
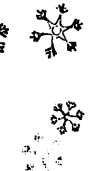





The Role of the Treasurer
 Whatcom County Condominium Owners Forum
 February 7, 2012 7-9pm
 Catherine Kuhn, CPA - Cagianut & Company, CPAs

What was your first reaction?





- Great! I'm perfectly suited to be the Association Treasurer and ready to get
- What did I get myself into??
- Good thing I get paid the "big bucks" for this!!


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Resources

- Tonight we will touch "Tip of the Iceberg"
- This can help:
 - CAI Board Treasurer Booklet
 - Thank you EMB
 - I will refer to portions of this tonight

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Resources

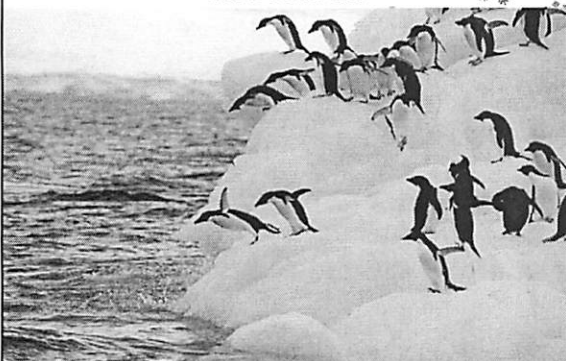



C&C Website: 75 FAQs
 ● www.hoacpa.com

Frequently asked questions

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Let's DIVE In!






Primary Roles

- Financial Voice of the Board & Community
- Annual Budget – Implementation/Monitoring
- Reserve Program- Implementation/Monitoring
- Safeguards to Protect Association Assets
- Liaison: Audit & Tax Return


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Financial Voice




Monthly Treasurer's Report-

C&C National Survey:
How much time is spent on the monthly Treasurer's Report??






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THREE (3) Minutes!



- More time is spent on Pets, Pools, P
- REALLY????

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Treasurer's Report:

- Monthly Financial Statements:
 - Balance Sheet:
 - Assets: (*What you OWN*)
 - Cash (Operating & Reserve)
 - Accounts Receivable (Cash Yet to be Received)
 - Typically Past Due Assessments (billing 1st of the month)
 - Other Owner Receivables (Water billings, bill-backs)
 - Prepaid Insurance (Ins Premium Paid in Advance of Use)

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Treasurer's Report

Balance Sheet: Liabilities (What you OWE)

- Accounts Payable - "To be paid"
- Prepaid Assessments - Assessments that are paid in before they are owed to the Assn
- "Due between Funds" - Can be an asset or a liability depending on the Fund

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Treasurer's Report:

Member's Equity

- (NET WORTH)
- (Retained Earnings)

= Assets Less Liabilities

Two Types of Equity:

- Operating
- Replacement (Reserves)

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Sample Balance Sheet

	Operating	Reserve	Total
Assets			
Total Cash - Operating	\$34,301.09	\$0.00	\$34,301.09
Total Cash - Replacement Fund	\$0.00	\$11,838.88	\$11,838.88
Accounts Receivable	\$247.00	\$0.00	\$247.00
Prepaid Insurance	\$4,839.00	\$0.00	\$4,839.00
Prepaid Taxes	\$24.00	\$0.00	\$24.00
Due To/From CP Fund, Loan	\$0.00	\$17,682.51	\$17,682.51
Total Other Current Assets	\$5,130.00	\$17,682.51	\$22,812.51
	\$39,431.09	\$18,513.39	\$57,944.48
Liabilities			
Accounts Payable, Operating	\$11,865.34	\$0.00	\$11,865.34
Prepaid Assessments	\$2,143.00	\$0.00	\$2,143.00
Due To/From DR Fund, Loan	\$57,682.51	\$0.00	\$57,682.51
Total Current Liabilities	\$71,690.85	\$0.00	\$71,690.85
Retained Earnings, Operating	\$1,574.00	\$0.00	\$1,574.00
Retained Earnings, Reserves	\$0.00	\$122,643.08	\$122,643.08
Total Equity	\$1,574.00	\$122,643.08	\$124,217.08
Net Income Gain/Loss	\$0.00	\$26,870.31	\$26,870.31
Net Income Gain/Loss	(\$26,249.03)	\$0.00	(\$26,249.03)
Total Liabilities & Equity	\$70,215.00	\$149,513.39	\$219,728.39


