

Washington State Chapter **COMMUNITY ASSOCIATIONS INSTITUTE**

*The professional organization providing
education, resources, and advocacy
for community association living.*



community
ASSOCIATIONS INSTITUTE

Critical Issues In Financial Management

Presenters

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The World of Accounting

- AICPA
- FASB
- GAAP
- GAAS
- RCW
- CIRA

What is a CIRA?

- An intense red wine from the Yakima Valley?
- Whatever will be, will be?
- An acronym for Common Interest Realty Association which includes
 - Condominiums
 - Planned Unit Developments (PUD)
 - Cooperatives
 - Time-Share Developments

Unique Characteristics of CIRAs

(Common to all CIRAs, 1.31 of CIRA Guide)

- Operate, preserve, maintain, repair & replace common property
- Members provide resources & expect to receive benefits of maintenance & replacement of common property
- Membership is mandatory
- Members have defined interests that are transferable
- Any excess of annual assessments over expenses may be distributed, credited to the following year or allocated to the replacement fund

CIRA Audit & Accounting Guide

- What is it?
- Why should you care?
- How can it help you?
- Where can you get it?
- FASB codification as an alternative

Users of the Financial Statements

(1.32 – 1.37 of CIRA Guide)

- Unit Owners
- Board Members
- Potential Buyers
- Lenders
- Insurers
- Tax Authorities

Financial Statement Presentation

(Chapter 4 of CIRA Guide)

- What is accrual basis accounting and why is it “GAAP”?
 - Member assessments – when earned
 - Expenses – when incurred
 - Property improvements – unique CIRA rules
- GAAP requires accrual financial statements
 - RCW requirements
 - RCW 64.38.045
 - RCW 64.34.425
 - What is 101-3 and why should you care?



Financial Statement Presentation

(Chapter 4 of CIRA Guide)

- Fund reporting recommended
 - What is fund reporting?
 - Which funds does this relate to?
 - Maintaining books and records to comply
 - Exceptions are few

Financial Statement Presentation

(Chapter 4 of CIRA Guide)

- Full set of financial statements
 - Balance sheet
 - Statement of revenues & expenses
 - Statement of changes in fund balances
 - Statement of cash flows
 - Notes to financial statements (“disclosures”)
- Required Supplementary Information
 - Impact on auditor’s report

Unique Accounting Areas

(Chapters 2 & 3 in CIRA Guide)

- Accounting for Assets
 - Most assets NOT shown on financial statement
- Replacement Fund (Reserves)
 - Reserve allocations recorded based on BUDGET
 - Transfers Between Funds vs. Due Between Funds

How Does Reading & Understanding Your Financial Statements Help You??

- Where REALLY is your assessment money going?
- Are your assessments adequate – for now and into the future?
- Are you maximizing your assets?
 - Investing excess cash
 - Collection policy for past due amounts

Added Benefits!!

- Looking out for errors
- Making sure that you have the right information to base your decisions
- Finding even more cost savings
- Being able to sleep at night 😊

This is YOUR association or it is an Association YOU manage!

Warning/Caveats

- Financial statements prepared during the year are quite often not GAAP
- You need to know what basis your financial statements are presented
- Don't get caught up in the "little stuff" until you fully understand the overall financial picture!

How Can an Audit Assist You?

- Managers
- Board Members
- Unit Owners

Manager

- An audit includes a review of your accounting system and internal controls
- Is a double-check on accuracy and completeness
- Provides year end adjustments
- Converts financial statements to GAAP
For Resale certificates

Board Members

- Lets you know how your management company is doing
- Provides tools to assist you
 - Management Letter & Report of Internal Controls
- Assurance that you have relied on a professional
- Provides GAAP financial statements

Unit Owners

- Provides third party assurance that the financial statements are materially correct
- Provides GAAP financial statements for mortgage companies
- Standardized financial statement that should be easily understood

Hints – Reading the Audit Report

- Read the footnotes...they should tell you important things about the numbers on the financial statement

The most recent reserve study recommended monthly funding of \$5,022 in 2009. The actual monthly reserve funding was \$3,400. However, at the end of the year three months had not been funded so there is an amount of \$10,200 showing as due from the operating fund to the replacement fund.

More Hints

- Look at Operating Fund – What is the Association’s “Net Worth”

ASSETS MINUS LIABILITIES = FUND BALANCE

We recommend 1-3 months of operating expenses

(This is found on the Balance Sheet – also known as retained earnings or members equity)

FUND BALANCES (NOTE 1)

Operating	(11,380)			(11,380)
Replacement (Note 2)		\$	95,587	95,587
TOTAL FUND BALANCES	(11,380)		95,587	84,207

And More Hints

- Operating Fund net income should basically break even
If not...why??
- Replacement Fund will go up and down depending on the cycle of major repairs and maintenance

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessments	\$ 77,330	\$ 40,800	\$ 118,130
Finance Charges & Late Fees	2,417		2,417
Attorney Fee Collections	1,880		1,880
Interest	1	361	362
Miscellaneous	75		75
TOTAL REVENUES	81,703	41,161	122,864
EXPENSES			
Accounting & Tax Preparati	1,700		1,700
Bad Debts	12,124		12,124
Insurance	13,010		13,010
Landscape	9,951		9,951
Legal	2,254		2,254
Life Safety Systems	8,185		8,185
Management	25,379		25,379
Miscellaneous	594		594
Repairs & Maintenance	2,965		2,965
Water & Sewer	31,535		31,535
TOTAL EXPENSES	107,697		107,697
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ (25,994)	\$ 41,161	\$ 15,167

Budgeted \$25K

Balance Sheet Example

- Look for “Net Worth”
- What assets and liabilities does this Association have?
- Is the Replacement Fund “healthy”?
- What other questions would you want to ask?

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash, including interest bearing deposits	\$ 17,488	\$ 30,858	\$ 48,346
Investments		55,240	55,240
Assessments Receivable	16,671		16,671
Less: Allowance for Bad Debt	(1,721)		(1,721)
Prepaid Insurance	2,068		2,068
Due Between Funds	(131)	131	
TOTAL ASSETS	\$ 34,375	\$ 86,229	\$ 120,604
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 477		\$ 477
Assessments Received in Advance	19,674		19,674
RV Lot Key Deposits	1,200		1,200
Clubhouse Deposits	1,375		1,375
Income Taxes Payable	232		232
TOTAL LIABILITIES	22,958		22,958
FUND BALANCES (NOTE 1)			
Operating	11,417		11,417
Replacement (Note 2)		\$ 86,229	\$ 86,229
TOTAL FUND BALANCES	11,417	86,229	97,646
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,375	\$ 86,229	\$ 120,604

Monies invested - probably need to know more, but "Investments" are CDs over 90 days

Monthly Expenses are \$8,000

Go Forth and....

- Review your CIRA financials
- To make sure that they are GAAP
- And have an audit prepared under GAAS
- In compliance with the AICPA
- And Have Fun Today at CAI's CA Day!

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