

# Fiscal Series, Part 2: Budgeting in a CIC

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# Agenda

- Association Funds
- Operating Funds
- Reserve Funds
- Reserve Study
- Annual Budget
- Surplus Funds
- Community Manager's Role
- Records

# Association Funds: Operating Fund Sources

NRS 116.3102

## ➤ The association:

- May collect assessments for common expenses from units' owners (in accordance with the most recently ratified budget);
- May impose and receive payments, fees or charges for the use, rental or operation of common elements and services provided;
- May impose construction penalties, when authorized;
- May impose reasonable fines for violations;

# Association Funds: Operating Fund Sources continued

NRS 116.3102

- The association:
  - May impose reasonable charges for the preparation and recordation of any amendments to the CC&R or any statements of unpaid assessments, and
  - Impose reasonable fees for preparing and furnishing of Resale Packages
    - An association shall not charge any fee not authorized in NRS 116.4109 and
    - An association shall not charge any fee which exceeds any limit set forth in NRS 116.4109.



# Association Funds: Reserve Account Sources

NRS 116.3115(2)(b)

- To ensure adequate funding of the reserve account, the executive board MAY impose any necessary and reasonable assessments against the units in the CIC (based on the reserve study).
  - Board is not required to seek or obtain the approval of the unit's owners.
    - \* Budget process still required.

**Governing documents CANNOT change this rule!**

# Association Funds: Assessments

NRS 116.3115(2)(b)

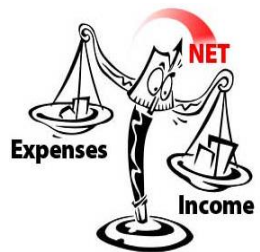
- All common expenses, including the reserves, MUST be assessed against all the units in accordance with the allocations set forth in the declaration.
  - Any reserve assessments imposed by the executive board MUST be based on the study of the reserves.
- Special or reserve assessments should be a result of unforeseen catastrophic events.

NAC 116.425(2)(b)

# Association Funds: Assessments continued

NRS 116.3115

- Assessments **MUST** be paid by the unit owners to the association.
- Assessments **MUST** be ***based*** on a ***budget*** adopted by the executive board at least ***annually***.
- These assessments ***MUST be sufficient to cover all common expenses*** of the association, including the reserves set aside for the major repair, replacement, and maintenance of the common elements.

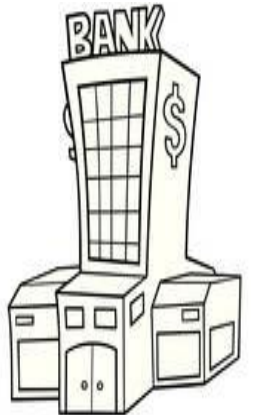




# Association Funds: Banking

NRS 116.311395

- An association SHALL deposit or invest all funds of the association at a financial institution which:
  - Is located in Nevada;
  - Is qualified to conduct business in Nevada; or
  - Has consented to be subject to the jurisdiction of the courts of Nevada.
- All accounts MUST be insured:
  - By the FDIC, the National Credit Union Share Insurance Fund or the Securities Investor Protection Corporation;
  - With a private insurer approved via NRS 678.755; or
  - In a government security backed by the full faith and credit of the Government of the United States.



# Association Funds: Banking continued



- Two basic accounts:
  - The operating fund:
    - Used for the normal day to day maintenance and service operations of the association.
  - The reserve fund:
    - Used for the long-term, major repair and replacement requirements of the association.
- Funds should never be comingled

# Operating Funds: Purpose

NRS 116.3115(1) & NAC 116.453

- Used for the normal day to day maintenance and service operations of the association.
- The operating budget plans for the daily operation of the association, budgeting for items like:
  - Fees to division,
  - Fees to Secretary of State,
  - Required Insurance (premiums & deductible).
    - Minimum required:
      - Property Insurance
      - Commercial General Liability Insurance
      - Crime Insurance
      - Error and Omissions (Directors & Officers) Policy

NRS 116.3113



# Operating Funds: Purpose continued

NRS 116.3115(1) & NAC 116.453

- The operating budget plans for the daily operation of the association, budgeting for items like:
  - Vendors & contractors – pool, landscape, maintenance, security, attorney, etc.
  - Employee salary and benefits,
  - Community Manager,
  - Capital improvements, and
  - Website maintenance (effective 1 Jan '22)



# Operating Funds: Capital Improvements

AO 16-01

- The Division considers a capital improvement for an association an expense for the acquisition or construction of new common element components.
  - Funded from the Operating account, never the Reserve.
- The board may initiate capital improvements ONLY if authorized by the governing documents.
  - May use surplus funds if provided in the declaration.



