

# How to Understand Your Association Financials

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# Agenda

Accounting Basics

What are the major reports and what do they show?

Key Indicators- How to watch for them and how to explain them.

Gauges for fraud – how to spot it and how to prevent it.

# Key Take-Aways

- The major financial reports for community associations
- Common issues that arise throughout the year
- The difference between cash and accrual accounting and why it matters
- How to spot potential fraud
- The role of your advisors
- What you need to know to understand investment reports and reserve reports
- The differences when it comes to financials for self-managed HOAs
- Recordkeeping

# Financial Basics

# Reports

## Budgets

- Assist Association with Annual Budget Development, Budget Ratification and Notification to the community

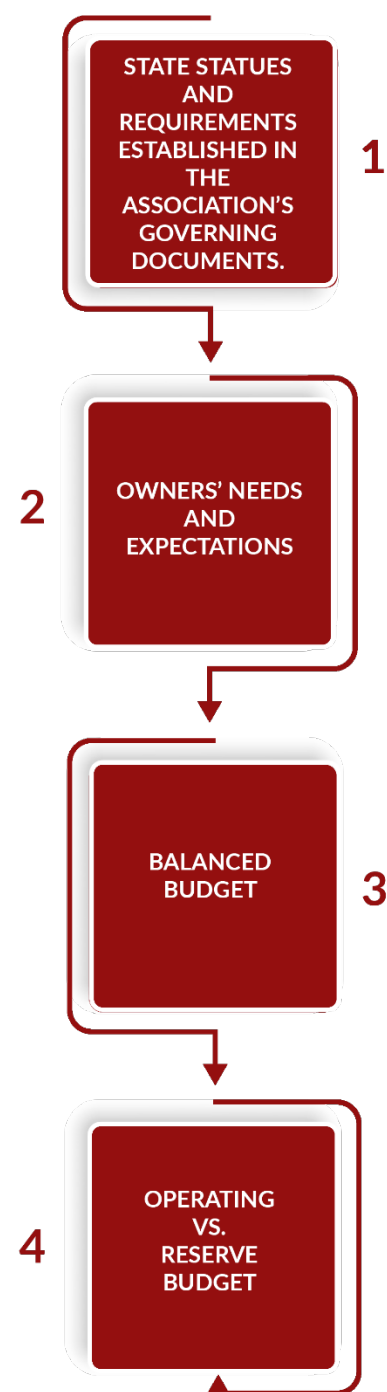
## Reserves

- Facilitate professional review of the community at the direction of the Board
- Review and highlight for the Budget Committee & Board each year's projected replacement needs

## Financial and Monthly Reporting

- Perform all financial transactions & maintain records
- Coordinate annual financial review and taxes
- Produce a monthly report highlighting the Association's financial position

# Reporting Factors



# Budgeting

## Best Practices:

- 12-month budgets
- Policy for non-budgeted, non-recurring expenses
- Competitive Bidding





# Replacement Reserves

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance at Beginning of Year	Estimated Required Annual Contribution	Replacement Fund Balance at End of Year
Asphalt	15	177,377	16,698	10,712	27,410
Concrete	Varies*	412,780	63,138	18,402	81,540
Roofing	20	303,620	61,005	20,218	81,223
Exterior building	10	216,670	68,674	16,443	85,117
Plumbing	30	Varies*	5,163	5,000	10,163
Electrical system	30	Varies*	4,495	3,300	7,795
Doors and Windows	30	Varies*	4,010	1,000	5,010
Fans and vents	12	23,200	5,932	1,439	7,371
Tennis courts	20	Varies*	6,683	2,000	8,683
Signs	17	5,000	983	300	1,283
Retaining wall	25	240,000	22,746	8,691	31,437
<b>TOTALS</b>			<b>\$259,527</b>	<b>\$ 87,505</b>	<b>\$347,032</b>

\*Represents more than one time frame or amount in this category.

# Accounting Rules & Types

GAAP – Generally  
Accepted  
Accounting  
Principles

Accounting Basis

- Cash Basis
- Modified Cash Basis
- Accrual Basis

# Monthly Reports

Balance Sheet – provides a summary of the Community’s financial position at a specific point in time. There are three major components to a balance sheet:

- Assets – Items with future economic benefit (Accounts Receivable/Bank Accounts)
- Liabilities – Future obligations (Accounts Payables/Prepaid Assessment)
- Members Equity – Assets less liabilities (Accumulated Net Income)

# Monthly Reports

Income Statement – provides a record of the Community’s financial activity (income and expenses) for a specific time period.