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Treasurer's Report

Items to point out in the Financial Statements


Balance Sheet:

- o Significant Trends (good or bad)
 - o Increase in AR is bad- follow up!
 - o Decrease in AP means cash used up



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Treasurer's Report:



Operating Income Statement:

- o **Significant Variances** between actual and budget - then, action steps needed
- o Follow up from *prior period variances* noted
- o **APPROVAL for large or unusual OPERATING expenses and ALL RESERVE EXPENSES (Document in the minutes!!!)**
- o **Reserve expenses can change** from when first approved to the final cost - make sure to **document any changes** in the minutes

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Treasurer's Report


Reserve Income Statement

- o It's a 30 year time period for Income and Expenses
- o One year is not relevant for Reserves
- o Compare Income to Budgeted Allocation
- o Compare expenses to Reserve Study/board plans


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Treasurer's Report:

- Members' Equity:
 - CAI: -- 1-3 months of operating expenses



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Treasurer's Report:

- Other Reports- With Financial Statements:
 - Check Register
 - Accounts Receivable Delinquencies (Aging)
 - Bank Statements and Reconciliations
 - Accounts Payable
 - Transaction Register (Monthly "General Ledger")

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Annual Budget


- Treasurer Oversees the Budget Process and/or works with a Budget Sub-committee
 - BOARD is ultimately responsible for it
- Attend Annual WSCAI Budget Class!



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Annual Budget


- Some "pointers" from the September Class:
- The annual budget is only valuable if it is used in the subsequent year and monitored
 - Internal Control and Annual Audit Tool
- Consider breaking down the budget by months



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Annual Budget


- It's only an Estimate - Board needs to monitor ~~how total assessments~~ are spent
- 2 methods:
 - Historical Trend (Use last year and increase by %)
 - Zero Base (Start from scratch)
- Consider a combination- be sure to focus on material amounts (find the 5 items that are 75% of your budget)



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Annual Budget

- Process: (Start early!)
 - Gather information (analyze year to date financials)
 - Draft Budget
 - Board Review & Adoption
 - Mailing, Meeting & Ratification (Follow governing docs)
 - Monitor Monthly Financials and follow up
 - Start Over!



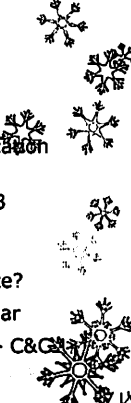
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Annual Budget

○ Items to Consider in Budget Development:

- The Reserve Study! Annual Allocation to Reserves
- Current Equity/Cash Position (1-3 months in equity? If not, add in contingency line to build that)
- Last year's budget – how accurate?
- Increases needed for the next year
- Budget for Bad Debts (See FAQ – C&G website)

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Annual Budget

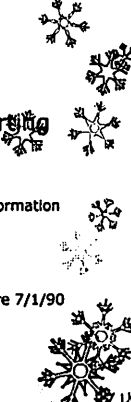
○ New Budget Requirements starting 1/1/12

Will affect 2013 budget process and disclosure information needed relative to Reserve Studies

Google:

- Washington Condominium Act (64.34)
- Washington Horizontal Regimes Act (64.32 – pre 7/1/90 Condominiums)
- Washington Homeowners Act (64.38)

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Annual Budget

Handout in Folder:

- Budget Do's and Don'ts

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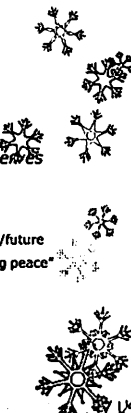
Reserve Program

WA RCW does NOT REQUIRE Funding Reserves


○ WHY Fund Reserves?

