NOT expenses when funded

2.4 Expenses — Recognition

Expenses are recorded when:

incurred (accrual basis)

Classification:

Operating expenses

Reserve expenses

Key Rule:

Operating and reserve expenses must not be mixed

2.5 Member Assessments Receivable (AR)

Rule:

Record receivable when assessment is billed

Evaluate collectability

Bad Debt Treatment:

Allowance for doubtful accounts required if material

2.6 Deferred Revenue (Prepaid Assessments)

Rule:

If homeowners pay in advance:

Dr Cash

Cr Deferred Revenue

Recognize as revenue over time.

2.7 Financial Statement Presentation

ASC 972 allows **two methods**:

Method 1 — Fund-Based Presentation (Preferred)

Separate columns:

Operating Fund

Reserve Fund

Method 2 — Combined Presentation with Disclosures

JS Morlu Practice:

Use fund-based reporting for clarity

2.8 Required Financial Statements

A complete CIRA GAAP set includes:

Balance Sheet (by fund)

Statement of Revenues & Expenses

Statement of Changes in Fund Balances

Cash Flow Statement (recommended)

2.9 Disclosures (CRITICAL)

Must disclose:

reserve funding policies

adequacy of reserves (or lack thereof)

special assessments

contingencies

related party transactions

2.10 Income Taxes (High Confusion Area)

CIRAs can file:

Form 1120-H (most common)

OR

Standard corporate return (Form 1120)

Key Rule:

Non-exempt income (interest, rentals) may be taxable

3. AICPA / PPC GUIDELINES (PRACTICE STANDARD)

The practical implementation guidance comes from:

American Institute of Certified Public Accountants

and specifically:

PPC (Practitioner's Publishing Company) Guides

CIRA Audit & Accounting Guide
HOA/Condo industry practice manuals

3.1 AICPA Audit & Accounting Guide — CIRAs

This is what auditors actually use.

Key Areas Covered:

Revenue recognition (assessments)
Fund accounting presentation
Reserve disclosures
Audit procedures
Internal controls

3.2 PPC Implementation Focus

PPC translates GAAP into:
audit programs
checklists
workpapers
disclosure templates

3.3 JS Morlu-Level Expectations from PPC

Financial Reporting

Fund-based financials
Clear separation of funds
Transparent disclosures

Internal Controls

Board approvals documented
Segregation of duties
Budget controls
Bank reconciliation

Audit Focus Areas

Auditors focus heavily on:

Assessment revenue completeness

Accounts receivable (delinquencies)

Reserve fund activity

Expense classification

Related party transactions

3.4 Reserve Study (Industry Requirement)

While not strictly GAAP:

PPC + AICPA strongly emphasize reserve studies

Purpose:

Determine future funding needs

Avoid underfunding

3.5 Budgeting (Critical Control)

CIRAs must:

prepare annual budgets

compare actual vs budget

explain variances

3.6 Common Audit Findings (PPC Reality)

Mixing operating and reserve funds

No allowance for bad debts

Poor documentation

Weak disclosures

Incomplete financial statements

4. CRITICAL DIFFERENCES VS GOVERNMENT CONTRACTING

Area	Gov Contracting	CIRA
Focus	Cost allowability	Fund accountability
Rules	FAR + DCAA	ASC 972 + AICPA
Risk	Audit + repayment	Legal + member disputes
Revenue	Earned via contract	Assessments

5. FINOVATEPRO SYSTEM IMPLICATIONS

Required System Features

Fund-based ledger (not optional)

Assessment billing engine

Reserve tracking module

Budget vs actual reporting

AR delinquency tracking

Disclosure-ready reporting

Must-Enforce Rules

Cannot mix funds

Must track receivables

Must classify expenses properly

Must produce audit-ready financials

6. FINAL COMMANDMENT (CIRA VERSION)

You are not tracking profit—you are managing trust.

STRATEGIC INSIGHT

Most HOA systems are:

basic

unclear

not GAAP-compliant

12. HOW TO USE THIS MANUAL (WITH CASE STUDIES)

This manual is structured into five operational volumes:

Volume 1 — Foundations (Fund Accounting Structure)

Volume 2 — Daily Operations (Transactions & Assessments)

Volume 3 — Cash Flow & Budgeting (Assessments, Reserves, Forecasting)

Volume 4 — Month-End Close (Financial Integrity & Reporting)

Volume 5 — Audit, Board Reporting & Compliance (Defense & Transparency)

Volume 6 → Advanced Edge Cases

Each volume builds on the previous one.

Skipping foundational concepts will result in misstatements and loss of trust.

12.1 REQUIRED LEARNING APPROACH

Understand the concept

Follow the procedure

Apply the case study

Validate for board/audit clarity

12.2 CORE CASE STUDIES (CIRA)

Case Study 1 — Mixing Operating and Reserve Funds

Scenario:

Roof repair paid from operating account instead of reserve.

Issue:

Misuse of restricted funds.

Outcome:

Financial misstatement + homeowner dispute.

Lesson: Funds must remain separate.

Case Study 2 — Uncollected Assessments

Scenario:

Homeowners owe \$50,000 in unpaid dues.

Issue:

Cash flow risk ignored.

Outcome:

Inability to pay vendors.

Lesson: AR management is critical.

Case Study 3 — Improper Reserve Expense**Scenario:**

Routine landscaping charged to reserve fund.

Issue:

Incorrect classification.

Outcome:

Reserve balance overstated.

Lesson: Reserve = long-term only.

Case Study 4 — Lack of Transparency**Scenario:**

Financial statements unclear to homeowners.

Issue:

No clarity on fund usage.

Outcome:

Loss of trust, board conflict.

Lesson: Reporting must be understandable.

Case Study 5 — Budget vs Actual Breakdown**Scenario:**

Expenses exceed budget with no explanation.

Issue:

No monitoring.

Outcome:

Financial instability.

Lesson: Budget tracking is mandatory.

Case Study 6 — Special Assessment Misuse**Scenario:**

Funds collected for project used elsewhere.

Issue:

Violation of restrictions.

Outcome:

Legal exposure.

Lesson: Restricted funds must be honored.

Case Study 7 — Bank Reconciliation Failure**Scenario:**

Cash per books \neq bank balance.

Issue:

No reconciliation.

Outcome:

Errors undetected.

Lesson: Reconciliation is non-negotiable.

Case Study 8 — Audit Failure**Scenario:**

Missing documentation for expenses.

Issue:

Weak controls.

Outcome:

Qualified audit opinion.

Lesson: Documentation is everything.

FINAL INSIGHT

CIRA accounting is not complex because of math.

It is complex because of:

accountability to people, not profit

VOLUME 1 — CIRA FOUNDATIONS (FUND ACCOUNTING ENGINE)

“Structure drives truth. If structure is wrong, nothing else matters.”

CHAPTER 1 — FUND ACCOUNTING FUNDAMENTALS

What This Means (Plain English)

A CIRA does not track profit.

It tracks money by purpose.

Every dollar belongs to a **fund**, and that fund determines:

how the money is used

how it is reported

what rules apply

The Core Rule

Every transaction must belong to a fund

No exceptions.

The Three Primary Funds

1. Operating Fund

Used for:

utilities

landscaping

maintenance

management fees

2. Reserve Fund

Used for:

roof replacement

pavement

elevators

major repairs

3. Special Assessment Fund

Used for:

specific, approved projects

What Can Go Wrong

Mixing funds

Using reserves for operations

Misleading financials

This leads to loss of trust + audit issues

Required Output

Fund-level reporting
Clear separation of activity

FinovatePro System Rule

Cannot post without selecting a fund

CHAPTER 2 — CHART OF ACCOUNTS (CIRA STRUCTURE)

What This Means

The chart of accounts must support:
fund accounting
transparency
reporting clarity

Required Account Categories**Assets**

Cash (Operating / Reserve separated)
Accounts Receivable (Assessments)
Prepaid Expenses

Liabilities

Accounts Payable
Deferred Revenue (Prepaid Assessments)

Fund Balances

Operating Fund Balance
Reserve Fund Balance

Revenue

Regular Assessments
Special Assessments
Late Fees
Interest Income

Expenses

Operating Expenses
Reserve Expenses

Critical Rule

Same account type must exist per fund where applicable

Example

Account	Fund
Cash	Operating
Cash	Reserve

What Can Go Wrong

Single “cash” account for all funds
No fund segmentation

FinovatePro Requirement

Multi-dimensional ledger (Account + Fund)

CHAPTER 3 — ASSESSMENTS (REVENUE ENGINE)

What This Means

Assessments are the primary revenue source.

GAAP Rule

Revenue is recognized when assessed, not when collected

Step-by-Step Process

Step 1 — Levy Assessment

Monthly or annual billing
Assigned to each unit/homeowner

Step 2 — Record Entry

Dr Accounts Receivable
Cr Assessment Revenue

Step 3 — Collect Payment

Dr Cash
Cr Accounts Receivable

Prepaid Assessments

If paid early:
Dr Cash
Cr Deferred Revenue
Recognize over time.

What Can Go Wrong

Cash basis accounting (wrong)
Missing receivables
No tracking of delinquencies

FinovatePro Controls

Automated billing engine

AR tracking

Aging reports

CHAPTER 4 — ACCOUNTS RECEIVABLE (DELINQUENCIES)

What This Means

Unpaid dues are a major risk.

