

## HOA HOMEFRONT

# BUDGETS AND RESERVE ACCOUNT INTEREST

BY KELLY G. RICHARDSON

**Q.** Our HOA has operating and reserve investment funds. The monthly assessments include amounts to increase the reserve account balances. Interest earned on the reserve account investments is transferred to operating income monthly rather than to increase the reserve account balance. I believe this treatment overstates income from operations and understates the reserves account balance. What do you think?

I. L., OCEANSIDE

**A.** Your association's practice of transferring reserve account interest to the general account troubled me, but I am not an accountant. I checked with Tim Bradley, an accountant known for working with homeowners associations. Bradley said the interest "was earned in the reserve fund and should be reflected there." If the association is moving that interest to the operating account, he said it should then be reflected as an

interfund transfer between the reserve fund to the operating fund, and included in the annual budget as an operating fund item (interest income-reserve transfer). He concluded by saying "the Board should inform the reserve study company of this transfer since reserve studies contemplate the retention of interest with reserves." Based on Bradley's comments, I checked with a leading reserve study expert, Robert Nordlund of Association Reserves Inc. He said, "but since the funding plan is all about preparing for costs in future years, it is prudent and common that the effects of interest and inflation are incorporated in Funding Plan calculations."

Bluntly, your association should be setting its budget so that its regular assessments meet the anticipated expenses. Siphoning reserve income to subsidize the budget obscures the fact that the association budget is inadequate.

**Q.** Our HOA would like to put the budget and reserve study on the web, giving everyone a one-page notice telling them both were on our website. The idea is so we can reduce cost and save a tree. Our management is telling us everything must go out on paper. Please advise.

L.S., FULLERTON

**A.** The Annual Budget Report and list of disclosures set forth in Civil Code 5300 is required by to be delivered to members annually, either in full or summary form. "Delivery" under Civil Code 4040 may be first class mail, or by email if the member has consented in writing (which consent may be sent via email). So, associations should encourage members to authorize electronic delivery, to save the HOA postage and copy and labor costs. As homeowners become increasingly comfortable with electronic communication, associations should increasingly embrace electronic communication — and their members should do the same.

As to the reserve study, that document is not listed among the several reserves disclosures required by statute. The association can post the study on its website. The other reserve disclosures are included in the Annual Budget Report. If your association does not wish to have its financial information for the world to see, the document could be in the "members-only" portion of the association website.

Readers: The official location for Davis-Stirling or other California statutes is the Legislature website [leginfo.ca.gov](http://leginfo.ca.gov). Click "California Law," then "Civil Code," and then browse for the statute you wish to read.

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