

JANUARY/FEBRUARY 2019

Community Associations Journal



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Hitting A Moving Target:

How to Stay
on Budget this
Fiscal Year

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THE MONEY ISSUE:

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WSCAI'S MEMBER MAGAZINE

The Best 4 Financial Reports

For HOAs & Condo Communities

By Russell Munz

I hear it all the time, the board gets a stack of paper reports but doesn't look at them. The reason why? I suspect information overload and not knowing what to look for in each report. It can be overwhelming for a community board member that isn't used to looking at financial reports.

So how about if you only needed a handful of reports to look at – it would make it simpler and take less time to get a picture of your association's financial health. The following are my top four financial reports for HOAs and condo communities.

Board members have a fiduciary responsibility to exercise due care and diligence when overseeing the community and its funds. These 4 reports are vital tools for protection of association assets, control and planning.

1) Aged Delinquency Report

Over 30 and Over 60 Should Trigger Different Collection Steps

Run Date: 06/27/2018
Run Time: 04:57 PM

Aged Owner Balance

Sample Community
As of: 06/30/2018

Account #	Lot	Name/Address	Unit/Apt #	Current	Over 30	Over 60	Over 90	Total
45	10A	Brooke Berry 45 Magnolia Way		\$4,075.06	\$0.00	\$0.00	\$0.00	\$4,075.06
777	1E	Bobby Brown 777 Magnolia Way		\$1,157.70	\$0.00	\$0.00	\$0.00	\$1,157.70
48	9E	Jennifer Jordan 48 Magnolia Way		\$2,028.43	\$0.00	\$0.00	\$0.00	\$2,028.43

This aged delinquency report/aged owner balance report shows who is behind in their assessments. Different reports can also break out the delinquency by type of charge owed (assessment, late fees, etc). The board needs to review this at every board meeting to see what action needs to be taken at certain late dates (30, 60 days) like sending a demand letter or turning the account over to a collection attorney or agency. If you get behind in collections it can cause a problem with services at your community and worse, you may not be able to collect the entire past due amount depending on your state laws and how long it took you to commence a legal action. Some states only guarantee collection of 9 months past due assessments and it takes a few months for the action to work itself through the courts so if you are owed a year you may only get 9 months – ouch!

2) Comparative Income & Expense Report

Database: COMMUNITY FINANCIALS
ENTITY: 225

Page: 1
Date: 2/12/2018
Time: 09:09 AM

Comparative Income Statement
Income Statement
Community Financials
ABC CONDO ASSOCIATION INC.

Accrual

	Current Period			Year-To-Date			Annual Budget
	Actual Nov 2017	Budget Nov 2017	Variance	Actual Nov 2017	Budget Nov 2017	Variance	
Operating Expenses:							
Electricity	9,545.67	11,333.00	1,787.33	19,392.33	22,670.00	3,277.67	136,000.00
Oil	2,875.00	4,000.00	1,125.00	5,133.49	9,000.00	3,866.51	54,000.00
Gas	3,064.79	5,000.00	1,935.21	4,398.83	10,000.00	5,601.17	60,000.00
Water	642.08	700.00	57.92	1,236.22	1,400.00	163.78	8,400.00
Sewer	753.81	250.00	(503.81)	3,015.25	500.00	(2,515.25)	3,000.00
Insurance	3,274.52	3,400.00	125.48	6,646.51	6,800.00	153.49	40,800.00

Look for variances and ask why / dig deeper

This is my favorite report to run for the association. The Income Statement is meant to inform how the association is doing compared to budget. It shows the current period actual expense, budgeted expense and any variance between the two. It also shows the same thing for the year to date. When you see a variance it is a warning flag to ask why and dig deeper. It can also allow you to make up any shortfall quickly so you don't cripple your community's cash flow and vendor payments. For example if you are spending more on snow removal than budgeted due to an extreme winter you can do a special assessment right away to cover the shortfall while it is still cold and owners are more understanding.

3) Balance Sheet

Sample Community		Run Date: 08/27/2018
BALANCE SHEET		Run Time: 04:56 PM
As of: 06/30/2018		
Assets		
Account #	Account Name	Total
01010	Cash Checking - Operating	\$487,485.71
01070	Cash Savings - Reserves	\$149,428.38
01210	Certificates of Deposit-Reserv	\$300,000.00
01320	Reserve Assmts. Receiv.	\$1,633.44
01340	Late Fees Receivable	\$200.00
01390	Commitment Reser	\$104.00

Snapshot of Bank Balances

A balance sheet is an important part of the financial package. It tells where the association stands with their asset, liability and reserves at a particular point in time. There are three key accounts on a balance sheet that association officials should pay special attention to:

- ▶ **Cash in the Operating Checking Account** – shows ability to meet current operating expenses.
- ▶ **Accounts Payable** – shows how much is owed to vendors and service providers.
- ▶ **Capital Reserves** – shows how much is available for major capital repair and replacement projects in the near and distant future.

4) Bank Reconciliation Report

Bank Reconciliation					
Sample Community		Run Date: 08/27/2018			
As of: 08/27/2018		Run Time: 04:56 PM			
Bank: FAKE - FAKE Sample Bank	Account Balance	\$487,485.71			
GL Account: 01010 - Cash Checking - Operating	+ Uncleared Payments	\$0.00			
GL Account Balance	- Uncleared Deposits	\$487,485.71			
Statement Date	Reconciling Balance	\$0.00			
Bank Statement Balance	- Statement Balance	\$0.00			
	Difference	\$0.00			
Check #	Date	Source / Batch	Reference	Uncleared Deposits	Uncleared Checks
	6/30/2018	GL 1	Beginning Balance Entry	\$487,485.71	\$0.00

The Bank Reconciliation report is used to “prove” that the cash assets shown on the association’s books and balance sheet agree with what the bank statement shows. The reconciliation takes into account outstanding checks that have not been processed by the bank as well as deposits of cash that have not been processed by the bank. There should not be any difference it should be \$0 but if there is a difference it is a flag for you to look into something further.

Summary

As a volunteer board member, you only have so much time to dedicate to operating your community. There are emergencies to deal with, vendors, projects and of course financial and administrative tasks. A large part of your responsibility is your fiduciary responsibility to the community. Overseeing that the community funds are safe and being spent properly is of high importance. 🏠

Additional Reports to Consider

▶ Bank Statements

Bank statements are another tool to ensure you are not a victim of theft. Plus, you can easily see how much money you have in the bank. Bank statements are easier to understand than the balance sheet since we’re all used to looking at them and they show the current amount of money in the bank account(s), recent deposits and withdrawals.

▶ Current Capital Reserve Plan

You don’t need a fancy report, but you should have something that shows how much money you have set aside and the anticipated cost for replacements and larger capital projects. This report is far superior than looking at a capital/reserve bank account which can be deceiving. You may think you have a lot of money saved but if you had a big roofing or paving project it could be wiped out with no funds for other projects.