# Operating Funds: Fees to Division

- An association MUST pay \$4.25 per unit to the Division, submitted with the annual registration form. NAC 116.445
  
- If an association is subject to the governing documents of a master association, the master association shall pay the fees, unless the governing documents provide otherwise. NRS 116.31155(2)
  
- If the association fails to pay the annual fees owed, the administrative penalty equals 10% of fees owed, or \$500, whichever is less. NRS 116.31155(4)
  
- The amount of unpaid fees owed by the association or master association bears interest from the date the fees are due until the date the fees are paid in full. NRS 116.31155(4)



# Operating Funds: Withdrawals

NRS 116.31153

- Money in the Operating Account may NOT be withdrawn without the signatures of at least:
  - 2 directors,
  - 1 director and 1 officer,
  - 2 officers, or
  - The Community Manager and a director or officer.



# Operating Funds: Withdrawals continued

NRS 116.31153

- Money in the Operating Account MAY be withdrawn without the signatures to:
  - Transfer money to the reserve account at regular intervals;
  - Make automatic payments for utilities; or
  - Make electronic transfers to financial institutions, state agencies, or the U.S. Government.





# Operating Funds: Withdrawals continued

NRS 116.31153

- Money in the Operating Account **MAY** be withdrawn using electronic signatures if:
  - The transfer is made pursuant to a written agreement entered into between the association and financial institution;
  - The executive board has expressly authorized the electronic transfer of money; and
  - The association has established internal accounting controls which comply with generally accepted accounting principles to safeguard the assets of the association.



# Knowledge Check



1. Does a board require approval of the unit's owners to impose an assessment for reserves?
2. True/False: Assessments must be based on the annual budget and study of reserves.
3. Assessments must be sufficient to cover \_\_\_\_ \_\_\_\_ \_\_\_\_ of the association.
4. What are the two basic types of accounts and what are they used for?
5. True/False: Operating and Reserve funds may be kept in the same account.

# Reserve Funds

NRS 116.3115(2) & NAC 116.453

- The association's budget **MUST** include a budget for the reserves.
- The reserves may only be used for the repair, replacement and restorations of:
  - the major components of the common elements and
  - any other portion of the common-interest community (CIC) that the association is obligated to maintain, repair, replace or restore, including:
    - roofs,
    - roads and
    - sidewalks, etc.
- Reserves must **NOT** be used for daily (routine) maintenance or operating expenses.



# Reserve Funds: Withdrawals

NRS 116.31153

- Money in the Reserve Account may NOT be withdrawn without the signatures of at least:
  - 2 directors or
  - 1 director and 1 officer.



The Community Manager may NEVER be a signatory on the reserve account!  
NRS 116A.640(5)

# Reserve Study

➤ A reserve study anticipates and prepares for major future expenses in an attempt to ensure that money is available when needed.

NAC 116.425(1)(q)(1)

➤ The projected life expectancy of the major components and the funding needs of the reserves of the association are based upon the association performing appropriate and preventative maintenance for each major component.

➤ Failure to perform such maintenance can negatively impact the remaining useful life of the major components and dramatically increase the funding needs of the reserves of the association.



# Reserve Study continued

NAC 116.425 & NAC 116.427

- The reserve study is a written instrument prepared by a reserve study specialist following their onsite inspection.
  - It assists the association in determining the amount of money needed to fund the Reserve Account over a 30-year projection.
- The executive board shall, at least once every 5 years, cause to be conducted a study of the reserves.
  - The 5-year period for conducting a reserve study begins the day the on-site inspection of major components begins.