Required Tracking

Homeowner balance

Aging (30, 60, 90+ days)

Allowance for Doubtful Accounts

If collection is uncertain:

Dr Bad Debt Expense

Cr Allowance for Doubtful Accounts

What Can Go Wrong

Ignoring delinquencies

Overstating assets

Key Rule

AR must reflect reality

FinovatePro Controls

Aging dashboards

Alerts for overdue accounts

CHAPTER 5 — EXPENSE CLASSIFICATION (OPERATING VS RESERVE)

What This Means

Every expense must be classified correctly.

Operating Expenses

Routine

Recurring

Examples:

landscaping

utilities

cleaning

Reserve Expenses

Long-term

Capital

Examples:

roof replacement

structural repairs

Critical Rule

Operating \neq Reserve

What Can Go Wrong

Charging routine costs to reserves

Misleading fund balances

FinovatePro Controls

Expense classification rules

Flagging of incorrect postings

CHAPTER 6 — RESERVE FUND ACCOUNTING

What This Means

Reserve funds are for the future.

Key Components

Contributions (monthly funding)

Interest earned

Capital expenditures

Entry Examples

Contribution

Dr Cash (Reserve)

Cr Fund Balance (Reserve)

Capital Expense

Dr Reserve Expense

Cr Cash (Reserve)

Critical Rule

Reserve funding is not an expense

What Can Go Wrong

Treating reserve contributions as expenses

Misstating financials

CHAPTER 7 — INTERFUND TRANSACTIONS

What This Means

Sometimes funds interact.

Example

Operating fund temporarily covers reserve expense.

Proper Entry

Dr Due From Reserve

Cr Cash (Operating)

AND

Dr Cash (Reserve)

Cr Due To Operating

Critical Rule

Must be tracked clearly and repaid

What Can Go Wrong

Permanent mixing of funds

No tracking

CHAPTER 8 — BUDGET STRUCTURE (CONTROL LAYER)

What This Means

Budget drives financial discipline.

Required Budget Components

Operating budget

Reserve funding plan

Monthly Monitoring

Actual vs Budget

Variance analysis

What Can Go Wrong

No monitoring

Overspending

FinovatePro Controls

Budget dashboards

Variance alerts

CHAPTER 9 — FINANCIAL STATEMENTS (FOUNDATION LEVEL)

Required Outputs

Balance Sheet (by fund)

Shows:

assets
liabilities
fund balances

Statement of Revenues & Expenses

Shows:
assessment income
expenses

Statement of Changes in Fund Balances

Shows:
beginning balance
additions
expenditures
ending balance

Critical Rule

Must clearly show fund activity

CHAPTER 10 — DOCUMENTATION & TRANSPARENCY

What This Means

Homeowners must trust the system.

Required Documentation

invoices
approvals
contracts
board minutes (for major decisions)

Key Rule

If a homeowner asks, you must explain it clearly

CHAPTER 11 — INTERNAL CONTROLS (FOUNDATION)

Required Controls

Approval for expenses
Segregation of duties
Bank reconciliation
Budget review

What Can Go Wrong

Fraud
Misuse of funds

Lack of oversight

FINAL RULE FOR VOLUME 1

If funds are not structured correctly, nothing else can be trusted.

STRATEGIC INSIGHT

Most HOA systems:

treat accounting like bookkeeping

ignore fund structure

produce confusing reports

As FinovatePro enforces this:

You become:

board-ready

audit-ready

bank-ready

This is where most HOAs fail:

missed assessments

weak collections

sloppy expense handling

no cash control

confused workflows

Volume 2 fixes that with step-by-step discipline.

VOLUME 2 — CIRA DAILY OPERATIONS (EXECUTION LAYER)

Assessments | Expenses | Cash | Workflows

Aligned with:

ASC 972

American Institute of Certified Public Accountants / PPC guidance

CHAPTER 12 — ASSESSMENT BILLING (CORE ENGINE)

What This Means

Assessments are the **lifeblood of the HOA**.

If billing fails → cash fails → operations fail.

Step-by-Step Process

Step 1 — Set Assessment Schedule

Monthly / Quarterly / Annual

Based on approved budget

Step 2 — Generate Assessment Charges

For each unit:

Dr Accounts Receivable

Cr Assessment Revenue

Step 3 — Deliver Statements

Email / portal / mail

Must be clear and consistent

Step 4 — Track Balances

Maintain homeowner ledger

Track all charges and payments

What Can Go Wrong

Missing charges

Incorrect amounts

No documentation

FinovatePro Controls

Automated recurring billing

Unit-level ledger

Error validation before posting

CHAPTER 13 — CASH COLLECTIONS (PAYMENTS)

What This Means

You must track **every dollar from every homeowner**.

Step-by-Step Process

Step 1 — Receive Payment

Methods:

ACH

Check

Online payment

Step 2 — Apply Payment

Dr Cash

Cr Accounts Receivable

Must apply to correct unit

Step 3 — Handle Overpayments / Prepayments

Dr Cash

Cr Deferred Revenue

Step 4 — Issue Receipt

Immediate confirmation

What Can Go Wrong

Misapplied payments

Missing deposits

No audit trail

FinovatePro Controls

Auto-matching payments

Lock edits after posting

Payment audit log

CHAPTER 14 — DELINQUENCY MANAGEMENT (CRITICAL)

What This Means

Unpaid dues = biggest operational risk.

Required Process

Step 1 — Aging Report

Track:

30 days

60 days

90+ days

Step 2 — Follow-Up Actions

Age	Action
30 days	Reminder
60 days	Formal notice
90+ days	Legal / collection

Step 3 — Late Fees

Apply per governing documents:

Dr Accounts Receivable

Cr Late Fee Revenue

Step 4 — Escalation

Legal action

Lien filing

What Can Go Wrong

Ignoring delinquencies

Cash shortages

FinovatePro Controls

Automated reminders

Aging dashboards

Escalation tracking

CHAPTER 15 — ACCOUNTS PAYABLE (VENDOR EXPENSES)

What This Means

Every expense must be:

valid

approved

correctly classified

Step-by-Step Process

Step 1 — Receive Invoice

Must include:

vendor name

service description

amount

Step 2 — Validate Expense

Check:

Is service received?

Is it approved?

Is it budgeted?

Step 3 — Classify Expense

Operating vs Reserve

Correct account

Step 4 — Post Entry

Dr Expense

Cr Accounts Payable

Step 5 — Approve for Payment

Board or manager approval

What Can Go Wrong

Paying unauthorized expenses

Misclassifying reserve vs operating

FinovatePro Controls

Approval workflows

Expense classification rules

Budget checks

CHAPTER 16 — PAYMENTS TO VENDORS (CASH CONTROL)

What This Means

Cash must be protected.

Step-by-Step Process

Step 1 — Select Approved Invoices

Only approved items proceed.

Step 2 — Issue Payment

Dr Accounts Payable

Cr Cash

Step 3 — Record Payment

Check number / ACH reference

Payment date

Step 4 — Update Ledger

Reduce liability

Track cash movement

What Can Go Wrong

Duplicate payments
Unauthorized payments
Fraud risk

FinovatePro Controls

Dual approval for payments
Payment batch controls
Duplicate detection

CHAPTER 17 — BANK & CASH MANAGEMENT

What This Means

Cash must always match reality.

Daily Process

Import bank transactions
Match to system records
Identify unmatched items

Monthly Bank Reconciliation**Step-by-Step**

Match all transactions
Identify differences
Investigate
Document reconciliation

Required Output

Bank reconciliation report
Supporting documentation

What Can Go Wrong

Missing transactions
Errors undetected

FinovatePro Controls

Auto bank feeds
Reconciliation module
Exception alerts

CHAPTER 18 — INTERFUND CASH MANAGEMENT

What This Means

Funds must remain separate—even if cash is shared.

Scenario

Operating fund temporarily pays reserve expense.

Required Entry

Dr Due From Reserve

Cr Cash (Operating)

AND

Dr Cash (Reserve)

Cr Due To Operating

Critical Rule

Must track and repay

What Can Go Wrong

Permanent fund mixing

Loss of transparency

CHAPTER 19 — EXPENSE ACCRUALS & PREPAIDS

What This Means

Expenses must be recorded in the correct period.

Accrual Example

Service received, invoice not yet received:

Dr Expense

Cr Accrued Liability

Prepaid Example

Insurance paid upfront:

Dr Prepaid Expense

Cr Cash

Then amortize monthly.

What Can Go Wrong

Misstated financials

CHAPTER 20 — WORKFLOW CONTROL SYSTEM (CRITICAL)

What This Means

Processes must be controlled—not informal.

Required Workflow Structure**Assessments**

Auto-generated

Reviewed

Posted

Expenses

Submitted

Approved

Paid

Cash

Received

Applied

Reconciled

Segregation of Duties

Function	Role
Billing	Admin
Approval	Manager/Board
Payment	Separate user

What Can Go Wrong

Fraud

Errors

Lack of accountability

FinovatePro Controls

Role-based permissions

Approval routing

Audit trails

CHAPTER 21 — DAILY / WEEKLY / MONTHLY OPERATIONS CADENCE

Daily

Record payments

Record expenses

Update ledgers

Weekly

Review AR aging

Approve payments

Monthly

Bank reconciliation

Budget vs actual
Financial reporting

FINAL RULE FOR VOLUME 2

If daily operations are sloppy, financial statements will lie.

STRATEGIC INSIGHT

Most HOA failures are not accounting problems.

They are **execution discipline problems**.

