***Cagianut’s “Top Ten” – Board Members should know to manage financial affairs of your communities***

**WSCAI Bellingham Roundtables June 18, 2013**

1. Spend more than 3 minutes on the Treasurer’s Report at the monthly board meetings.

* Understand the Financial Statements, ask your Manager questions
* 3 things to look for:
  + Are there “Due to/From” Reserves on the Balance Sheet
  + Is there Net Income or Net Loss on the Income Statement?
  + Is there 1-3 months of monthly expenses in Operations?

1. Are your financial statements “Cash Basis” or Accrual? Understand the Difference.

* Primarily Accounts Receivable. Track them regardless of Cash or Accrual.
* WA RCW Resale Provisions re: Accrual Basis Financial Statements 120 days (64.34.425)

1. Two board signers on reserve accounts

* Board access to reserve accounts (signatories)
* Reserve cash accounts kept separate from operating

1. Understand your reserve study and how it compares to your budget.

* If you can’t budget for the reserve allocation recommendations, explain why in the minutes.
* If you can’t make the budgeted allocation, explain why, and how to repay.

1. Accounts Receivable Bad Debts -- Track the AR Delinquencies report, approve the write offs in the minutes.
2. Review the bank statements and reconciliations at least quarterly if not monthly.
3. Don’t mix operating and reserve expenses.

* Approve reserve expenses in the minutes. (Dollar amount, vendor)
* Learn about fund accounting. It’s where the industry is going.

1. Review your audit report!

* See Cagianut website for audit requirements.

1. File a tax return every year

* Pay tax on the interest income
* Can be more complicated than that; see C&C website-FAQs

1. Review C&C’s FAQs (100) on their website! [www.hoacpa.com](http://www.hoacpa.com)

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**The Ten Commandments of Internal Control for Associations**

1. Thou shalt not sign blank checks, nor leave blank check stock unsecured.

2. Thou shalt deposit all checks in a timely manner (preferably daily). If a deposit is not made daily, then the undeposited funds should be adequately secured.

3. Thou shalt not accept cash. If absolutely necessary to accept cash, then do so only with 2 witnesses, and then generate a receipt for the files.

4. Thou shalt not make checks payable to “Cash”.

5. Thou shalt require invoices, or other type of verification of the expense, on all paid bills. That invoice should be “canceled” in some manner after payment to avoid duplicate payment.

6. Thou shall have two board signers on reserve withdrawals. Thou shalt not allow telephone withdrawals of reserve funds.

7. Thou shalt update signature cards in a timely manner whenever there is a change in board members or change in management personnel. The board may want to consider having a board member deliver/mail the signature cards to the bank.

8. Thou shalt require approval of write-offs of A/R balances by a person other than the person making the deposits and reconciling the banks. The board shall approve all write-offs over a certain amount.

9. Thou shalt review all bank statements and reconciliations at least quarterly for ALL bank accounts - including certificates of deposit.

1. Thou shalt receive financial statements at least quarterly (monthly, is even better).



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**GAAP and Washington State Law for Community Associations**

**WHEN IS AN ANNUAL GAAP FINANCIAL STATEMENT REQUIRED, and AN ANNUAL AUDIT??**

* **Old Act Condos** (pre 7/1/90)- RCW 64.32.170 – No mention of “GAAP” Had a requirement that ALL condos be audited, however, this was superseded by provisions of the New Act, below. HOWEVER, look at your governing documents because IF there is an audit requirement in the document, it overrules this RCW. (Consult your attorney if not clear)

* **New Act Condos** – 64.34.372 – GAAP REQUIRED for ALL condos, “at least annually” - Over 50 units, must be audited annually. Under 50, can be waived by **60% of the owners** (other than the Declarant)
* **Homeowners Associations** – 64.38.045 – GAAP not required, however, “keep financial and other records sufficiently detailed to enable the association to fully declare to each owner the true statement of its financial status” (We recommend GAAP). Audit REQUIRED if total assessments are $50,000 or more, however, can be waived by **67% of owners**

\*\*\*For New Act Condos, since “GAAP” is required on all condos, technically this means at a minimum, a CPA’s “Compilation” report is needed, because “GAAP” means more than “accrual basis financial statements.” It means footnote disclosures and other accounting adjustments that are typically not done by associations, (even if accrual), on a monthly basis.

**MONTHLY FINANCIAL STATEMENTS:**

New Act Condos - 64.34.425(1)(i) Resales – shall include “A balance sheet and revenue/expense statement prepared on an ACCRUAL basis, current to within 120 business days”

**\*\*\*This means that effectively, the MONTHLY financial statements need to be on an accrual, not a cash, basis**.

**FUNDS/RESERVE FUNDS:**

New Act Condos – 64.34.372 – “The funds of an association shall be kept in accounts in the name of the association and shall not be commingled with the funds of any other association, nor with the funds of any manager of the association or any other person responsible for the custody of such funds. Any reserve funds of an association shall be kept in a segregated account and any transaction affecting such funds, including the issuance of checks, shall require the signature of at least two persons who are officers or directors of the association.”

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**Year End Checklist for Treasurers**

1. Choose a year end accountant to perform the audit if required by Washington law. The accountant should be chosen before the end of the year and the work scheduled in a timely manner after year end.

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1. Review the year end outstanding assessments receivable for potential bad debts and determine if there are accounts which need to be written off the books. Determine if there are other accounts for which an allowance for bad debts needs to be setup.
2. Determine that the year end payroll and independent contractor reports are completed and mailed out by their deadlines. This includes W-2s and 1099’s which are due out January 31st.
3. Make any necessary income tax elections, such as Revenue Ruling 70-604, if you are filing form 1120 and if your accountant feels that it is necessary. Many CPAs feel that this election should be made annually no matter what tax form is filed. This is generally done at the time of the annual meeting. (Note: tax returns for a 12/31 Association are due March 15th )
4. Repay any monies due to or due from the replacement fund (reserves), if at all possible. If not possible, document how the repayment will occur.
5. Analyze the year end financial statements and make any corrections before finalizing for the year. For example, if you find that an expense has been coded incorrectly (e.g. a landscape invoice was coded to electricity), ensure that that has been corrected before the year-end is completed.
6. Analyze the year end financial statements and make note of unusual items and provide this to the year end accountant and include analysis in your year end treasurer’s report. For example, if insurance costs rose an unexpected 30%, make note of that.
7. Get ready for the New Year! Ensure the new budget is approved. Adjust assessment amounts to agree with the new budget. Use any financial lessons learned from the prior year and apply to this year.



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