



Countdown to Year-End!

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The end of the year is approaching and before long we will be setting New Year's resolutions for 2017. But before that new beginning, we need to wrap up 2016. For those associations whose year-end is December 31st there are financial and tax items that need to be addressed by the board and/or management. Let's count down the top 10:

10

IRS Revenue 70-604 Election

This is an annual tax election that must be made by the membership. This is a tax-only election which transfers excess operating fund income to the next year. For most associations, it seldom is actually used in the preparation of

the tax return, but it is important to have as it may give the tax preparer options. Additionally, it may provide some protection in case of an IRS audit. Thus, we recommend that the election is made annually. Ask your tax preparer if you are unaware of this election.

Key Points:

- Membership should make the election.
- This carries over net membership income to the next year.
- It does NOT transfer monies to reserves.
- The determination whether or not to use the election is made at the time of preparation of the tax return.
- Make the election annually, even though the ruling cannot be used on the tax return two years in a row.
- The membership election may occur either before or after the subject year end. If after year end, it needs to be done before the extended due date of the tax return.

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Approve and Schedule Audit and/or Tax Return Preparation

Determine whether your association is going to have an audit. There are various RCW, governing document and good operating practice requirements. If so, approve the audit proposal and get scheduled with a CPA. The association must file a Federal tax return. This is a unique area of tax law, so make sure that the tax preparer is well-versed in association tax law. NOTE: for 12/31/16 year-ends, the revised tax return due date is now April 15th – not March 15th.

Key Points:

- A CPA/auditor is independent of the association.
- To maintain independence, the CPA/auditor cannot prepare the books, or make accounting and management decisions.
- An audit is not an internal control. The board is responsible for the internal control system.

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Budget Ratification

The budget should be prepared by now. The end of the year (or, sooner) is the time to get the information to the membership.

Key Points:

- Comply with RCW and association's governing documents.
- Use the budget as a tool to explain the current and future financial position of the association to the membership.
- Ensure that management is making the proper changes to the assessment billings.

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Bad Debt Allowance and/or Write-Offs

Review outstanding amounts due from unit owners. Determine a reasonable Allowance for Bad Debts. This is an offset to Accounts Receivable on the Balance Sheet. For any accounts where it has been determined that collection time and cost exceeds the benefit, or for those accounts determined to be uncollectible, the board should document in the meeting minutes the approval to write-off.

Key Points:

- Be conservative!
- It is better to have a larger Bad Debt Allowance and not overstate assets.
- If the monies are collected in a later year, bad debt recovery income is recorded.

6

Year-end Payroll & Contract Labor

If there any year-end bonuses, be sure and document approval of such. Ensure that all required payroll and independent contractor reports are completed in a timely manner.

Key Points:

- If there is any concern about whether a person is a vendor (contract labor), consider getting professional advice on the matter.
- Reconcile year-end payroll reports with the general ledger.

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Review Internal Controls

Internal controls are the methods and policies that help ensure the integrity of the financial information.

Review the various internal control and authorization processes that are in place. Consider whether a change is needed anywhere.

Key Points:

- Ensure that the board has control of all cash accounts.
- Review check signing and/or withdrawal authorization process for operating and reserve accounts. Update authorized account signers if there have been changes.
- Document who has authority to make payments, adjust the financial statements, reconcile accounts, write-off account balances, etc. Segregate this authority as reasonably possible.

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Due Between Funds

This may be on your monthly Balance Sheet and often represents the amount receivable or payable between the Operating Fund and the Replacement (Reserve) Fund. Occasionally, there are other funds involved, such as a Special Assessment. Understand what this amount represents and why it exists. If amounts are due between funds, these should be reviewed by the board for the proper year end accounting.

Key Points:

- The board and management should review a reconciliation of the Due Between Funds
- The board and management should determine whether amounts should be written off and/or repaid, according to RCW, GAAP, and board policy, as appropriate.
- Board actions/approvals with respect to write off, repayment, or other accounting adjustments should always be documented in the board minutes.

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Verification of all Bank Account Balances

Ensure that there are bank statements, printout or other verification of balances for ALL cash accounts as of the end of the year. The board should be receiving and reviewing cash account balances at least quarterly; however, at the end of the year is vital. The auditor needs proof of existence of the cash and verification of the amount.

Key Points:

- Record year-end interest income before closing out the books.
- Make all other adjustments, such as voiding old, outstanding checks.

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Final Review of the Year-End Financial Statements

The board should review the final year-end financial statement and ensure that it appears to be materially complete and accurate. While the board can hire a management company or an onsite manager to assist with the accounting, the board still has a responsibility to understand the financial matters of the association.

Key Points:

- Each material Balance Sheet account should be backed up with a report and/or other documentation.
- Variation of income and expense from budget should be discussed and documented.

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Close Out the Year

Once the determination has been made that the financial statements are completed for the year, the year-end is considered to be "closed." While many computerized accounting systems no longer close a prior year and it is possible for adjustments to be made to a previous period, this is not a good practice.

Key Points:

- Once the year-end financial statement is issued to the board, the prior period should not be adjusted.
- Once the year-end financial statement has been issued to the auditor, the prior period should not be adjusted.

Close out the old year and start the new! Time flies; the "Class of 2020" has now entered high school! Don't delay, and make this an important annual procedure for your board and management. 🕒

