



Finances

As a board member, one of your most important responsibilities is managing the association's finances. As a fiduciary of the corporation, you must protect assets, budget responsibly, plan for the future and invest wisely, and observe all laws and regulations affecting the association's resources. Association managers and accountants can assist you in each of these areas.

PROTECT ASSETS

Boards should implement every possible means to protect association assets.

- Protect cash assets with checks and balances procedures and conservative investment policies.
- Protect physical assets with adequate insurance coverage.
- Protect cash and physical assets with sound risk-management policies.
- Protect income with fair and consistent collection policies.
- Protect against liability with informed decision making.
- Protect against waste and corruption by exercising due diligence.
- Protect real-estate values with proper maintenance.

TOOL 11.1: *See Checklist for Safeguarding Association Assets located at the end of this section.*

Delinquencies to Total Annual Assessments

3 percent or less	Excellent
4 percent	Very Good
5 percent	Good
5–10 percent	Serious
11 percent or greater	Dangerous

BUDGET RESPONSIBLY

The budget is a formal financial plan that determines the annual assessment. It should cover operations and reserve funding.

■ Develop the budget in an objective, step-by-step manner based on historical data (prior-year budgets) and careful research (Will any of the contractors raise fees this coming year? Will interest rates go up or down?).

- When budgeting expenses, avoid rationalizing (“we won’t need much for maintenance because the property is in good condition”) or projecting (“it will be a mild winter, so electricity expenses can be reduced”).
- Remember to include taxes in the budget—income, real estate, payroll, personal property—and insurance premiums.
- When projecting income, remember that some owners will inevitably default or be late with assessment payments, which will reduce monthly cash flow.
- If possible, develop two-, three-, or five-year budgets to avoid special assessments or a surprise assessment increase.

PLAN FOR THE FUTURE—RESERVES

Reserves—funds set aside for future big-ticket expenses—are an extremely important part of the association’s finances. (Reserves are covered in more detail in the next section.)

OBSERVE FEDERAL AND STATE REGULATIONS

Some federal and state regulations affect community associations with regard to how they manage their finances.

Taxes. Even though community associations are nonprofit organizations, they must file federal, and possibly state and local, income tax returns. Most associations will have at least some income from interest earned on investments. Some will have miscellaneous income from laundry facilities, late charges, special

fees, repair charges, pool use, vending machines, or newsletter advertising. In addition, some associations may be subject to sales, payroll, or property taxes.

Fair Debt Collection. The federal Fair Debt Collection Practices Act (FDCPA) has made abusive debt collection practices illegal. Most community associations are not subject to the federal act, but many fall under state debt collection statutes. Boards should check with the association attorney to ensure that the association is using legal procedures to collect delinquent assessments.

THE ROLE OF THE MANAGER

Financial responsibility for the association rests with the board, but the manager plays an important role in implementing financial policies and carrying out the day-to-day activities of managing finances. Such activities include:

- Collecting assessments
- Following up on delinquencies
- Filing liens
- Reviewing and paying invoices
- Processing payroll
- Preparing financial reports
- Preparing tax returns, budgets, and financial reports
- Serving as liaison to the CPA and Reserve Specialist

TOOL 11.2: *See the Sample Financial Activities Organization Chart at the end of this section for an overview of how boards and managers interrelate.*



Cautions

Attempts by well-meaning boards to keep assessments low not only postpone problems, but can also seriously compound them. It's important to be accurate and realistic when developing a budget, regardless of the annual assessment rate that results.

The federal Fair Debt Collection Practices Act and numerous similar state statutes have implications for how associations collect their assessments. Boards must comply with this and other federal and state regulations in all association operations.

Different methods of filing income taxes are available to different types of associations. Filing incorrectly can result in overpaying or opening the association up to tax liability. It's important for board members to know the best method for their association.



FOR MORE HELP

Available online at www.caionline.org/bookstore.cfm or call (888) 224-4321 (M–F, 9–6:30 ET).

The Role of the Association Treasurer, a Guide for Association Practitioners, By Howard A. Goldklang, CPA, MBA. (Community Associations Press, 2002.)

