The Twelve Days of December-- Count Down to Year End Financial Planning for your Association

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WSCAI Journal, December 2013

Year- end financial planning for your Association does not need to be the daunting. Let's break it down into "12 steps" so that by the end of December your board ***Lords will be Leaping*** and ***Ladies will be Dancing*** at the prospects of a Happier New Year through successful planning.

On the first day of December my CPA said to me….. "Understand your reserve study and how it compares to your 2014 budget"

Do you have a recent reserve study? In most cases, a study is required under the Washington Condominium Act, and the Washington Homeowners' Association Act requires one for HOAs with "significant assets" (as defined). Make sure you understand what the study recommends for your 2014 budgeted reserve allocation. The reserve contribution from your 2014 budget, should equate to the reserve study. If it doesn't, your board should have an explanation (documented in the minutes) for why your budget differs from the study. The board should also have a plan for how your budget will eventually achieve the study recommendations. If your board does not agree with the recommendations, have you communicated with your reserve preparer? The reserve fund is the "***Golden Ring***," as these are "sacred monies" – don't be caught unprepared.

On the second day …. "Review your monthly financial statements for unusual items"

In December you will receive your November financial statements. Make note of any unusual/incorrect items to be corrected in the December 31 financial statements. Start to prepare the year end items for the Treasurer's report (include them in the next board meeting minutes) where you will document your analysis of unusual budget fluctuations. Is there a projected "net income" or "net loss"? If so, why? This information is helpful for a year-end audit, as well as future budgeting purposes.

On the third day …. "Review the bank statements and reconciliations for ALL cash accounts"

Every single cash and investment account on the Association Balance Sheet should have a bank statement and reconciliation done, at least quarterly, if not monthly. Certificates of Deposit are a bank account and are no exception. If the bank doesn't provide a year- end "CD" statement, ask them to provide an account history or other proof of the December 31 balance. We have seen frauds occur when a manager had access to CD accounts and "borrowed" the monies – CDs are a large asset and should be monitored.

On the fourth day …. "Review your Accounts Receivable for Uncollectible Accounts, Plan Accordingly"

Compare the Accounts Receivable "Aging" to the Balance Sheet for the most recent month end. Review the delinquencies, discuss them with legal counsel (as appropriate), and determine which accounts should be written off.

The board should approve any necessary write offs and document in the board minutes. This is important regardless of whether your Association is on the "Accrual" or "Cash" method of financial statement reporting. Identify those accounts where collectability is "doubtful" and establish a "Bad Debt Allowance" for the year-end Balance Sheet.

On the fifth day…. "Identify any Due to/From Reserves Accounts, Understand Why they Exist"

Has your Operating account (fund) borrowed money from the reserves account (fund) during the year? If so, why, and what is the plan for repayment? Did your Association "miss" any of the monthly budgeted reserve allocations? Similar to a "borrowing", why were these payments missed, and will a "catch up" payment be made? Is all of this documented in the board minutes? There will be more than "***Drummers Drumming***" at the annual meeting if any reserve borrowings or "missed reserve allocations" are not straightened out and documented.

On the sixth day…. "Look at your projected operating fund to see if you have sufficient amounts for contingencies"

Industry standard is 1-3 months of average monthly expenses in the operating fund. Some mistakenly believe that an Association should not have extra cash in the operating account, since these are non-profit corporations. However, similar to a business, this extra amount is needed because you will likely have to pay your expenses before collecting all of your receivables. When the "unexpected" occurs; it almost always means you will spend more cash than anticipated. Start thinking about controlling costs, and build a "contingency" line item into your next budget. Begin to build up the operating fund to achieve the "1-3 month" standard. You don't want to be ***"Swans a Swimming***" in "red ink". Secure a sufficient operating fund and you'll have the peace of a ***"Turtle Dove***"

On the seventh day…. "Make sure that reserve expenses and operating expenses are clearly segregated"

Review your financial statements to ensure all Reserve Expenses are correctly classified, and approval for those reserve expenses are documented in the minutes. This includes description, dollar amount, and vendor. In the audits our firm conducts, we see a number of situations where an expense is called out in the board minutes as reserves, but classified in the books as operating, and vice-versa. We also see situations where a progress payment (i.e. 50% payment) is recorded as an operating expense, and the 50% balance is classified as a reserve expense, and vice-versa. Correct classification as operating or reserves, with board approval for reserve expenses, is not only important for your financial reporting, but can have tax implications as well. Don't be led astray by "***Pipers Piping***" – make this task a priority.

On the eighth day…. "Are your bank accounts in order?"

Do your policies include two board signers on all reserve withdrawals? Does the bank have current signature cards on file? Due to board turnover and/or management company transition, the banking authorizations may not be current. Revisit your procedure for expense approvals, including credit card purchases.

On the ninth day…. "Plan for employee and independent contractor year end reporting"

If you have employees and/or contractors, ensure the payroll reports are ready for year end, including preparation of W-2's and 1099s by January 31.

On the tenth day…."Have you engaged your year end Audit?"

There are specific CPA Audit requirements in both the Washington Condominium Act and Washington Homeowners' Association Act. (Google those- The Washington Condominium Act requirement is 64.34.372 and the Washington Homeowners' Association requirement is 64.38.045. If you are "Old Act" the requirements default to the "New Act". However, look to your governing documents FIRST). Are you aware of the requirements for your Association and have you engaged a CPA? If you don't qualify under those requirements, but have had unusual activity this year (i.e. Developer Construction Defect Settlement, large Special Assessment), have you considered an audit?

On the eleventh day…. "Have you planned for your year-end tax return?"

Associations, regardless of size, and financial activity, are required to file an annual tax return. This is because the IRS regards them as a corporation, even though they are Washington non-profit corporations. Most Associations file either an "1120-H" or "1120" tax return. Also, have you made any necessary tax elections, such as "Revenue Ruling 70-604", if you are filing form 1120 and your accountant feels it is necessary? Many CPAs believe this election should be filed annually, no matter what form is filed. (Tax returns for a 12/31 year end are due March 15.) Getting your tax affairs in order and having timely filings and payments will avoid the ***"Four Calling (IRS agent) Birds***."

On the twelfth day…. "Get Educated!"

Join WSCAI! Attend classes and conferences. Attend networking events to get to know other board members and managers; share best practices. Read your WSCAI Journal!

………… ***And a Partridge in a Pear Tree…..***

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WSCAI Journal

December, 2013