# Reserve Study: Funding Plan

NAC 116.425(2)

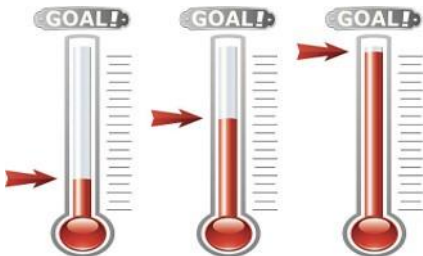
- The board SHALL at least annually, make any necessary adjustment to the funding plan to provide adequate funding for the reserves.
- By law, the reserve fund must be “adequately funded,” meaning sufficient to maintain the common elements:
  - At the level described in the governing documents;
  - Without using operating funds; and
  - Without the use of special or reserve assessments.



# Reserve Study: Funding Plan continued

NAC 116.425(2)

- Every association has different reserve requirements depending on the scope and timing of that association’s reserve projects.
- Current “strength” of the Reserve fund can be determined by three calculations.





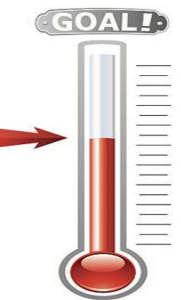
# Reserve Study: Funding Plan continued

NAC 116.425



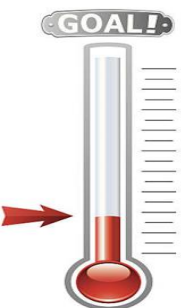
## Full Funding:

the projected balance is equal to the fully funded balance of 100%; all money required to carry out reserve projects for that year is in the reserve account, ready to be spent.



## Threshold Funding:

establishing a reserve funding goal of keeping the reserve balance above a specified percent funded amount [Ex. 75%]; less stringent than full funding and allows room to adjust the funding plan.



## Baseline Funding:

objective of keeping the reserve cash balance at least above zero; **most dangerous type of funding and typically leads to special assessments.**

# Knowledge Check



1. True/False: The association's budget MUST include a budget for the reserves.
2. True/False: Reserve funds are an emergency savings and may be used to offset shortfalls in the operating funds when needed.
3. Can a CAM be a signor on the reserve account?
4. How often must an association have a reserve study conducted?
5. By law, the reserve fund must be \_\_\_\_\_ funded.
6. What are the three funding plan levels?

# Annual Budget

NRS 116.3102(1)(b)

- The association SHALL adopt, and MAY amend budgets.
- Fiscal Year (FY) budgets AND amended budgets require ratification by unit's owners, at a unit's owners meeting.
  - Meeting must comply with notice, agenda and minutes requirements of a unit owners meeting.



# Annual Budget: Distribution

NRS 116.31151

- Between 30 and 60 days before the beginning of the associations fiscal year (annually), the board SHALL prepare, adopt and distribute (by mail OR email) a copy of:
  - The budget for the daily operation of the association – estimated annual revenue and expenditures.
  - The budget to provide adequate funding for the reserves, including:
    - The current estimated replacement cost and remaining life of each major component of the common elements;
    - The current estimate of cash reserves necessary, and the amount set aside to repair, replace or restore the components;
    - A statement as to whether the executive board anticipates that the levy of one or more special or reserve assessments will be necessary; and
    - A general statement describing the procedures used for the estimation and accumulation of cash reserves.



# Annual Budget: Distribution continued

NRS 116.31151

- In lieu of distributing copies of the complete budget, the executive board may mail OR email to each unit owner's designated address a summary, accompanied by written notice that:
  - Complete budgets are available for review at the business office of the association or some other suitable location, not to exceed 60 miles from the community; and
  - Copies of the complete budget will be provided upon request.



# Annual Budget: Distribution continued

NRS 116.31151

- The executive board shall, at the same time that it sends out the budget, make available to each unit owner the collection policy including
  - any fees,
  - fines,
  - assessments or
  - costs that may be imposed against a unit owner if he or she does not pay amounts due in a timely manner.



