Beyond the Balance Sheet

What Your HOA’s Financial Reports Aren’t Telling You

THE ARIZONA BOARD’S FINANCIAL INTELLIGENCE FIELD GUIDE

A decision-ready toolkit for interpreting operating performance, reserves, delinquency exposure, and capital commitments—before they become assessment surprises.

Includes a financial dashboard, a worked example, a 12-question Board challenge, and a 30-day action plan.

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01 / The Financial Packet Is Not the Financial Position

Five reports can be technically accurate—and still leave a Board with the wrong conclusion.

A positive bank balance is not the same as available cash. A favorable budget variance may reflect delayed work rather than efficiency. And a reserve balance tells little about whether the association can fund its next major project.

Boards need to interpret financial statements as a connected system: operating cash, restricted or designated reserves, unpaid assessments, vendor liabilities, contractual commitments, and the timing of future capital expenses.

The central question: After obligations and expected spending, how much flexibility does the association actually have?

BOARDROOM QUESTIONS

- Which cash is available for routine operations, and which is earmarked for future obligations?
- Are apparent savings the result of improved costs or work that has not yet happened?
- What is the next significant expenditure not obvious from this month's income statement?

02 / Six Numbers Worth Asking for Every Month

A one-page dashboard should make emerging exposure visible before the annual budget cycle.

1. Unrestricted operating liquidity: Operating cash minus near-term payables and committed outflows.
2. Operating variance: Actual versus budget, with explanation of recurring versus timing differences.

3. Assessment collection performance: Current collections, 30/60/90+ day delinquency buckets, and trends. 4. Reserve position: Balance, current contributions, planned withdrawals, and upcoming projects.

5. Contract escalation: Known vendor price increases, renewal dates, and uninsured or unbudgeted exposures. 6. Capital collision window: The next 24–60 months of major replacement needs.

The dashboard is a management tool, not a substitute for accounting statements or a professional reserve study.

MONTHLY BOARD DASHBOARD / FILL IN WITH YOUR ASSOCIATION'S DATA

Measure	This month	Trend / explanation
Operating cash after committed payments	$ _____	_____
Year-to-date operating variance	$ _____	_____
Assessments 60+ days delinquent	$ _____	_____
Reserve balance / monthly contribution	$ _____	_____
Known vendor increases / renewals	$ _____	_____
Major capital work in next 24 months	$ _____	_____

03 / The Difference Between a Surplus and a Delay

A favorable variance is only useful when the Board understands its cause.

Imagine a community finishes the third quarter $48,000 under budget. That looks positive until the Board discovers $32,000 of postponed asphalt repairs and $11,000 of landscape rehabilitation that will still be required.

Only $5,000 of the variance may represent actual cost reduction. The rest is deferred spending, and some of it may increase if postponed.

Illustrative example only: $48,000 reported favorable variance – $32,000 deferred asphalt – $11,000 deferred landscape = $5,000 potential genuine savings. Actual accounting treatment depends on the association's records and accounting basis.

Ask management to annotate variances: permanent savings, seasonal timing, unperformed work, unbudgeted cost, or accounting reclassification.

BOARDROOM QUESTIONS

- Which budget variances will reverse next quarter?
- Has any deferred work increased physical risk or future cost?

04 / Cash, Reserves & the Illusion of Flexibility

The balance on a statement is a snapshot; financial resilience is a forecast.

A reserve account with a six-figure balance may still be underfunded if roofs, paving, painting, or mechanical systems are approaching replacement in the same period. Equally, a low operating cash balance can signal a timing issue—or a structural mismatch between assessment income and recurring expenses.

Compare the reserve study's component schedule with current contractor estimates and the association's actual cash flow. In Arizona, heat, ultraviolet exposure, irrigation conditions, and seasonal weather can affect replacement timing, but useful life must be evaluated by qualified professionals for the specific property.

Decision test: If two major assets fail within 18 months, can the association pay without interrupting operations or making an emergency assessment? Do not assume a statutory reserve funding percentage applies universally; check the declaration and obtain association-specific advice.

BOARDROOM QUESTIONS

- What is the most recent reserve study update date?
- Which components have the largest uncertainty in remaining life or replacement cost?

05 / Delinquency Is a Forecasting Problem

The number of overdue accounts matters less than their age, concentration, and trajectory.

An association with $40,000 in delinquent assessments spread across many recently late accounts faces a different collection risk from one with the same balance concentrated in a few long-overdue accounts.

Ask for a rolling aging schedule, historical recoveries, approved payment arrangements, and expected collection costs. Avoid treating all receivables as cash that will arrive on schedule.

Collections and lien remedies are legally sensitive. Boards should apply counsel-approved procedures and verify the current Arizona statutory framework before taking enforcement action.

COLLECTIONS SNAPSHOT / MONTHLY

Aging category	Balance	Change from prior month
Current / not overdue	$ _____	_____
1–30 days	$ _____	_____
31–60 days	$ _____	_____
61–90 days	$ _____	_____
Over 90 days	$ _____	_____

06 / The Capital Collision Test

Two projects occurring together can create more stress than either project alone.