As FinovatePro enforces this:

collections improve

errors drop

fraud risk decreases

reporting becomes reliable

VOLUME 3 — CIRA CASH FLOW, BUDGETING & RESERVES (STRATEGY LAYER)

Assessments | Budgeting | Reserves | Long-Term Financial Stability

Aligned with:

ASC 972

American Institute of Certified Public Accountants / PPC guidance

CHAPTER 22 — FINANCIAL STRATEGY OVERVIEW

What This Means

An HOA does not fail because of accounting errors.

It fails because of poor financial planning

The Three Pillars

Cash Flow Stability (short-term survival)

Budget Discipline (annual control)

Reserve Strength (long-term protection)

Core Principle

No surprises

If residents are surprised → the system failed.

CHAPTER 23 — CASH FLOW MANAGEMENT (SURVIVAL ENGINE)

What This Means

Cash determines whether you can:

pay vendors

maintain property

avoid emergencies

Monthly Cash Flow Model

Inflows

Assessments collected

Late fees

Other income

Outflows

Operating expenses

Reserve transfers

Debt (if any)

Step-by-Step Cash Planning

Forecast expected collections

Adjust for delinquencies

Estimate expenses

Identify shortfalls

Minimum Cash Rule

Maintain 2–3 months of operating expenses in cash

What Can Go Wrong

Overestimating collections

Ignoring delinquencies

Underestimating expenses

FinovatePro Controls

Cash flow dashboard

Forecast vs actual tracking

Delinquency-adjusted projections

CHAPTER 24 — ANNUAL BUDGETING (CONTROL SYSTEM)

What This Means

The budget is the **financial plan for the year**.

Budget Components

Operating Budget

Includes:

utilities

landscaping

insurance

management fees

Reserve Contributions

Funding for:

future capital projects

Step-by-Step Budget Process

Step 1 — Gather Historical Data

prior year expenses

trends

Step 2 — Estimate Future Costs

inflation

contract increases

Step 3 — Include Reserve Funding

Must be based on reserve study

Step 4 — Calculate Required Assessments

Total expenses ÷ number of units

Step 5 — Board Approval

document decisions

communicate to homeowners

What Can Go Wrong

Underbudgeting

Ignoring reserves

Unrealistic assumptions

FinovatePro Controls

Budget templates

Scenario modeling

Approval workflows

CHAPTER 25 — BUDGET VS ACTUAL (DISCIPLINE)

What This Means

Budget must be monitored continuously.

Monthly Process

Compare actual to budget

Identify variances

Explain differences

Take corrective action

Variance Types

Type	Example
Favorable	Lower expenses
Unfavorable	Higher expenses

Key Rule

Every material variance must be explained

What Can Go Wrong

Ignoring variances

Overspending
No corrective action

FinovatePro Controls

Variance dashboards
Automated alerts
Commentary tracking

CHAPTER 26 — RESERVE FUND STRATEGY (LONG-TERM ENGINE)

What This Means

Reserves protect the association from:

large, unexpected costs

Reserve Purpose

Fund future:
roof replacement
paving
structural repairs

Critical Rule

Reserves are not optional

Reserve Funding Sources

monthly contributions
special assessments
interest income

What Can Go Wrong

Underfunding
Borrowing from reserves
No long-term planning

CHAPTER 27 — RESERVE STUDY (MANDATORY TOOL)

What This Means

A reserve study determines:
what assets exist
their useful life
future replacement cost

Components

Physical analysis
Financial analysis

Output

funding plan
annual contribution requirement

Key Rule

Budget must align with reserve study

What Can Go Wrong

Ignoring study
outdated assumptions

CHAPTER 28 — RESERVE FUNDING METHODS

Common Methods**1. Straight-Line Funding**

Equal annual contributions

2. Component Funding

Each asset funded separately

3. Cash Flow Method (Most Common)

Balances contributions and expenses over time

Best Practice

Use cash flow method with professional study

CHAPTER 29 — SPECIAL ASSESSMENTS (HIGH RISK)

What This Means

Special assessments are:

additional charges to homeowners

When Used

reserve shortfall
unexpected expenses

Process

Identify need
Board approval
Homeowner communication
Billing

What Can Go Wrong

Poor communication
legal disputes

homeowner resistance

Key Rule

Avoid through proper reserve funding

CHAPTER 30 — LONG-TERM FINANCIAL PLANNING

What This Means

Plan beyond the current year.

Required Planning Horizon

5–30 years (based on reserve study)

Key Questions

Are reserves adequate?

Will assessments increase?

Are major projects funded?

What Can Go Wrong

short-term thinking

deferred maintenance

CHAPTER 31 — FINANCIAL HEALTH METRICS

Key Metrics

1. Reserve Funded Percentage

how well reserves are funded

2. Delinquency Rate

% of unpaid assessments

3. Operating Surplus/Deficit

4. Cash Balance Coverage

Key Rule

Metrics must be monitored monthly

CHAPTER 32 — BOARD FINANCIAL REPORTING (DECISION LAYER)

What This Means

Board must understand finances.

Required Reports

Balance Sheet (by fund)

Income Statement

Budget vs Actual
Cash Flow
Reserve summary

Key Rule

Reports must be clear to non-accountants

What Can Go Wrong

confusing reports
poor decisions

CHAPTER 33 — RISK MANAGEMENT (FINANCIAL)

Key Risks

underfunded reserves
high delinquencies
unexpected repairs

Mitigation

proper budgeting
reserve planning
strong collections

FINAL RULE FOR VOLUME 3

If you don't plan financially, you will eventually fail financially

STRATEGIC INSIGHT

Most HOAs operate reactively:
fix problems when they happen
raise fees when forced
As FinovatePro enforces this:

HOAs become:

predictable
stable
transparent
financially strong

VOLUME 4 — CIRA MONTH-END CLOSE (JS MORLU REPORTING + RECONCILIATION)

Financial Integrity | Fund Accuracy | Transparency | Audit-Ready Close

Aligned with:

ASC 972

American Institute of Certified Public Accountants / PPC guidance

CHAPTER 34 — CLOSE PHILOSOPHY (WHAT YOU ARE PROVING)

What This Means

At month-end, you are proving:

All assessments are recorded

All cash is accounted for

All expenses are valid and classified correctly

All funds are accurate and not mixed

Financial statements reflect reality

The Standard

“Can a board member understand and trust these numbers?”

If not → not closed.

CHAPTER 35 — THE 18-STEP CLOSE (NON-NEGOTIABLE)

Phase 1 — Transaction Completion

Complete assessment billing

Record all payments received

Record all vendor invoices

Process all payments

Post accruals and prepaids

Phase 2 — Cash & Subledgers

Reconcile all bank accounts

Reconcile cash balances by fund

Reconcile accounts receivable

Reconcile accounts payable

Phase 3 — Fund Integrity

Verify operating fund activity

Verify reserve fund activity

Review interfund balances

Phase 4 — Compliance Adjustments

Adjust expense classifications

Review reserve vs operating expenses
Record allowance for doubtful accounts (if needed)

Phase 5 — Financial Statements

Generate trial balance
Prepare financial statements (by fund)
Lock period

CHAPTER 36 — CASH & BANK RECONCILIATION (CRITICAL CONTROL)

What This Means

Cash must match the bank—exactly.

Step-by-Step

Obtain bank statement
Match deposits and payments
Identify differences
Investigate and resolve
Document reconciliation

Required Output

Bank reconciliation report
Supporting documentation

Red Flags

Unexplained differences
Old outstanding items
Negative balances

Key Rule

If cash is wrong, everything is wrong

CHAPTER 37 — ACCOUNTS RECEIVABLE RECONCILIATION

What This Means

You must prove:

homeowner balances are accurate

Step-by-Step

Generate AR aging report
Tie total to general ledger
Review delinquent accounts
Adjust for bad debts if needed

Required Output

AR aging
Reconciliation report

What Can Go Wrong

Missing receivables
Incorrect balances

CHAPTER 38 — ACCOUNTS PAYABLE RECONCILIATION

What This Means

You must confirm:

all vendor obligations are recorded

Step-by-Step

Review open invoices
Tie AP ledger to GL
Verify completeness

Required Output

AP aging
Vendor listing

CHAPTER 39 — FUND RECONCILIATION (MOST IMPORTANT)

What This Means

You must prove:

funds are not mixed

Step-by-Step

Reconcile operating fund
Reconcile reserve fund
Review interfund accounts

Required Output

Fund-level balances
Interfund reconciliation

What Can Go Wrong

Mixing funds
Incorrect balances

Key Rule

Each fund must stand on its own

CHAPTER 40 — EXPENSE REVIEW & CLASSIFICATION

What This Means

Expenses must be correctly classified.

Step-by-Step

Review all expenses

Confirm operating vs reserve

Reclass if necessary

Red Flags

Routine costs in reserves

Capital costs in operating

CHAPTER 41 — RESERVE FUND VALIDATION

What This Means

Ensure reserve activity is correct.

Step-by-Step

Review contributions

Review expenditures

Tie to reserve plan

Required Output

Reserve activity report

CHAPTER 42 — BUDGET VS ACTUAL REVIEW

What This Means

Ensure financial discipline.