# Annual Budget: Example

XYZ Condominium Association Operating Budget FY 20

Annual Assessment Per Unit: \$600                      788 Units                      \$50 Due Monthly

	Operating Budget	Per Unit Monthly
<b>REVENUES:</b>		
Assessments	\$472,800	\$50.00
<b>Total Revenue</b>	<b>\$472,800</b>	<b>\$50.00</b>
<b>EXPENSES:</b>		
<b>ADMINISTRATION</b>		
Annual Audit	\$3,500	\$0.79
Legal Fees	\$22,000	\$4.98
Management Contract	\$44,160	\$10.00
Postage & Copies	\$2,500	\$0.57
Office Supplies	\$971.52	\$0.22
Record Storage	\$1,000	\$0.23
<b>Total Administration</b>	<b>\$74,160</b>	<b>\$16.79</b>
<b>COMMON AREA ROUTINE MAINTENANCE</b>		
Clubhouse Utilities	\$4,800	\$1.09
Cleaning & Janitorial	\$10,800	\$2.45
Clubhouse Supplies	\$3,000	\$0.67
Landscaping	\$56,000	\$12.68
Pest Control	\$12,000	\$2.72
Pool Utilities	\$5,000	\$1.13
<b>Total Maintenance</b>	<b>\$91,600</b>	<b>\$20.74</b>
<b>GOVERNMENT FEES</b>		
Nevada SOS	\$100	\$0.02
Ombudsman	\$3,349	\$0.35
<b>Total Government Fees</b>	<b>\$4,449</b>	<b>\$0.37</b>
<b>INSURANCE</b>		
Directors & Officers	\$10,000	\$2.26
Crime	\$16,000	\$3.62
Property	\$8600	\$1.95
Commercial Liability	\$7600	\$1.72
General Deductible	\$20,000	\$4.53
<b>Total Insurance</b>	<b>\$62,200</b>	<b>\$14.08</b>
<b>RESERVE CONTRIBUTION</b>		
Reserve Contribution	\$239,993.28	\$25.38
<b>Total Reserve Contribution</b>	<b>\$239,993.28</b>	<b>\$25.38</b>
<b>TOTAL EXPENSES</b>	<b>\$472,402.28</b>	<b>\$49.96</b>
<b>NET INCOME</b>	<b>\$397.72</b>	<b>\$0.0421</b>

XYZ Condominium Association Reserve Budget FY 20

	Reserve Budget	Required	% Funded
<b>REVENUES:</b>			
Contribution from Operating Fund	\$239,993.28		
1.5% After-1 ax Interest Rate	\$ 7,660		
<b>Total Revenue</b>	<b>\$247,653.28</b>		
<b>RESERVE FUND BALANCE</b>			
Beginning Balance	\$425,581	\$1,288,650	33%
<b>Total Balance Including Revenue</b>	<b>\$673,234.28</b>		
<b>EXPENSES:</b>			
Parks and Landscaping			
Irrigation Booster Pumps - Replace	\$1,750		
<b>Total Expenses</b>	<b>\$1,750</b>		
<b>Projected Ending Balance after Expenses</b>	<b>\$671,484.28</b>	<b>\$1,545,113</b>	<b>43%</b>

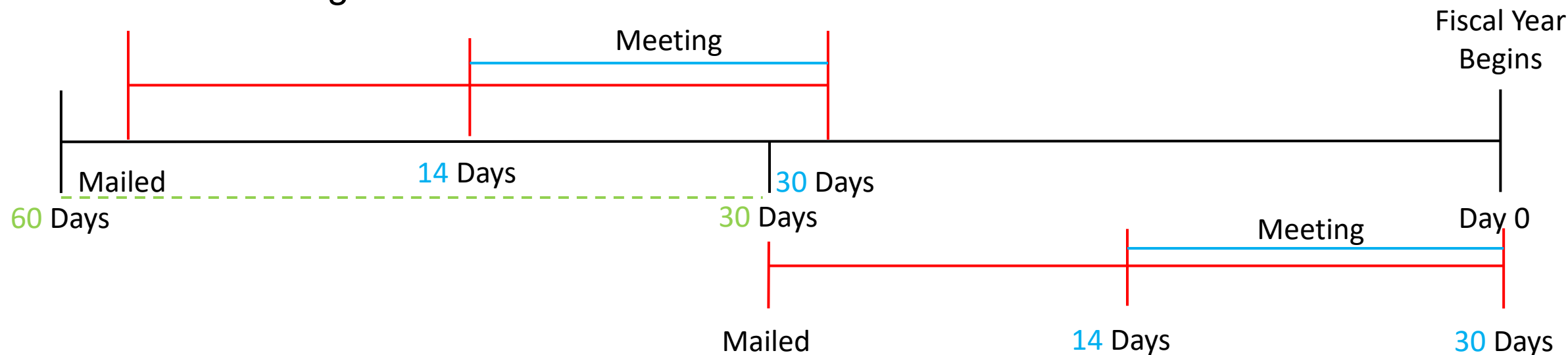
**BUDGET NOTES:**  
Required amounts are determined by the reserve study.