Build a five-year schedule of major expenses, not merely a list of reserve components. Include expected timing, estimated cost range, confidence in the estimate, and funding source.

Illustrative scenario: A community expects $185,000 for paving in year two, $120,000 for exterior painting in year three, and $95,000 for irrigation upgrades in year three. Even if each project is individually manageable, the combined $215,000 in year three may exceed expected reserve inflows.

Stress-test the schedule for 10%, 20%, and 30% cost overruns, as well as a project moving one year earlier. These are planning scenarios—not predictions.

CAPITAL COLLISION WORKSHEET

Project	Target year	Cost range	Funding gap?
_____	_____	$ _____	_____
_____	_____	$ _____	_____
_____	_____	$ _____	_____
_____	_____	$ _____	_____

07 / What an Annual Financial Review Does—and Does Not—Tell You

Independent financial reporting is important. It is not a replacement for Board oversight.

Arizona planned communities generally must provide for an annual audit, review, or compilation unless governing documents require a CPA audit. A.R.S. § 33-1810 provides for completion within 180 days after fiscal year-end and availability to members upon request within 30 days of completion. Condominium associations have a comparable provision under A.R.S. § 33-1243(J).

An audit, review, and compilation provide different levels of accountant involvement and assurance. Boards should understand which service they have engaged and why. Even an audit does not certify that reserves are sufficient or that every management decision is financially sound.

Board members should read the accountant's report alongside budget performance, bank reconciliations, reserve schedules, and management's explanation of unusual balances. Confirm the governing documents and current statutory language with qualified advisers.

BOARDROOM QUESTIONS

- Was an audit, review, or compilation performed—and what level of assurance does it provide?
- What adjustments, exceptions, or recommendations require a documented response?

08 / Financial Controls That Actually Matter

The strongest financial controls make errors harder to hide and easier to correct.

Look for documented approval limits, independent review of bank reconciliations, segregation of payment initiation and approval where feasible, controls on reserve transfers, and periodic review of vendor master data.

For smaller associations, full segregation of duties may be difficult. Compensating controls—such as a second Board review of bank statements and disbursement registers—can still reduce risk.

An effective Board should know who can initiate payments, who can approve them, who can modify vendor banking information, and who verifies that completed work matches invoices.

BOARDROOM QUESTIONS

- Can one person create a vendor, change banking instructions, and authorize payment?
- How are emergency expenditures documented and reported back to the Board?

09 / Twelve Questions for the Next Board Meeting

Use these prompts to move the discussion from reporting to decision-making.

1. What is our true unrestricted cash after committed payments?
2. Which favorable variances represent postponed work?
3. What is our largest unexpected expense exposure?
4. Which contracts renew in the next 12 months?

5. How much of our receivables is over 60 days old?
6. What is the direction of the delinquency trend?
7. When was our reserve study last updated?
8. Which two capital projects are most likely to overlap?

9. What happens if our largest project costs 20% more?
10. What controls govern reserve transfers and vendor changes?
11. What did our latest audit, review, or compilation identify?
12. What financial decision should we make now rather than defer?

10 / A 30-Day Financial Clarity Sprint

Give the Board a concrete deliverable rather than another standing agenda item.

Days 1–7: Request the last 12 months of operating statements, current bank reconciliations, aged receivables, approved budget, reserve study, capital schedule, and annual accountant report.

Days 8–14: Build the six-number dashboard. Classify material budget variances as structural, seasonal, deferred, or one-time.

Days 15–21: Reconcile the next 24 months of capital needs against reserves and expected contributions. Identify contract escalations and cash-flow pressure points.

Days 22–30: Agree on three prioritized decisions, assign owners, and schedule a follow-up. Record assumptions, uncertainties, and any need for CPA, legal, engineering, or reserve-study input.

BOARD ACTION RECORD

Priority decision	Owner	Due date
_____	_____	_____
_____	_____	_____
_____	_____	_____

11 / Financial Insight Is a Governance Advantage

Good reporting should change what a Board is able to anticipate.

The goal is not to produce more pages of financial statements. It is to connect financial information to the decisions that determine the community's future: what to fund, when to act, how to protect operating stability, and how to communicate responsibly with homeowners.

Thrive Community Management helps Arizona associations connect financial administration with Board support, vendor coordination, long-term planning, and operational accountability.

Talk with Thrive about your community's financial oversight and management priorities.
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SOURCE NOTES & PUBLICATION GUIDANCE

Arizona Revised Statutes: A.R.S. § 33-1810 (planned community annual financial audit/review/compilation); A.R.S. § 33-1243(J) (condominium equivalent); A.R.S. § 33-1805 and § 33-1258 (association financial and other records). Official source: azleg.gov. Statutes and governing documents should be checked at publication. All numerical scenarios are illustrative, not representations of Thrive clients.

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