Step-by-Step

Compare actual vs budget

Identify variances

Document explanations

Required Output

Variance report

Key Rule

No unexplained variances

CHAPTER 43 — FINANCIAL STATEMENTS (JS MORLU FORMAT)

Required Reports

1. Balance Sheet (By Fund)

Shows:

assets

liabilities

fund balances

2. Statement of Revenues & Expenses

Shows:

assessments

expenses

3. Statement of Changes in Fund Balances

Shows:

beginning balance

additions

expenditures

ending balance

4. Cash Flow Statement (Recommended)

Key Rule

Reports must be clear to non-accountants

CHAPTER 44 — CLOSE FILE (AUDIT PACKAGE)

What This Means

Everything must be documented.

Required Contents

Trial balance

Bank reconciliations

AR aging

AP aging

Expense detail

Fund reports

Budget vs actual

Journal entries

Financial statements

Close checklist

Golden Rule

If it is not documented, it does not exist

CHAPTER 45 — PERIOD LOCK & CONTROL

What This Means

After close:

No silent changes allowed

Rules

Lock period

Track all edits

Require approval to reopen

FinovatePro Controls

Hard lock

Audit trail

Role-based permissions

CHAPTER 46 — CLOSE TIMELINE (BEST PRACTICE)

Day	Task
Day 1–2	Complete transactions
Day 3–4	Reconciliations
Day 5	Fund validation
Day 6	Financial statements
Day 7	Review & lock

FINAL RULE FOR VOLUME 4

If the numbers don't reconcile, the close is not complete.

STRATEGIC INSIGHT

Most HOAs:

close late

produce confusing reports

lose credibility

As FinovatePro enforces this:

You deliver:

clean financials

fast close

board-ready reports

audit-ready system

Volumes 1–4 make the system work.

Volume 5 proves the system can be trusted—by auditors, boards, homeowners, lenders, and regulators.

If this is weak:

audits get qualified

boards lose confidence

homeowners push back

banks hesitate

If this is strong:

You become the gold standard system for HOAs

VOLUME 5 — CIRA AUDIT, BOARD REPORTING & COMPLIANCE (DEFENSE LAYER)

Audit Readiness | Board Transparency | Compliance | Trust

Aligned with:

ASC 972

American Institute of Certified Public Accountants / PPC guidance

CHAPTER 47 — WHAT AN HOA AUDIT REALLY IS

What This Means

An HOA audit is not just about numbers.

It is about trust and stewardship of funds

What Auditors Evaluate

Financial statements are accurate

Funds are properly classified

Internal controls exist and work

Transactions are supported

Disclosures are complete

Types of Engagements

Type	Level
Compilation	Lowest
Review	Moderate
Audit	Highest

Key Rule

The higher the level, the stronger the system must be

CHAPTER 48 — AUDIT WALKTHROUGH (WHAT TO EXPECT)

What This Means

Auditors will test your system like this:

Step 1 — Understand the System

Chart of accounts

Fund structure

Policies

Step 2 — Select Samples

Assessments

Expenses

Cash transactions

Step 3 — Trace Transactions

From:

Source → Approval → GL → Financials

Step 4 — Test Controls

Approvals

Segregation of duties

Reconciliations

Step 5 — Evaluate Reporting

Accuracy

Clarity

Compliance

Your Goal

Make every transaction easy to trace and explain

CHAPTER 49 — INTERNAL CONTROLS (CORE DEFENSE)

What This Means

Controls prevent:

errors

fraud

misuse of funds

Required Controls

Cash

Dual signature (if applicable)

Bank reconciliation

Expenses

Approval required

Budget alignment

Assessments

Automated billing

AR tracking

Segregation of Duties

Function	Role
Billing	Admin
Approval	Board/Manager
Payment	Separate

What Can Go Wrong

One person controls everything
No oversight

CHAPTER 50 — DOCUMENTATION & AUDIT TRAIL

What This Means

Everything must be provable.

Required Documentation

invoices
receipts
contracts
board approvals
bank statements

Audit Trail Requirements

who entered transaction
who approved
what changed
when

Key Rule

If you cannot show it, it does not exist

CHAPTER 51 — BOARD REPORTING (DECISION SYSTEM)

What This Means

Board members are not accountants.

Reports must be:

clear
simple
actionable

Monthly Board Package (Required)

1. Balance Sheet (by fund)
2. Statement of Revenues & Expenses
3. Budget vs Actual
4. Cash Position Report
5. Reserve Fund Summary
6. AR Aging (Delinquencies)

Key Rule

Reports must answer:

“Are we financially healthy?”

CHAPTER 52 — HOMEOWNER TRANSPARENCY

What This Means

Homeowners have the right to understand finances.

Required Transparency

annual financial statements

budget

reserve status

major expenditures

What Can Go Wrong

unclear reporting

distrust

disputes

Key Rule

Transparency builds trust

CHAPTER 53 — RESERVE DISCLOSURES (CRITICAL)

What This Means

You must disclose:

whether reserves are adequate

funding methodology

future obligations

Example Disclosure

“The Association has not conducted a recent reserve study and may be underfunded.”

Risk

Underfunding = future financial shock

CHAPTER 54 — COMPLIANCE REQUIREMENTS

What This Means

HOAs must comply with:

governing documents

state laws

tax requirements

Key Areas

annual filings

audits (if required)

reserve studies

tax returns (Form 1120-H or 1120)

Key Rule

Non-compliance creates legal risk

CHAPTER 55 — COMMON AUDIT FINDINGS

Top Issues

Mixing operating and reserve funds

Weak documentation

Poor bank reconciliation

No allowance for bad debts

Incomplete disclosures

Prevention

Follow Volumes 1–4 strictly

CHAPTER 56 — AUDIT DEFENSE PLAYBOOK

What This Means

How to respond during audit.

Rule #1

Never guess

Rule #2

Provide documentation, not explanations

Rule #3

Be consistent

Sample Response

“This transaction was recorded on [date],
classified as [type],
assigned to [fund],
and here is the supporting documentation.”

CHAPTER 57 — PRE-AUDIT CHECKLIST

Confirm Before Audit

Books closed
Bank reconciled
AR accurate
Funds separated
Documentation complete

Final Test

Select random transactions

Trace end-to-end

CHAPTER 58 — FINOVATEPRO ADVANTAGE

FinovatePro is:
audit-ready by design
board-friendly
homeowner-transparent
lender-trusted

Killer Features

fund-based accounting engine
automated board reporting
audit package generator
reserve tracking system
compliance alerts

FINAL RULE FOR VOLUME 5

You are not defending numbers—you are defending trust

THE COMPLETE SYSTEM (CIRA)

Volume 1 → Structure
Volume 2 → Execution
Volume 3 → Strategy
Volume 4 → Validation

Volume 5 → Defense

Volume 6 → Advanced Edge Cases

STRATEGIC INSIGHT

Most HOA systems:

focus on bookkeeping

ignore reporting

fail at transparency

As FinovatePro nails this:

You dominate:

HOAs

property managers

community associations

lenders

WHAT YOU JUST READ

This is not just a manual.

This is a complete financial operating system for CIRAs

VOLUME 6 — SPECIAL ACCOUNTING TREATMENTS (ADVANCED EDGE CASES)

Edge Cases | Complex Transactions | High-Risk Areas

Aligned with:

ASC 972

American Institute of Certified Public Accountants / PPC guidance

CHAPTER 59 — PURPOSE OF SPECIAL ACCOUNTING TREATMENTS

What This Means

Not all transactions fit into:

normal assessments

normal expenses

standard fund accounting

These situations require:

judgment

structure

documentation

Core Rule

If the transaction is unusual, documentation must be stronger—not weaker

CHAPTER 60 — CUSTODIAL / THIRD-PARTY MANAGED FUNDS

What This Means

Sometimes the HOA holds or manages funds that:

do not belong to the HOA

are controlled by a third party

are restricted for specific use

Examples

property manager trust accounts

developer-controlled funds

insurance proceeds held temporarily

escrow balances

Accounting Treatment

These are custodial (agency) funds, not HOA revenue.

Entry Example

When receiving funds:

Dr Cash

Cr Liability (Due to Third Party)

When disbursing:

Dr Liability

Cr Cash

Critical Rule

Do not record as revenue or expense

What Can Go Wrong

inflating revenue

misstating fund balances

audit findings

FinovatePro Controls

“Custodial Fund” classification

Separate ledger tracking

No impact on income statement

CHAPTER 61 — DISTRIBUTIONS / RETURN OF FUNDS TO HOMEOWNERS

What This Means

HOAs may return funds to members when:

excess operating funds exist

over-collections occur

legal or board decisions require it

Types of Distributions

direct refunds

credits against future assessments

Accounting Treatment

This is NOT an expense.

Entry Example (Refund)

Dr Fund Balance

Cr Cash

Entry Example (Credit)

Dr Fund Balance

Cr Accounts Receivable

Critical Rule

Distributions reduce equity—not expenses

What Can Go Wrong

recording as expense
distorting financial performance

CHAPTER 62 — APPROPRIATED VS UNAPPROPRIATED FUND BALANCE

What This Means

Fund balance may be:

Unappropriated

unrestricted
available for general use

Appropriated

designated for specific purposes
approved by board

Examples of Appropriations

future repairs
contingency reserves
legal reserves

Accounting Treatment

This is a classification within equity, not a separate fund.

Entry Example

Dr Unappropriated Fund Balance
Cr Appropriated Fund Balance

Critical Rule

Appropriation does not move cash—only classification

What Can Go Wrong

confusing appropriation with reserve funds
misstating available funds

CHAPTER 63 — INSURANCE PROCEEDS & DISASTER EVENTS

What This Means

HOAs may receive large insurance payouts.

