



*non-profit corporation organized  
under the laws of Arizona*

SCOTTSDALE COUNCIL OF HOMEOWNERS ASSOCIATIONS  
**SCOHA NEWSLETTER**

IN OUR 38th YEAR

MAY 2012

## **Do You Know What Your State Legislators Did This Session That Affects Your Association?**

Several bills affecting homeowners associations will become law on August 2, 2012.

SCOHA's President, Curtis Ekmark, has been closely involved in monitoring the legislature's activities throughout this session and he will provide details on these new laws and how they will affect your association.

Get a jump on analyzing any changes necessary for your association by attending SCOHA's meeting on May 22 at 11:45 a.m.

Please make your reservations as soon as possible, and please note that we must have a reservation to guarantee a lunch and a seat at the meeting. We apologize, but we are not able to accept reservations after Saturday, May 19.

Call Nancy Fagan at 480-945-7098 by noon on Friday, May 18 for reservations or e-mail your reservation to [jeanne@ekmarklaw.com](mailto:jeanne@ekmarklaw.com).

### **SCOHA ANNOUNCEMENTS**

#### **SCOHA's WEB SITE:**

Don't forget to check our web site!

SCOHA's web site address is [www.scottsdalehoa.com](http://www.scottsdalehoa.com).

You can enter the member section by typing hoamember for the password.

#### **OUR NEXT MEETING:**

We'll take the summer off and see you on September 25.

Have a fun and safe summer!

**SCOHA  
DATA TO  
REMEMBER:**

**Tuesday,  
May  
22nd  
11:45 a.m.**

**Lakeview Room  
McCormick Ranch Golf  
Club  
7505 McCormick Pkwy**

**\$15.00  
Reservations  
Required**

**Call Nancy Fagan at  
480-945-7098 by  
Friday, May 18**

**480-922-9292**

**[jeanne@ekmarklaw.com](mailto:jeanne@ekmarklaw.com) • [www.scottsdalehoa.com](http://www.scottsdalehoa.com)**

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# HOA Budgeting Process

## Summary of the April 24, 2012 Meeting

Mitzi Mills, Executive Director at Sun City Grand Community Association, was SCOHA's guest speaker.

She started by explaining that the HOA budgeting process is a year round activity. Since fiscal management relates to and affects all of its other duties and responsibilities, it is essential that the HOA board has a clear understanding of what was budgeted for and that it is monitored monthly, at the very least. The budget should serve as the road map to running the association.

Ms. Mills explained her "red" file method in which she saves information, documents, articles, etc. relating to items that would have an effect on budgeting. For example, she would save an article relating to increased gas prices in her "red" file which would provide a trigger to investigate this further to determine if it is necessary to increase the budget item for gas. She also monitors the Arizona Corporation Commission's web site to see if the utility companies have submitted rate increase applications. Other items to collect and place in the "red" file include: contract increases, insurance increases, pool permits, safety equipment, new laws, weather conditions, payroll taxes and insurance, newspaper articles, consulting and attorney fees.

Throughout the year, the board should compare the written budget narrative, the budget spreadsheet and the annual column on the financial statement. In addition, a key monitoring task is to compare the actual revenues and expenses with those which were projected in the budget. Ms. Mills recommends that the board take immediate action when revenue is lower or expenses are higher than projected in the budget. Make notes and put them in the "red" file. An association cannot prepare a realistic budget for the next year without comparing this year's budget with the actual results.

The board should receive the financial statements on a monthly basis. They serve as a concise picture

of the financial condition of the association. Two major financial statements should be reviewed - the balance sheet and the operating statement.

If the budget is the road map, the balance sheet is the itinerary. It tells you where you are financially at any given time. The balance sheet should list all of the assets and liabilities of the association as well as the "owner's equity."

Assets are resources that are owned by the association that have a monetary value. They can have a physical form such as buildings, machinery and merchandise. However, some assets have no physical form, such as cash, accounts receivable and pre-pays such as insurance. When reviewing the balance sheet, Ms. Mills indicates it is important to remember that the dollar amounts listed do not always indicate the amount of cash available to the association.

Liabilities include such items as prepaid dues and purchases of services and goods that are unpaid (listed as accounts payable).

Owner's equity is also known as retained earnings. As board members, you are responsible for reviewing the financial statements and you will need to make sure your balance sheet is in balance - assets should equal liabilities plus owner's equity. If the balance sheet is not in balance, you need to ensure this problem is immediately resolved. Also, review the net profit and loss figure on the operating statement and compare it to the owner's equity figure on the balance sheet - the two figures should match.

The operating statement is the "photo album" of where you have been and what you did along the way.

Ms. Mills reviewed the most common budgeting mistakes. The first is not enough line items. For instance if the association combines all of its landscaping expenses into one general line item, it

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may be confusing or alarming to an owner reviewing the financial statement. However, if the landscaping expenses are broken into several categories, it provides a clear picture of where the expenses have increased and provides a more valuable tool to the board for the budgeting process.

Another mistake is not keeping good notes throughout the year. Board members should make notes in the narrative binder as to why the association was over or under budget on certain line items, new line items needed for next year's budget and items that should be seasonalized and not just divided by 12 months.

When reviewing the operating statement, remember to look at the big picture. It is essential that the year to date actual is compared to year to date budget and also the remaining budget for the year for each line item. It is also important to look at the previous month when reviewing the operating statement monthly column. You need to review the known expenses for the current month and forecast other expenses you know are in the works.

Another mistake is not sharing the financial information with the homeowners. If you don't already do so, consider providing a line-by-line budget including a narrative to the homeowners. Expand the chart of accounts, include explanations for planned expenditures and make the information available.

The board has a fiduciary duty to plan for future replacement of the assets of the association. This is a key element in the budget process. The reserve fund budget should be the first one prepared. It must be comprehensive, reflect anticipated inflation rates and be based on accurate information. The reserve fund budgets are based on a multi-year approach.

To reduce the risk of an underfunded reserve account, Ms. Mills recommends that an association obtain a formal reserve study by an independent company. The reserves should be funded first. If the association discovers its reserve fund is underfunded, it should call a special meeting of the homeowners to provide this information. The reserve fund should always be prepared first and then the operating budget should be prepared.

**Thanks to everyone who contacted the legislators this session.**

**Through your efforts, we've been able to stop quite a few of the bad HOA bills!**

**Curtis Ekmark will provide his legislative summary at the May 22 meeting.**

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## 2012 SCOHA OFFICERS AND DIRECTORS

Director	Phone No.	E-mail Address
Curtis Ekmark – President	480-922-9292	curtis@ekmarklaw.com
Peter Wheeler Reiss – Vice President	480-994-4386	peterreiss4@gmail.com
Nancy Fagan – Treasurer	480-945-3630	nrfagan@cox.net
Helen Corson – Corporate Secretary	480-991-4734	
Jeanne Malys – Assistant Secretary	480-922-9292	jeanne@ekmarklaw.com
Walt Young	480-994-4331	DEAZWYBY@aol.com
Bob Rogers	480-585-0929	rrogers4542@gmail.com
Jaime Uhrich	480-860-1122	jaimeuhrich@mccormickranchpoa.com

Do you receive the SCOHA meeting announcements, newsletters and legislative Action Alerts by e-mail?

If not, e-mail Jeanne Malys, SCOHA Recording Secretary, at [jeanne@ekmarklaw.com](mailto:jeanne@ekmarklaw.com) and let her know you would like to be added to the e-mailing list.

A bonus for being on the e-mailing list is that you will receive an HOA Tip by e-mail on a regular basis.

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