- Fairness – fund over time, for all owners- current/future
- This is a business – do not be swayed by "keeping peace"
- Maintains resale values
- Avoids Special Assessments
- Maintains livability/enjoyment of common areas

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Reserves "Nirvana"



- Separate Reserve Cash Account
- Fund Accounting Used – Operating & Reserve Funds
- Recent Reserve Study- Onsite Professional
- Budgeted Reserve Allocations EQUAL Reserve Study

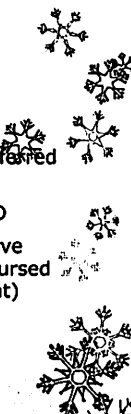
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Reserves "Nirvana"... More...

- Budgeted Reserve Allocations Transferred Each Month
- Reserve Expenses Approved by BOD
- Reserve Expenses Paid out of Reserve Cash account (or, Operations reimbursed in a timely manner for exact amount)

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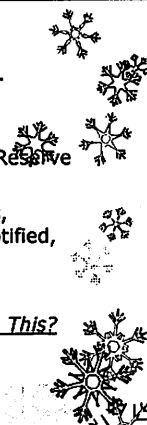


Reserves "Nirvana"... More...

- Reserve Expense Budgeted for in Reserve Study
- IF Money borrowed from Reserves, approved by BOD, membership notified, repayment schedule followed

WHERE does YOUR Association Fit in This?

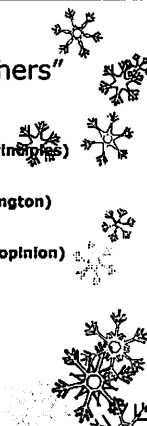
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Reserves- Lots of "Big Brothers"

- GAAP (Generally Accepted Accounting Principles)
- Industry Standards (National and Washington)
- Washington RCW (you may need a legal opinion)
- IRS tax code

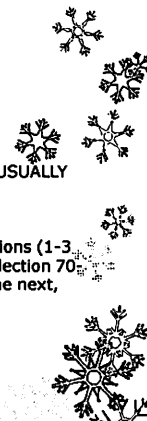
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Reserves- Special Topics

- Initial Capital Contributions - These are USUALLY for operations, not reserves
- Excess Funds - Contribute first to operations (1-3 months), then excess to reserves (tax election 70604 is to move funds from one year to the next, NOT to move money to reserves)

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Protecting Association Assets 

TWO Key Areas:

- Internal Accounting Control
- Investment Policy

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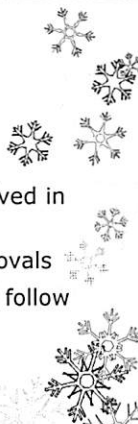


Internal Controls

“Checks and Balances”

- More than one person involved in the Accounting Function
- Independent Reviews/Approvals
- Account reconciliations and follow up

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Internal Controls

See Handouts:

- CAI- “How Secure are Association Assets?”
- C&C – Do’s and Don’ts; IC Checklist


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Safeguarding Investments

- Investment Policy?
- Governing Documents?

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Investment Parameters

3 elements – In Priority Order:

- Safety
- Liquidity
- Yield

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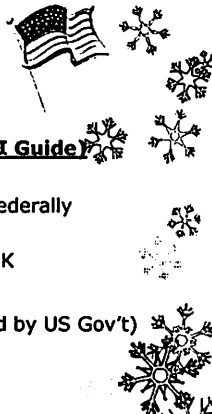


Investments


Limit investments to: (CAI Guide)

- Money Market and CDs – Federally Insured Institutions
 - \$250,000 limit per BANK
- US T Bills or Notes (backed by US Gov't)

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Liaison: Audit & Tax Return



What is an AUDIT? (See C&C website FAQ page)