Key Considerations

purpose of funds
timing of repairs
fund classification

Accounting Treatment

When received:

Dr Cash
 Cr Insurance Proceeds (liability or income depending on context)

When used:

Dr Repair Expense (or Reserve Expense)
 Cr Cash

Critical Rule

Match proceeds to related expenses

What Can Go Wrong

recognizing income incorrectly
 mismatching expenses

CHAPTER 64 — CAPITAL EXPENDITURES VS REPAIRS

What This Means

Distinguishing between:

repairs (expense)

capital improvements (reserve or asset)

Rule of Thumb

Type	Treatment
Routine repair	Expense
Extends life / adds value	Capital

Examples

Fix leak → expense
 Replace roof → reserve/capital

What Can Go Wrong

overstating expenses
 understating reserves

CHAPTER 65 — SPECIAL ASSESSMENTS (ADVANCED TREATMENT)

What This Means

Special assessments may require:
 separate tracking

restricted use
disclosure

Accounting Treatment

When billed:

Dr Accounts Receivable

Cr Special Assessment Fund Balance / Revenue

When collected:

Dr Cash

Cr Accounts Receivable

Critical Rule

Must track separately from regular operations

What Can Go Wrong

mixing with operating funds

misuse of funds

CHAPTER 66 — INTERFUND BORROWING (HIGH RISK)

What This Means

HOAs sometimes borrow from reserves.

Proper Treatment

Record as interfund liability:

Dr Cash (Operating)

Cr Due to Reserve

Repayment Entry

Dr Due to Reserve

Cr Cash

Critical Rule

Must be documented and repaid

What Can Go Wrong

permanent depletion of reserves

legal exposure

CHAPTER 67 — RELATED PARTY TRANSACTIONS

What This Means

Transactions with:

board members

management companies
related vendors

Requirements

full disclosure
arm's-length pricing
board approval

What Can Go Wrong

conflicts of interest
audit findings

CHAPTER 68 — DEVELOPER TRANSITION ACCOUNTING

What This Means

When control transfers from developer to HOA.

Key Issues

incomplete records
underfunded reserves
missing documentation

Required Actions

review opening balances
validate assets and liabilities
document discrepancies

Critical Rule

Verify everything—do not assume accuracy

CHAPTER 69 — COMMITMENTS & CONTINGENCIES

What This Means

Future obligations must be disclosed.

Examples

lawsuits
major contracts
pending repairs

Accounting Treatment

disclose in financial statements
accrue if probable and estimable

CHAPTER 70 — OTHER COMPLEX SCENARIOS

Includes:

multi-association structures
master/sub associations
shared cost allocations
management company pass-throughs

Key Rule

Must be clearly documented and consistently applied

FINAL RULE FOR VOLUME 6

The more complex the transaction, the higher the documentation standard

STRATEGIC INSIGHT

Most HOA systems:

break under edge cases
require manual workarounds
create audit risk

As FinovatePro handles Volume 6 correctly:

You eliminate:

confusion
manual fixes
audit exposure

FULL CIRA SYSTEM

Volume 1 → Structure

Volume 2 → Execution

Volume 3 → Strategy

Volume 4 → Validation

Volume 5 → Defense

Volume 6 → Advanced Edge Cases

CORE CASE STUDIES (CIRA READY)

“If you understand these, you understand 80% of HOA financial risk.”

CASE STUDY 1 — Mixing Operating and Reserve Funds

Scenario (Real Life)

The HOA needs a new roof. Cost: \$120,000.

The reserve account only has \$80,000.

So the manager says:

“Let’s just pay the rest from the operating account—we’ll fix it later.”

What Most People Think

“It’s all HOA money anyway.”

What’s Actually Wrong

Operating funds = day-to-day expenses

Reserve funds = long-term repairs

These are not the same

What Happens Next

Operating account gets drained

Bills (landscaping, utilities) can’t be paid

Homeowners start asking questions

Outcome

Financial confusion

Board conflict

Possible audit issue

Key Lesson

Funds must stay separate—even if cash is tight

CASE STUDY 2 — Uncollected Assessments

Scenario

20 homeowners stop paying dues.

Total unpaid: **\$50,000**

The board says:

“They’ll pay eventually.”

What’s Actually Happening

Cash coming in is less than expected

Expenses keep going

What Happens Next

HOA delays vendor payments

Late fees pile up

Vendors threaten to stop service

Outcome

Trash not picked up

Landscaping stops

Community complaints explode

Key Lesson

If you don't collect money, you can't run the community

CASE STUDY 3 — Improper Reserve Expense

Scenario

Monthly landscaping costs: \$5,000

Manager says:

“Let's charge this to reserves—it makes operating look better.”

What's Wrong

Landscaping = routine expense

Reserves = long-term projects

What Happens Next

Reserve balance looks strong (but it's fake)

Future repairs (roof, pavement) become underfunded

Outcome

Surprise special assessment later

Angry homeowners

Key Lesson

Reserves are for the future—not to hide today's expenses

CASE STUDY 4 — Lack of Transparency

Scenario

The board presents financials like this:

“Expenses: \$300,000”

“Cash: \$500,000”

Homeowners ask:

“Where is the money going?”

No clear answer.

What's Actually Wrong

No fund breakdown

No explanation

No clarity

What Happens Next

Rumors start

Accusations of misuse

Board meetings become hostile

Outcome

Loss of trust

Leadership turnover

Key Lesson

If people don't understand the numbers, they won't trust them

CASE STUDY 5 — Budget vs Actual Breakdown

Scenario

Budget for the year: \$400,000

Actual spending: \$480,000

No one notices until year-end.

What's Wrong

No monthly review

No variance tracking

What Happens Next

HOA runs out of cash

Emergency fee increase

Outcome

Homeowners shocked

Financial instability

Key Lesson

If you don't track the budget monthly, you lose control

CASE STUDY 6 — Special Assessment Misuse

Scenario

HOA collects \$200,000 for parking lot repairs.

Instead, \$50,000 is used to:

pay old bills

cover operating shortages

What's Wrong

Money was collected for a specific purpose

It was used for something else

What Happens Next

Project delayed

More money needed

Outcome

Legal exposure

Homeowner backlash

Key Lesson

Restricted money must be used only for its purpose

CASE STUDY 7 — Bank Reconciliation Failure

Scenario

Books show: \$100,000 cash

Bank shows: \$85,000

No one checks.

What's Wrong

No reconciliation

Missing \$15,000

What Happens Next

Could be error

Could be fraud

No one knows

Outcome

Problem grows

Harder to fix later

Key Lesson

If you don't reconcile, you don't know your real cash

CASE STUDY 8 — Audit Failure

Scenario

Auditor asks:

“Show me the invoice for this \$10,000 expense.”

Answer:

“We can’t find it.”

What’s Wrong

No documentation

No support

What Happens Next

Auditor questions entire system

Outcome

Qualified audit

Loss of credibility

Key Lesson

No document = no proof = no trust

CASE STUDY 9 — Overpayment & Refund Confusion

Scenario

A homeowner accidentally pays **\$3,000 instead of \$300**

Manager records it as revenue and moves on.

What’s Wrong

Extra money does not belong to HOA

What Happens Next

Homeowner asks for refund

Books don’t match

Outcome

Confusion

Manual corrections

Correct Approach

Record as liability (not income)

Key Lesson

Not all cash received is revenue

CASE STUDY 10 — Developer Transition Disaster

Scenario

Developer hands HOA over to the board.

Records show:

Reserve fund: \$500,000

But reality:

Only \$200,000 in bank

What's Wrong

Records not verified

No reconciliation

What Happens Next

Huge funding gap

Immediate financial crisis

Outcome

Emergency assessments

Legal disputes

Key Lesson

Never trust opening balances without verification

FINAL INSIGHT

These 10 case studies teach one thing:

HOA accounting is not about math—it's about discipline and trust

APPENDIX 1: COMMON ACCOUNTING ERRORS & AUDIT FINDINGS (CIRA)

Based on Audit Reports, Peer Reviews, and Industry Practice Observations

PURPOSE OF THIS APPENDIX

This appendix highlights the **most common errors found in:**

HOA audits

CPA peer reviews

financial statement reviews

internal control assessments

How to Use This Section

Each issue includes:

What the error is

Why it happens

What the auditor sees

The impact

How to fix it

Core Principle

Most audit findings are not complex—they are repeated mistakes

SECTION 1 — FUND ACCOUNTING ERRORS

1.1 Mixing Operating and Reserve Funds

Error

Operating and reserve transactions recorded together.

Why It Happens

Single bank account

Poor chart of accounts

Auditor View

“Funds are not properly segregated.”

Impact

Misleading financial statements

Loss of credibility

Fix

Separate fund tracking

Use fund-level reporting

1.2 Incorrect Fund Balances

Error

Fund balances do not reflect actual activity.

Impact

Misstated equity
Incorrect decision-making

Fix

Monthly fund reconciliation

SECTION 2 — REVENUE & ASSESSMENT ERRORS**2.1 Cash Basis Instead of Accrual****Error**

Revenue recorded only when cash is received.

Auditor View

“Not in compliance with GAAP.”

Impact

Understated receivables
Misleading income

Fix

Record assessments when billed

2.2 Missing or Incomplete Accounts Receivable**Error**

Delinquencies not tracked properly.