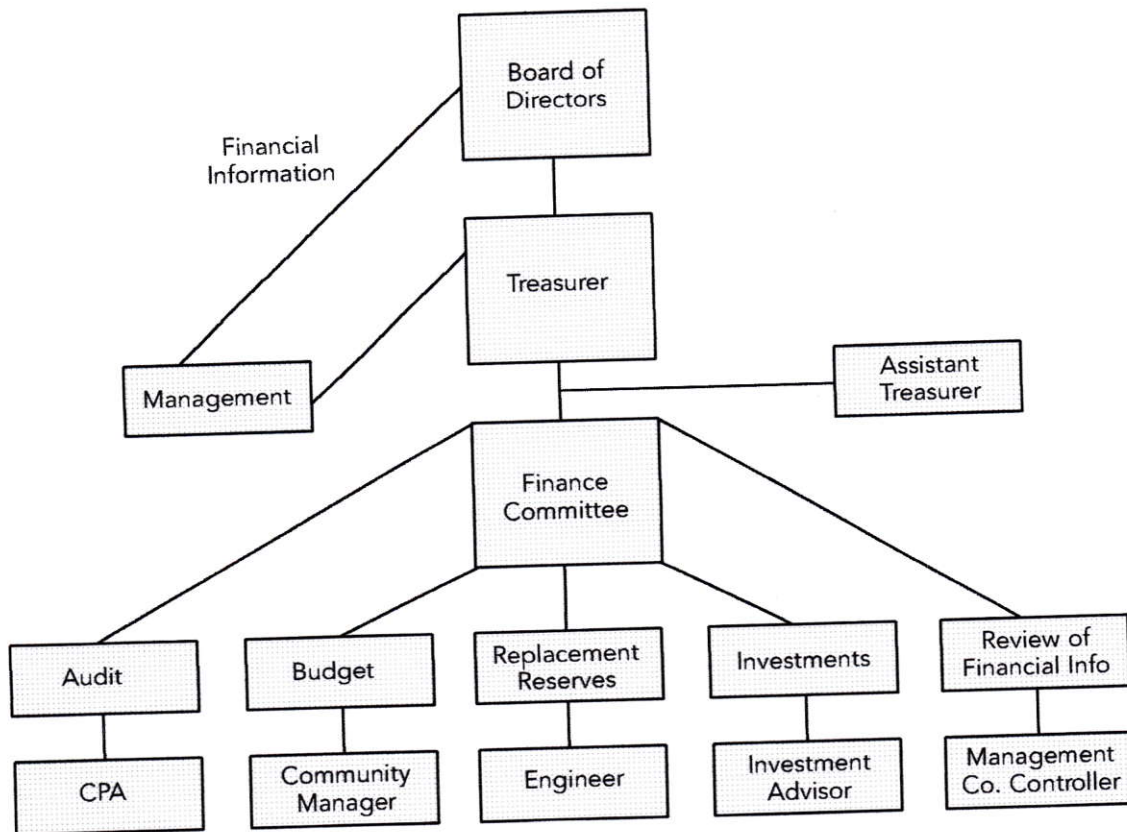
CAI Treasurer: Accounting Software for Self-Managed Homeowner and Condominium Associations and Cooperatives. CD or Download. (Community Associations Institute, 2002.)

To download a PDF of the entire Board Member Tool Kit, go to www.caionline.org/toolkit.

Checklist for Safeguarding Association Assets

- ☐ Are ledgers balanced and posted monthly?
- ☐ Are employees, board members, and the manager bonded?
- ☐ Are accounting records protected from loss?
- ☐ Are all checks manually signed, numbered, and accounted for?
- ☐ Are checks mailed by someone other than the preparer?
- ☐ Are voided checks retained and defaced?
- ☐ Are bank accounts reconciled promptly at the end of each month?
- ☐ Are each day's receipts deposited intact and without delay?
- ☐ Are banks notified immediately when a check signer is no longer authorized?
- ☐ Are all investments registered in the association's name?
- ☐ Are checks made out to "cash" prohibited?
- ☐ Are investments maintained safely?
- ☐ Are write-offs approved by the board?
- ☐ Are property assets inventoried?
- ☐ Are vendor invoices checked for accuracy?
- ☐ Are major contracts obtained through a bidding process?
- ☐ Does the board authorize all replacement reserve transactions?
- ☐ Are appropriate payroll records maintained?
- ☐ Is insurance coverage reviewed annually?

Sample Financial Activities Organizational Chart



11:6 The Board Member Tool Kit

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