**DISCLAIMER:** Visual aids are provided exclusively as an educational tool. **YOUR ASSOCIATION'S FINANCIAL DOCUMENTS MAY VARY IN FORMAT!** By law, board members are expected to consult appropriate professionals (e.g. community manager, CPA, etc.) as necessary in preparing their financial documents.

# Annual Budget: Ratification

NRS 116.31151(1)

- Unless the declaration imposes more stringent standard, 30 to 60 days before the beginning of the fiscal year of the association:
  - The board shall prepare and distribute a copy of the daily operation budget, the reserve budget, fine schedule (NRS 116.31031(3) and collection policy (NRS 116.31151(4)).
    - Sent to the owners' designated mail OR email address.
  - Not less than 14 days or more than 30 days after mailing, shall set a date for a meeting of the unit's owners to consider ratification.





# Annual Budget: Ratification continued

NRS 116.31151

- At that meeting, the proposed budget is ratified, with or without a quorum, **unless** a majority of all unit owners, or any larger vote specified in the CC&R, reject the proposed budget.
- If the proposed budget is rejected, the periodic budget last ratified by unit owners **MUST** be continued until a new budget is ratified.



# Annual Budget: Meeting Agenda

NRS 116.3108(4)

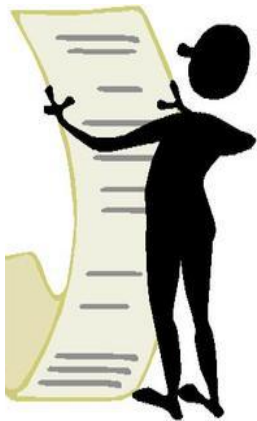
- The agenda for a meeting of the units’ owners must consist of:
  - A clear and complete statement of the topics scheduled to be considered during the meeting, including, without limitation:
    - Any fees or assessments to be imposed or increased by the association; and
    - any budgetary changes.



# Annual Budget: Quarterly Reviews

NRS 116.31083(7)

- At least once every quarter, and not less than once every 100 days, unless the declaration or bylaws impose more stringent standards, the executive board shall review, at a minimum, the following financial information at one of its meetings:
  - A current year-to-date financial statement of the association;
  - A current year-to-date schedule of revenues and expenses for the operating account and the reserve account, compared to the budget for those accounts;
  - A current reconciliation of the operating account of the association;
  - A current reconciliation of the reserve account of the association; and
  - The latest account statements prepared by the financial institutions in which the accounts of the association are maintained (bank statements).



# Knowledge Check



1. Between \_\_\_ and \_\_\_ days before the beginning of the fiscal year, the executive board shall distribute a copy of the budget to each unit owner.
2. What other notice must be included with the budget?
3. If the board chooses to only distribute a summary of the budget, what notice must be given to unit owners?
4. Is a majority vote of unit owners required to ratify a budget?
5. How frequently must an association review its budget?

# Surplus Funds

- Surplus funds may result from different circumstances, some of which are listed below (not all inclusive):
  - maintenance may be deferred,
  - common-elements eliminated, and/or
  - actual costs may differ, causing the reserves to become over funded.
- Reserve contributions **MUST** be based on the reserve study and the account should not be over funded.

NRS 116.3115(2)(b)



# Surplus Funds continued

NRS 116.3114

- Unless otherwise provided in the declaration any surplus funds of the association remaining after payment of common expenses, authorized capital improvements and prepayment of reserves **MUST** be paid to the units' owners in proportion to their liabilities for common expenses



# Surplus Funds: Property Insurance

NRS 116.31135

- The insurance proceeds attributed to the damaged common elements **MUST** be used to restore the damaged area.
- Proceed attributable to units and limited common elements that are not rebuilt **MUST** be distributed
  - to the owners of those units and
  - the owners of the units to which those limited common elements were allocated as their interests may appear, and
  - the remainder of the proceeds **MUST** be distributed to all the units' owners or lienholders, as their interests may appear.