Impact

Overstated financial health
Poor cash flow planning

Fix

Maintain AR aging report
Monitor monthly

2.3 No Allowance for Doubtful Accounts**Error**

All receivables assumed collectible.

Impact

Overstated assets

Fix

Evaluate collectability
Record allowance if needed

SECTION 3 — EXPENSE CLASSIFICATION ERRORS**3.1 Operating vs Reserve Misclassification**

Error

Routine expenses charged to reserves.

Impact

Overstated reserves

Future funding problems

Fix

Enforce classification rules

3.2 Capital vs Expense Errors**Error**

Capital improvements recorded as expenses.

Impact

Distorted financial statements

Fix

Apply capitalization rules

SECTION 4 — CASH & RECONCILIATION ERRORS**4.1 Bank Not Reconciled****Error**

No monthly reconciliation performed.

Auditor View

“Cash cannot be verified.”

Impact

Undetected errors or fraud

Fix

Perform monthly reconciliations

4.2 Unreconciled Differences**Error**

Differences identified but not resolved.

Impact

Financial statements unreliable

Fix

Investigate and resolve all variances

SECTION 5 — DOCUMENTATION & SUPPORT ERRORS**5.1 Missing Invoices or Receipts****Error**

Expenses recorded without support.

Auditor View

“Unsupported transaction.”

Impact

Audit findings
possible disallowance

Fix

Require documentation before posting

5.2 Weak Approval Process

Error

Expenses not approved properly.

Impact

Control weakness
fraud risk

Fix

Implement approval workflows

SECTION 6 — INTERNAL CONTROL DEFICIENCIES

6.1 Lack of Segregation of Duties

Error

One person handles:

billing
collections
payments

Impact

High fraud risk

Fix

Separate responsibilities

6.2 No Review Process

Error

No independent review of financials.

Impact

Errors go undetected

Fix

Monthly review by board or manager

SECTION 7 — REPORTING & DISCLOSURE ERRORS

7.1 Incomplete Financial Statements

Error

Missing required statements.

Impact

Non-compliance with GAAP

Fix

Prepare full financial set

7.2 Lack of Reserve Disclosures

Error

No disclosure of reserve adequacy.

Impact

Misleading stakeholders

Fix

Include required disclosures

7.3 Unclear Reporting to Homeowners

Error

Financials too complex or unclear.

Impact

Loss of trust

Fix

Simplify presentation

SECTION 8 — SPECIAL TRANSACTION ERRORS

8.1 Misuse of Special Assessments

Error

Funds used for unintended purposes.

Impact

Legal exposure

Fix

Track separately and restrict usage

8.2 Improper Interfund Transfers

Error

Funds moved without tracking.

Impact

Distorted fund balances

Fix

Record interfund receivables/payables

8.3 Incorrect Treatment of Custodial Funds**Error**

Recorded as revenue instead of liability.

Impact

Overstated income

Fix

Record as liability

SECTION 9 — AUDIT & PEER REVIEW OBSERVATIONS**Top Themes Observed**

Weak documentation

Poor fund segregation

Lack of reconciliation

Inconsistent accounting policies

Inadequate disclosures

What This Means

Most issues are not technical—they are discipline failures

FINAL SUMMARY**Most Common Root Causes**

Lack of structure

Lack of controls

Lack of review

Lack of understanding

Final Rule

If you follow Volumes 1–6, you eliminate 90% of these issues

STRATEGIC INSIGHT

This appendix does one powerful thing:

It shows users what failure looks like

And when people understand failure clearly:

They avoid it.

APPENDIX 2: LAWSUITS & COURT CASES (CIRA)

Real-World Legal Risks Every HOA Must Understand

PURPOSE OF THIS APPENDIX

This appendix highlights common types of lawsuits involving:

Homeowners Associations (HOAs)

Condominium Associations

Cooperative Housing entities

Why This Matters

Most lawsuits are not caused by complicated legal issues.

They are caused by:

poor accounting

weak controls

lack of transparency

misuse of funds

How to Use This Section

Each case includes:

Scenario (real-life situation)

What went wrong

What the court focused on

Outcome

Key lesson

Core Principle

Most lawsuits are preventable with proper financial discipline

SECTION 1 — MISUSE OF FUNDS

Case Type 1 — Improper Use of Reserve Funds

Scenario

An HOA used reserve funds (meant for roof replacement) to:

pay operating expenses

cover cash shortages

What Went Wrong

Reserve funds are restricted

Used for unrelated purposes

Court Focus

Did the HOA follow governing documents?

Were funds used for their intended purpose?

Outcome

HOA required to restore funds
Possible damages and legal costs

Key Lesson

Restricted funds must be used only for their intended purpose

Case Type 2 — Misuse of Special Assessments

Scenario

Homeowners paid a special assessment for a major repair.
The board used part of the funds for unrelated expenses.

What Went Wrong

Funds collected for a specific purpose
Used elsewhere

Court Focus

Misrepresentation
Breach of fiduciary duty

Outcome

Legal liability
Refunds required

Key Lesson

You must do what you told homeowners you would do

SECTION 2 — LACK OF TRANSPARENCY

Case Type 3 — Failure to Provide Financial Records

Scenario

Homeowners requested financial statements.

The HOA:

delayed responses
provided incomplete data

What Went Wrong

Lack of transparency
Possible violation of state law

Court Focus

Right of homeowners to inspect records

Outcome

Court ordered disclosure
Possible penalties

Key Lesson

Financial transparency is not optional

Case Type 4 — Misleading Financial Reporting

Scenario

Financial statements:
did not clearly separate operating and reserve funds
were confusing or incomplete

What Went Wrong

Poor reporting
Lack of clarity

Court Focus

Whether information was misleading

Outcome

Loss of credibility
Possible legal exposure

Key Lesson

If financials are unclear, they can be considered misleading

SECTION 3 — FAILURE TO MAINTAIN PROPERTY

Case Type 5 — Deferred Maintenance Due to Poor Reserves

Scenario

HOA failed to maintain adequate reserves.
Major repairs were delayed.
Property damage occurred.

What Went Wrong

Underfunded reserves
Poor planning

Court Focus

Duty to maintain common property

Outcome

HOA held liable
Costly repairs + legal fees

Key Lesson

Underfunded reserves create legal risk

SECTION 4 — ASSESSMENTS & COLLECTIONS

Case Type 6 — Improper Assessment Practices

Scenario

HOA imposed assessments:
without proper approval
or outside governing documents

What Went Wrong

Violation of rules
improper process

Court Focus

Authority to levy assessments

Outcome

Assessments invalidated
refunds required

Key Lesson

Assessments must follow governing documents exactly

Case Type 7 — Selective Enforcement

Scenario

HOA aggressively pursued some homeowners for unpaid dues but ignored others.

What Went Wrong

Inconsistent enforcement

Court Focus

Fairness and equal treatment

Outcome

HOA's claim weakened
legal exposure

Key Lesson

Rules must be applied consistently to everyone

SECTION 5 — FRAUD & MISMANAGEMENT

Case Type 8 — Embezzlement by Board or Manager

Scenario

A manager:
controlled billing, payments, and bank accounts
diverted funds

What Went Wrong

No segregation of duties
weak controls

Court Focus

Internal control failure

Outcome

Financial loss

criminal charges

Key Lesson

Lack of controls creates opportunity for fraud

Case Type 9 — Conflict of Interest

Scenario

Board member approved contracts with:
their own company
or a related party

What Went Wrong

Lack of disclosure
self-dealing

Court Focus

fiduciary duty

Outcome

contract voided

potential damages

Key Lesson

All related party transactions must be disclosed and approved properly

SECTION 6 — DEVELOPER TRANSITION ISSUES

Case Type 10 — Incomplete or Misleading Financial Handover

Scenario

Developer turned over HOA with:
inaccurate reserve balances
missing records

What Went Wrong

Poor transition
lack of verification

Court Focus

accuracy of financial representation

Outcome

disputes between HOA and developer

financial recovery efforts

Key Lesson

Never accept financial records without verification

SECTION 7 — WHAT COURTS CONSISTENTLY EXPECT

Across cases, courts expect:

proper use of funds

accurate financial records

transparency

adherence to governing documents

consistent enforcement

FINAL SUMMARY

Most Common Legal Triggers

misuse of funds

lack of transparency

weak controls

poor planning

inconsistent enforcement

Final Rule

If you follow Volumes 1–6, you reduce legal risk dramatically

STRATEGIC INSIGHT

This appendix does something powerful:

It connects accounting mistakes → real legal consequences

That changes behavior.