- Income – Money received or earned in the period
- Expenses – Money spent or cost incurred in the period
- Net Income – Income minus expenses

# Monthly Reports

STATEMENT OF  
INCOME AND  
EXPENSE

AGED OWNERS  
REPORT

AGED  
ACCOUNTS  
PAYABLES

TRIAL  
BALANCE/GL  
DETAIL

BANK  
RECONCILIATION  
INCLUDING BANK  
STATEMENTS

# Reports to Review

- Key Indicators
  - Cash Position
    - Balance Sheet
    - Budget Comparison
  - Reserves
    - Long Term Investments
  - Delinquencies
    - Aging Summary
    - Foreclosures

# Banking Standards

- Operating funds in separate account from reserves
- Operating are checking accounts with high transaction capability
- Reserves are generally money markets with transaction restrictions (#of checks per month)
- Investments in principle secure accounts.
- Lockbox service provides a division of duties as checks are not handled by staff
- When cash flow is low Associations can seek loan fund to bridge the gaps.

# Warning Signs to Look for When Reviewing Financials



1  
A steady decline in the amount of cash on hand.

2  
Significant and/or unexplained differences between actual and budgeted figures for items.

3  
An increase in the amount of owners' assessments owed to the community.

4  
Unusually large legal expenses— unless reason is disclosed.

5  
Absence of a reserve study.

6  
The failure to resolve any differences between bank statements and the financial statements in a timely manner.

7  
Untimely generated, or missing, financial statements.



# Roles and Responsibilities

# Management Role



Roles & Responsibilities of Association  
Management



Financials

Budgets  
Reserves  
Monthly reports  
Collections

# Association Management

## Management

- Implement Board policies and Association covenants
- Manage daily operations of Association
- Serve as a buffer for the Board on day-to-day owner concerns
- Oversight of Association contracts/contractors
- Generalists, not Specialists (e.g. attorneys, auditors, landscapers, etc.)
- Assist the Board in running an orderly corporation, promoting community spirit and protecting each owner's investment.

## Accounting

- Process accounts receivables
- Process weekly accounts payables
- Maintain tax records including W9's and insurance
- Oversight of collections process including late notice and attorney communication
- Assist in audit and financial reviews
- Process owner charges back such as water billing

# CPA VS. Bookkeeper



- CPA – Audits, Taxes, Professional Consultation
- Bookkeeper – Day-to-Day Accounting

# Banker

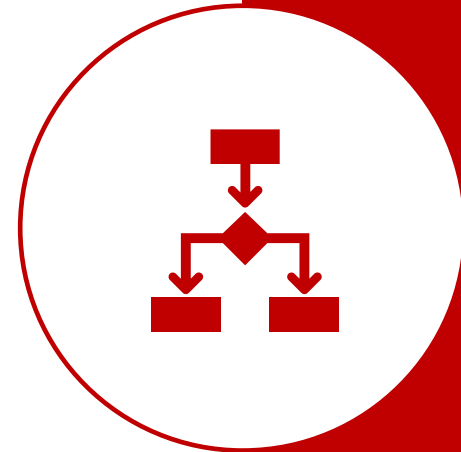


Bank Accounts; Investment Accounts, Loans

# Policies

# Procedures & Controls

- Accounts Payables
- Accounts Receivables



# Investment Policy

- Purpose and Overview
- Roles and Responsibilities
- Investment Objectives
- Investment Guidelines
- Monitoring and Communication
- Conflicts of Interest






# Questions?





LOOKS LIKE WE NEED TO  
HIRE A LANDSCAPER TO  
CLEAN UP THESE LEAVES

ARE YOU SURE YOU  
CAN AFFORD IT?



PRETTY AMAZING WHAT THE HOA IS ABLE TO DO WITH THIS PLACE. YOU'D NEVER BELIEVE WE'RE IN OUR 8TH YEAR WITH DUES OF ONLY \$35 A MONTH.