# Community Manager's Role

NRS 116A.630(6)

- A Community Manager SHALL ensure:
  - The financial transactions of the association are current, accurate and properly documented; and
  - There are established policies and procedures that are designed to provide reasonable assurances in the reliability of the financial reporting, including, without limitation:
    - Proper maintenance of accounting records;
    - Documentation of the authorization for any purchase orders, expenditures or disbursements;
    - Verification of the integrity of the data used in business decisions;
    - Facilitation of fraud detection and prevention; and
    - Compliance with all applicable laws and regulations governing financial records.





# Community Manager's Role continued

NRS 116A.630

- A Community Manager SHALL:
  - Prepare or cause to be prepared interim and annual financial statements;
  - Make the financial records of an association available for inspection;
  - Maintain and invest funds in a financial institution as prescribed in NRS 116.311395;
  - Maintain the various funds of the client in separate financial accounts in the name of the client and
    - ensure that the association is authorized to have direct access to those accounts.



# Records: Financial Statements

- These provide information about the financial position, performance and changes in financial position of the association.
- May be prepared using fund accounting or single-column presentation and must:
  - Be in compliance with the Guide and FASB/ASC 606 Guidance
  - Present a balance sheet reflecting the operating, reserve and any other funds of the association.
  - List the assets, liabilities and fund balances or
    - Members equity if a single-column format is used.

NAC 116.451



# Records: Financial Statements continued

- May be prepared using fund accounting or single-column presentation and must: NAC 116.451
  - Include, a month-to-date AND year-to-date presentation of:
    - The statement of revenues and expenses for all operating, reserve and other activities, presenting information about all assessments, revenues and expenses;
    - A schedule comparing the actual expenses with the budgeted expenses;
    - And changes in the fund balances
      - Presented on the balance sheet or statement of revenues and expenses, and
    - A footnote or disclosure which states that the association is in compliance with reserve fund requirements.
  - Be prepared using accrual basis accounting in accordance with GAAP.
  - Be prepared by, or under the supervision of, a person with accounting knowledge and experience.
  - Be distributed monthly to the treasurer, CAM, and all board members.



# Records: Review & Audit

NRS 116.31144(1)

- If the annual budget of the association is:
  - \$45,000-\$75,000:
    - The board SHALL have the financial statement REVIEWED by an independent CPA during the year immediately before the year in which a study of the reserves is to be conducted.
  - \$75,000-\$150,000:
    - The board SHALL have the financial statement REVIEWED by an independent CPA EVERY fiscal year.
  - \$150,000 or more:
    - The board SHALL have the financial statement of the association AUDITED by an independent CPA EVERY fiscal year.



# Records: Financial Records

- The financial or transaction records necessary to support the financial statements of an association, including: NAC 116.0433
  - Receipts,
  - Bank statements,
  - Income tax reports,
  - Contracts,
  - Inventories of properties,
  - Financial obligations,
- Depreciation in property or equipment,
- Contingent liabilities, and
- Any other records deemed necessary by the Division or by the accountants or auditors of an association.
- The association shall keep financial records sufficiently detailed to enable the association to comply with NRS 116.4109. NRS 116.3118



# Knowledge Check



1. Reserve contributions must be based on what?
2. Unless the declaration specifies otherwise, what must be done with surplus funds?
3. What document provides information about the financial position, performance and changes in financial position of the association?
4. True/False: Financial statements must be prepared by, or under the supervision of, a person with accounting knowledge and experience.
5. An association's audit/review of the annual financial statements must be conducted by whom?

# Conclusion!



- Association Funds
- Operating Funds
- Reserve Funds
- Reserve Study
- Annual Budget
- Surplus Funds
- Community Manager's Role
- Records

# Questions?

- <http://red.nv.gov/> - Main Page
- [CICOmbudsman@red.nv.gov](mailto:CICOmbudsman@red.nv.gov) – Email Questions
- [http://red.nv.gov/Content/CIC/Program\\_Training/](http://red.nv.gov/Content/CIC/Program_Training/)