WHAT IS IN FINOVATEPRO

Embedded into the system:

warnings before risky actions

compliance prompts

legal-risk alerts

From accounting software → risk management platform

APPENDIX 3: HOA FINANCIAL STATEMENTS (JS MORLU FORMAT)

Operating Fund + Reserve Fund | Clean | Transparent | Decision-Ready

1. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

As of [Month End Date]

FORMAT (Fund-Based Presentation — Preferred)

Balance Sheet			
<i>As of month end</i>			
	Operating Fund	Reserve Fund	Total
ASSETS			
Cash & Cash Equivalents	\$123,000.0	\$381,200.0	\$504,200.0
Accounts Receivable	\$45,000.0	-	\$45,000.0
Less: Allowance for Doubtful Accounts	(\$5,000.0)	-	(\$5,000.0)
Prepaid Expenses	\$12,000.0	-	\$12,000.0
Total Assets	\$175,000.0	\$381,200.0	\$556,200.0
LIABILITIES & FUND BALANCES			
LIABILITIES			
Accounts Payable	\$30,000.0	-	\$30,000.0
Accrued Expenses	\$10,000.0	-	\$10,000.0
Deferred Revenue	\$15,000.0	-	\$15,000.0
Total Liabilities	\$55,000.0	-	\$55,000.0
FUND BALANCES			
Operating Fund Balance	\$120,000.0	-	\$120,000.0
Reserve Fund Balance	-	\$381,200.0	\$381,200.0
Total Fund Balances	\$120,000.0	\$381,200.0	\$501,200.0
Total Liabilities & Fund Balances	\$175,000.0	\$381,200.0	\$556,200.0
<i>Management-use sample. Tailor classifications and disclosures to the</i>			

Balance Sheet			
<i>association's governing documents, reserve study, and auditor requirements.</i>			

JS Morlu Notes

Funds clearly separated

Interfund balances disclosed

AR shown net of allowance

Clean subtotaling

2. STATEMENT OF REVENUES & EXPENSES

For the Month Ended [Date]

Statement of Revenues & Expenses			
<i>For the month ended month end</i>			
	Operating Fund	Reserve Fund	Total
REVENUES			
Regular Assessments	\$100,000.0	-	\$100,000.0
Special Assessments / Reserve Contributions	-	\$50,000.0	\$50,000.0
Late Fees	\$2,500.0	-	\$2,500.0
Interest Income	\$500.0	\$1,200.0	\$1,700.0
Total Revenues	\$103,000.0	\$51,200.0	\$154,200.0
EXPENSES			
Landscaping	\$15,000.0	-	\$15,000.0
Utilities	\$12,000.0	-	\$12,000.0
Insurance	\$8,000.0	-	\$8,000.0
Management Fees	\$10,000.0	-	\$10,000.0
Maintenance & Repairs	\$18,000.0	-	\$18,000.0
Roof Replacement	-	\$75,000.0	\$75,000.0
Total Expenses	\$63,000.0	\$75,000.0	\$138,000.0

Statement of Revenues & Expenses			
Excess (Deficit) of Revenues over Expenses	\$40,000.0	(\$23,800.0)	\$16,200.0
<i>Management-use sample. Tailor classifications and disclosures to the association's governing documents, reserve study, and auditor requirements.</i>			

JS Morlu Notes

Clear split between operating vs reserve

Reserve deficit is visible (important insight)

No mixing

3. STATEMENT OF CHANGES IN FUND BALANCES

For the Month Ended [Date]

Statement of Changes in Fund Balances	
<i>For the month ended month end</i>	
Operating Fund	
Beginning Balance	\$80,000.0
Excess of Revenues over Expenses	\$40,000.0
Distributions / Refunds to Members	-
Ending Balance	\$120,000.0
Reserve Fund	
Beginning Balance	\$405,000.0
Excess (Deficit) of Revenues over Expenses	(\$23,800.0)
Transfers / Adjustments	-
Ending Balance	\$381,200.0
<i>Management-use sample. Tailor classifications and disclosures to the association's governing</i>	

Statement of Changes in Fund Balances	
<i>documents, reserve study, and auditor requirements.</i>	

JS Morlu Notes

Shows movement clearly

Ties directly to balance sheet

Highlights reserve usage

4. STATEMENT OF CASH FLOWS (RECOMMENDED)

For the Month Ended [Date]

Statement of Cash Flows	
<i>For the month ended month end</i>	
Operating Activities	
Cash Received from Assessments	\$95,000.0
Cash Received from Other Revenue	\$3,000.0
Cash Paid for Expenses	(\$60,000.0)
Net Cash from Operating Activities	\$38,000.0
Reserve Activities	
Reserve Contributions / Special Assessments Received	\$50,000.0
Reserve Interest Received	\$1,200.0
Capital Expenditures Paid	(\$75,000.0)
Net Cash from Reserve Activities	(\$23,800.0)
Net Change in Cash	\$14,200.0
Beginning Cash	\$490,000.0
Ending Cash	\$504,200.0
<i>Management-use sample. Tailor classifications and disclosures to the association's governing documents, reserve study, and auditor requirements.</i>	

5. BUDGET VS ACTUAL (BOARD CRITICAL REPORT)

Budget vs Actual				
<i>Board management view for current month</i>				
Category	Budget	Actual	Variance	Variance %
Regular Assessments	\$98,000.0	\$100,000.0	\$2,000.0	2.0%
Special Assessments / Reserve Contributions	\$45,000.0	\$50,000.0	\$5,000.0	11.1%
Late Fees	\$2,000.0	\$2,500.0	\$500.0	25.0%
Operating Interest Income	\$400.0	\$500.0	\$100.0	25.0%
Reserve Interest Income	\$1,000.0	\$1,200.0	\$200.0	20.0%
Landscaping Expense	\$14,500.0	\$15,000.0	\$500.0	3.4%
Utilities Expense	\$11,500.0	\$12,000.0	\$500.0	4.3%
Insurance Expense	\$7,500.0	\$8,000.0	\$500.0	6.7%
Management Fees	\$10,000.0	\$10,000.0	-	-
Maintenance & Repairs	\$17,000.0	\$18,000.0	\$1,000.0	5.9%
Roof Replacement Expense	\$70,000.0	\$75,000.0	\$5,000.0	7.1%
Total Revenue	\$146,400.0	\$154,200.0	\$7,800.0	5.3%
Total Expenses	\$130,500.0	\$138,000.0	\$7,500.0	5.7%
Net Surplus (Deficit)	\$15,900.0	\$16,200.0	\$300.0	1.9%
<i>Management-use sample. Tailor classifications and disclosures to the association's governing documents, reserve study, and</i>				

Budget vs Actual				
<i>auditor requirements.</i>				

JS Morlu Insight

Variance explanation must be included (not optional)

6. RESERVE SUMMARY (HIGH-IMPACT REPORT)

Reserve Summary		
<i>High-impact reserve funding view</i>		
Metric	Value	Commentary
Ending Reserve Balance	\$381,200.0	Ending reserve fund balance from roll-forward
Reserve Study Required Balance	\$600,000.0	Most recent reserve study estimate
Percent Funded	63.5%	Ending reserve balance divided by reserve study requirement
Current Month Reserve Contributions	\$50,000.0	Current month reserve billing / contributions
Current Month Reserve Interest	\$1,200.0	Interest earned on reserve cash
Current Month Reserve Spend	\$75,000.0	Reserve / capital project spending
Reserve Funding Status	Moderately Underfunded	
<i>Management-use sample. Tailor classifications and disclosures to the association's governing documents, reserve study, and auditor requirements.</i>		

Interpretation

Moderately underfunded — risk building

7. REQUIRED DISCLOSURES (CRITICAL)

Example Note:

Reserve Funding Disclosure

“The Association’s reserve fund is intended to fund major repairs and replacements. As of [date], the reserve balance is \$380,000 compared to an estimated requirement of \$600,000 based on the most recent reserve study. The Association may require increased contributions or special assessments in the future.”

Other Required Notes

accounting method (accrual)

fund accounting policy

contingencies (lawsuits, etc.)

related party transactions

8. BOARD SUMMARY (ONE PAGE)

Financial Health Snapshot

Cash: \$500,000

Operating surplus: \$40,000

Reserve deficit this month: \$(23,800)

Reserve funding: 63%

Key Risks

Reserve underfunding

Capital spending exceeding contributions

Potential future special assessment

FINAL RULE (JS MORLU STANDARD)

Financial statements must tell the truth clearly—not hide it in complexity

WHAT IT DOES FOR FINOVATEPRO

Embed format:

Boards understand instantly

Auditors trust outputs

Banks accept statements

Homeowners see transparency

That’s a competitive moat

APPENDIX 4: MONTHLY CLOSE CHECKLIST (CIRA / HOA)

JS Morlu Audit-Grade Close | Fund Integrity | Transparency | Control

PURPOSE

This checklist ensures that each month:
 financial records are complete
 funds are accurate and not mixed
 reports are reliable
 documentation is audit-ready

CORE PRINCIPLE

If the close is weak, the financial statements cannot be trusted

SECTION 1 — CLOSE TIMELINE

Day	Activity
Day 1–2	Complete transactions
Day 3–4	Reconciliations
Day 5	Fund validation
Day 6	Financial statements
Day 7	Review and lock

SECTION 2 — TRANSACTION COMPLETION

- All assessments billed
- All homeowner payments recorded
- All vendor invoices entered
- All vendor payments recorded
- All accruals posted
- All prepaids updated

Key Test

No material transaction should remain unrecorded

SECTION 3 — CASH & BANK RECONCILIATION

- Bank statements obtained
- All transactions matched
- Outstanding items identified
- Differences investigated and resolved
- Reconciliation documented

Critical Rule

Cash per books must equal bank balance

SECTION 4 — ACCOUNTS RECEIVABLE (ASSESSMENTS)

- AR aging report generated
- Total AR tied to general ledger
- Delinquencies reviewed
- Late fees applied (if applicable)
- Allowance for doubtful accounts evaluated

Key Test

AR reflects real collectible balances

SECTION 5 — ACCOUNTS PAYABLE

- AP aging report generated
- All invoices recorded
- AP tied to general ledger
- Unrecorded liabilities reviewed

Key Test

All obligations are captured

SECTION 6 — FUND RECONCILIATION (MOST IMPORTANT)

- Operating fund reconciled
- Reserve fund reconciled
- Special assessment funds verified
- Interfund balances reviewed

Critical Rule

Funds must not be mixed

SECTION 7 — EXPENSE REVIEW

- All expenses reviewed
- Operating vs reserve classification confirmed
- Unusual transactions investigated
- Large or one-time items explained

Red Flag Check

- Any routine expense in reserves?
- Any capital expense in operating?

