Insurance Claims

Insurance claim accounting can be a source of frustration for Associations (management companies) and their auditors. It is not that the accounting is complicated, it is getting all the information and piecing together the pieces to the puzzle.

Segregate income and repair expenses in separate accounts for each claim.

This is not required by GAAP, but preferred presentation is to separate income and expense as it gives transparency for the Board and auditor. Alternately, prepare a sub-schedule or worksheet of each claim. Without this segregation, there is the potential that the auditor may not be able to issue an audit opinion and/or material internal control comments will be included.

- Record insurance proceeds received as income, not netted to expense
- Record unit owner deductibles as income, not netted to expense
- Keep repair expenses associated with the claim separate from repairs & maintenance expense and/or uninsured losses

Obtain insurance claim documents for each claim

- Proof of Loss, correspondence with adjustor, letters and check copies that accompany proceeds
- Board minutes, e-mail and/or directives

Reconcile each claim separately

- Compare proceeds and expenses to the estimated expenses listed on the Proof of Loss
- Obtain an explanation of differences – shortages in proceeds, excess expenses, etc.
- Ensure that you have authorization to NOT to file a claim or NOT bill a unit owner the deductible.
- If separate worksheet used, reconcile with the general ledger at the end of each month. This would be a summarized, rolling forward schedule until claim is complete.
- Final reconciliation should agree with Proof of Loss or Board directives

Claims in-process at year end

- Expenses – Follow GAAP and accrue expenses for the services rendered as of the end of the year.

- Proceeds – GAAP dictates that proceeds may only be accrued when they have been received or it is <u>certain</u> to be received. Accrue proceeds received after year end, but only up to the amount of the expenses incurred as of year-end.

- Defer unused insurance proceeds - GAAP requires when specific amounts are received and not used by end of the year, the income must be deferred to the next year.

- Provide status of claim as of year-end and date of audit. Potentially, a footnote will be required to disclose (depending on materiality)

Claims after year-end

If event happened prior to year- end, but proceeds/expenses occurred after year-end:

- Disclosure will be required as it is an event during the audit year. Provide appropriate documentation and estimate of loss

If event happened after year end but prior to audit report date:

- Disclose if there is a reasonable possibility of material financial impact to the Association. It will depend on the amount of the claim (or potential claim) and the potential net impact to the Association.

Excess insurance proceeds

We have seen scenarios where the insurance company payment exceeds the actual cost. The company bases their claim payment on a certain underwriting estimate/invoice, and they pay based on their estimates rather than the actual cost. We have not seen that the excess is refunded back to the insurance company and in fact have seen situations where the Association has asked about it, and the insurance company has said the Association is entitled to the amount the insurance company estimates the amount to be, and they won't accept the refund. We have been told that it is like an individual that makes a claim for damage to their car or home. The insurance company pays off based on the claim; however, the individual is under no obligation to fix the dented fender or replace the broken window. From an auditing standpoint, the extra amount would be recorded as income/gain at the point that all costs have been incurred, and the collection of the extra amount is certain.

When there are large excess insurance settlements, disposition of the funds should be documented in the Board meeting minutes. If the amount is large enough and if the monies are not to be used in the Replacement Fund, a tax attorney may need to be consulted.