- "INDEPENDENT" analysis of financial statements
- CPA
- "Materially Correct" (Not every penny)
- "GAAP" (In accordance with "Generally Accepted Accounting Principles)
- Adequate Disclosures (Footnotes)

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Liaison: Audit

"GAAP" Means:

- Accrual Basis
- Full Disclosures
- Supplementary Disclosures on Replacement Fund (Reserve Study)
- Replacement Fund Presentation Recommended (Two Balance Sheets: Operating, Reserves)

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Liaison: Audit

Audit Requirements:

- New Act Condos 64.34.372
 - 50 or more units -Audited annually (no waiver)
 - Fewer than 50- Audit Required, but may be waived- 60% of ownership
- Old Act:
 - Tricky- Audit requirements default to New Act, EXCEPT, Governing Docs prevail

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Liaison: Audit


Audit Requirements – HOAs: 64.38.045

- Annual Assessments \$50K or More
- May be waived – 67%

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Liaison: Tax Return

True or False?



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Tax Return

True or False?

CAs are nonprofit organizations so they do not owe taxes.

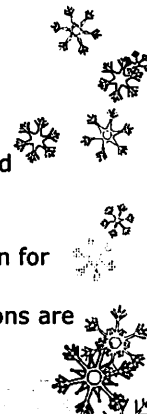
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Tax Return

FALSE!!

- Number one question asked
- Non-profit for Washington Corporate Law
- Mutual Benefit Organization for the IRS
- VERY small % of Associations are "Exempt"

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Tax Return

True or False?

Tax Returns are not prepared until the Association has revenue and/or has sold the first unit

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Tax Return

FALSE!

- Tax returns start with the incorporation date of the Assn

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Tax Return

True or False?

Tax returns are due the same time as Individual tax returns

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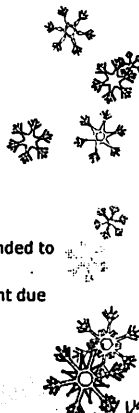


Tax Return

False!

- These are Corporate Tax Returns
- Due 2.5 months after end of fiscal year
- 12/31 year ends – due 3/15, can be extended to 9/15
- Extension- Delays filing date, but payment due 3/15

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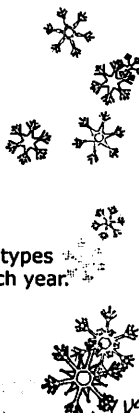


Tax Return

True or False?

Associations may prepare 2 different types of tax returns, and choose which; each year.

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Tax Return

True!

Form 1120-H

- 30% tax rate
- For "substantially residential" assns
- "Non-exempt" income is taxable

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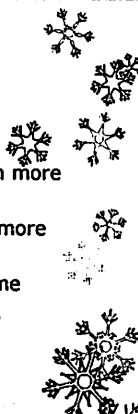


Tax Return

Form 1120

- Regular Corporate Return- much more complex
- Several "qualifiers" needed and more risky
- Rate: 15% of first \$50K of Income
- Membership vs Non Membership Income

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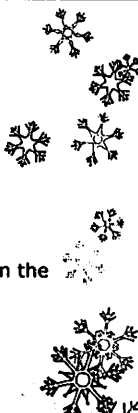


Tax Return

True or False?

Interest income is only taxable if it is in the Operating Account

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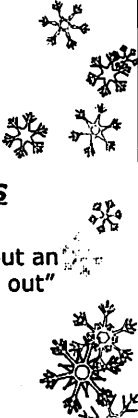
Tax Return

False!

Interest Income is ALWAYS Taxable

Some deductions allowed, but an association should not "zero out" the interest income


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Summary: Treasurer's Roles:

- Financial Voice of the Board & Community
- Annual Budget – Implementation/Monitoring
- Reserve Program- Implementation/Monitoring
- Safeguards to Protect Association Assets
- Liaison: Audit & Tax Return

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Year End:

See Handout:

- Year End Checklist for Treasurers

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Questions?

Thank you!

Catherine (Cathy) Kuhn, CPA cathy@hoacpa.com

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