SECTION 8 — RESERVE FUND VALIDATION

- Contributions recorded correctly
- Expenditures properly classified
- Reserve balance tied to records

- Reserve activity aligns with plan

Key Test

Reserve activity matches long-term purpose

SECTION 9 — BUDGET VS ACTUAL REVIEW

- Budget vs actual report generated
- Variances identified
- Material variances explained
- Corrective actions documented

Critical Rule

No unexplained variances

SECTION 10 — FINANCIAL STATEMENTS PREPARATION

- Balance Sheet prepared (by fund)
- Income Statement prepared
- Statement of Changes in Fund Balances prepared
- Cash Flow Statement prepared (if applicable)
- Reserve summary prepared

Key Test

Statements tie and are internally consistent

SECTION 11 — DISCLOSURE REVIEW

- Reserve funding disclosed
- Significant events disclosed
- Related party transactions disclosed
- Contingencies reviewed

Key Rule

Disclosures must tell the full story

SECTION 12 — DOCUMENTATION (AUDIT PACK)

- Bank reconciliations saved
- AR aging saved
- AP aging saved
- Expense support filed
- Board approvals documented
- Journal entries supported

Golden Rule

If it is not documented, it does not exist

SECTION 13 — INTERNAL CONTROL CHECK

- Segregation of duties maintained

- Approvals documented
- No unauthorized transactions
- Review completed by independent party

Key Test

System prevents errors and misuse

SECTION 14 — FINAL REVIEW (BOARD / MANAGEMENT)

- Financials reviewed
- Key risks identified
- Action items noted
- Questions resolved

Key Question

“Do we trust these numbers?”

SECTION 15 — PERIOD CLOSE & LOCK

- Period marked complete
- System locked
- Changes restricted
- Audit trail preserved

Critical Rule

No silent changes after close

SECTION 16 — CLOSE CERTIFICATION

Prepared By:

Name: _____

Date: _____

Reviewed By:

Name: _____

Date: _____

Certification Statement

“I confirm that the monthly close has been completed in accordance with the Association’s accounting policies and that the financial statements are accurate to the best of my knowledge.”

SECTION 17 — RED FLAG CHECKLIST (FINAL)

- Cash does not reconcile
- AR unusually high
- Reserve fund declining unexpectedly
- Large unexplained expenses
- Missing documentation
- Budget significantly exceeded

If any checked → escalate immediately

FINAL RULE

If the close is rushed, the risk is hidden

STRATEGIC INSIGHT

Most HOAs:

skip steps

rely on memory

fix issues later

That creates:

errors

distrust

legal exposure

WHAT THIS APPENDIX DOES

Turns closing into a repeatable system

Makes financials defensible

Supports audit readiness every month

APPENDIX 5: 50-STATE HOA / CIRA AUDIT-AND-REVIEW REQUIREMENT MATRIX

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
<p><i>Column A = State; Column B = whether a statewide audit and/or financial review is required (including conditional / entity-limited rules); Column C = statutory citation or, where no affirmative mandate was identified, a negative finding note.</i></p>		
<p>Last legal research date: April 18, 2026</p>		
State	Audit / Financial Review Requirement Summary	Actual Citation of Law
Alabama	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Alaska	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Arizona	Condominiums and planned communities: annual financial audit, review, or compilation required; governing documents may require an annual CPA audit.	A.R.S. §§ 33-1243(J), 33-1810.
Arkansas	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
California	Associations with gross income exceeding \$75,000 must obtain a review of the annual financial statement; separate board financial review requirements also apply.	Cal. Civ. Code §§ 5305, 5500-5502.

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
Colorado	No statewide audit-or-review mandate identified; Colorado law requires disclosure of the most recent available audit or review, and an audit/review may be required by bylaws or by board/owner vote.	C.R.S. §§ 38-33.3-209.4, 38-33.3-303.
Connecticut	Older condominium regime only: annual certified audit during declarant-control period; afterward, owners holding at least 25% of voting power may petition for an independent audit not more than once in any 12-month period. No general statewide audit/review mandate identified under newer CIOA-based regime.	Conn. Gen. Stat. § 47-81.
Delaware	Condominium/co-op associations with more than 50 owners: independent audit at least every 3 years and independent CPA review in each intervening year; if the association has fewer than 100 owners, it may satisfy the audit requirement with a review if the association so resolves.	25 Del. C. § 81-306(a)(6).
Florida	Condominiums, HOAs, and cooperatives: annual financial-report ladder based on annual revenues—cash-receipts report below threshold; compilation, review, or audit at higher thresholds. HOAs with at least 1,000 parcels must prepare audited financial statements regardless of revenue.	Fla. Stat. §§ 718.111(13), 720.303(7), 719.104(4).
Georgia	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Hawaii	Condominium associations: annual audit required, plus annual unannounced verification of cash balances; associations	Haw. Rev. Stat. § 514B-150.

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
	with fewer than 20 units may waive the annual audit by majority vote.	
Idaho	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Illinois	No statewide mandate to perform an audit or review; annual financial disclosure may be satisfied either by an itemized accounting or by a consolidated annual independent audit report.	765 ILCS 160/1-30(i); 765 ILCS 605/18(a)(7).
Indiana	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Iowa	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Kansas	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Kentucky	Planned communities and condominiums: annual financial-report ladder based on annual revenues / cash receipts and disbursements—cash basis, compilation, review, or audit depending on size.	KRS §§ 381.794, 381.9197.
Louisiana	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Maine	No statewide HOA/CIC audit-or-review mandate identified in the	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
	principal state association statute(s) reviewed.	association statute(s) reviewed as of 2026-04-18.
Maryland	Condominiums only: owners holding at least 5% of the interests may require an audit by an independent certified public accountant, but not more than once in any 12-month period. No general statewide HOA audit mandate identified.	Md. Code, Real Prop. § 11-116(b).
Massachusetts	No general association-wide audit mandate identified; any unit owner or first mortgage holder may, at that party's own expense, cause the books and records to be examined and the statements independently reviewed or audited.	Mass. Gen. Laws ch. 183A, § 10(c).
Michigan	Condominium associations with annual revenues greater than \$20,000: annual independent audit or review by a CPA unless a majority of association members vote each year to opt out.	Mich. Comp. Laws § 559.157(2)-(3).
Minnesota	Annual CPA review of the association's financial statements unless owners holding at least 30% of the votes waive the review within 60 days after the fiscal year-end; the board may still cause a review or audit.	Minn. Stat. § 515B.3-121.
Mississippi	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Missouri	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Montana	No statewide HOA/CIC audit-or-review mandate identified in the	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
	principal state association statute(s) reviewed.	association statute(s) reviewed as of 2026-04-18.
Nebraska	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Nevada	Common-interest communities: review or audit required based on annual budget / reserve-study triggers; 15% of units can force an audit in certain years.	Nev. Rev. Stat. § 116.31144.
New Hampshire	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
New Jersey	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
New Mexico	HOAs: at least every 3 years the board must provide a financial audit, review, or compilation prepared by an independent CPA and make it available to lot owners within 30 days. No broader statewide condo mandate identified here.	N.M. Stat. Ann. § 47-16-10.
New York	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
North Carolina	Older condominium regime only: annual outside audit required. Under the newer Condominium Act and Planned Community Act, no general annual audit mandate identified, but a compilation, review, or audit may be required by board action or by owner vote at a duly called meeting.	N.C. Gen. Stat. §§ 47A-20, 47C-118, 47F-3-118.

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
North Dakota	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Ohio	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Oklahoma	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Oregon	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Pennsylvania	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Rhode Island	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
South Carolina	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
South Dakota	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Tennessee	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
		association statute(s) reviewed as of 2026-04-18.
Texas	Condominiums: annual independent audit of records required; must be performed by a CPA if required by bylaws, by board vote, or by majority vote of owners. No general statewide HOA audit mandate identified.	Tex. Prop. Code § 82.114(c).
Utah	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Vermont	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Virginia	No statewide HOA/CIC audit-or-review mandate identified; statutes require GAAP-compliant books and records, but no affirmative statewide audit/review rule was identified in the principal association acts reviewed.	Va. Code §§ 55.1-1815, 55.1-1945 (records / GAAP requirements).
Washington	Condominiums under chapter 64.34 RCW: annual financial statement required; 50 or more units must obtain an annual CPA audit; fewer than 50 units must obtain an annual audit unless owners other than the declarant holding 60% of the votes waive the audit for that year. No broader statewide HOA mandate identified here.	Wash. Rev. Code § 64.34.372.
West Virginia	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.

50-State HOA / CIRA Audit-and-Review Requirement Matrix		
Wisconsin	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Wyoming	No statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	No affirmative statewide HOA/CIC audit-or-review mandate identified in principal association statute(s) reviewed as of 2026-04-18.
Legend		
Green	No affirmative statewide HOA/CIC audit-or-review mandate identified in the principal state association statute(s) reviewed.	
Yellow	Conditional, entity-limited, owner-petition, or waiver-based rule; or no general statewide mandate but related statutory mechanism exists.	
Orange	Express statewide audit/review/reporting rule identified.	