

# Working with the Board and the Owners

**T**he treasurer is the liaison between the board of directors and the finance committee. As such, the treasurer provides the finance committee with a broad agenda. In turn, the finance committee performs analysis and research and makes recommendations to the board. The finance committee can be particularly helpful in the following areas:

- Examination of invoices before approval for payment
- Review of monthly financial statements
- Review of monthly bank reconciliations
- Interviews of major contractors
- Coordination of the annual audit
- Coordination of the annual budget process
- Monitoring the association's investment program
- Coordination of the association's replacement reserve program

Subcommittees of the finance committee are often helpful in managing the flow of work. Common subcommittees include budget, reserves, and audit committees.(See Appendix 1, page 24.)

## The Annual Meeting

The annual meeting provides the treasurer with an excellent opportunity to present an interesting and informative outline of the association's finances to members. Though the treasurer's report should be brief to maintain owners' interest, it should contain all of the important financial data of the past year and a summary of upcoming financial highpoints. The treasurer should distribute a handout that includes the annual audit report and operating budget.

Finally, the treasurer should formally present the board of directors with any financial resolutions that need to be approved by the community at the annual meeting.

## Keeping Track of Individual Unit Owner's Basis

The original basis for a unit owner's property is cost. Cost is the amount paid by the unit owner in cash or other property for his or her unit. Payments incurred substantially after purchase are considered adjustments to

.....  
Throughout the period of an individual's ownership of his or her condominium, various events might occur that will increase or decrease the tax basis for the unit owner.  
.....

basis. Throughout the period of an individual's ownership of his or her condominium, various events might occur that will increase or decrease the tax basis for the unit owner.

The determination of basis becomes important when an individual ultimately sells a unit. The difference between the sale of the unit and individual's basis in the unit may, depending on the circumstances, result in a capital gain or loss. Therefore, it is

important for the condominium association to keep track of events that might affect an individual unit owner's tax basis and to make that information available to the owners.

Some events that might decrease basis are as follows:

- Settlement of warranty claims with a developer
- Sale of a portion of common elements
- Sale of an easement in the property
- Government condemnation of a portion of the property

Some events that might increase basis are as follows:

- An improvement of the property
- Utilization of association funds to purchase a capital asset
- Contribution to a replacement reserve for capital improvement

The treasurer should keep track of all events that increase or decrease the association's basis by year and amount. This information should be kept on file in the association's offices. The association should periodically inform owners of the availability of this information.

## Board of Directors Meeting Minutes

Board of directors' meeting minutes document board decisions concerning association business and financial affairs. The treasurer should make sure that all important financial information and data are included in the minutes.

The board meeting minutes should include the following financial information:

- Approval of final operating budget
- Approval of monthly contractual service (vendors, amounts, and modifications)
- Approval of major expenditures (nonreserves)
- Approval of expenditures out of reserves (vendors and amounts)
- Transfer of funds from one bank to another
- Write-off of any assessments receivable
- Opening and closing of bank accounts
- Purchase and sale of investments
- Entering into and approval of loan agreements
- Removal and addition of signatures on bank and investment accounts

The minutes should be maintained as permanent records of the community association.

### Collecting Unit Owner Delinquencies

The treasurer should monitor unit-owner delinquencies. The treasurer should make sure that the management company and the association's attorney are following all appropriate and required procedures for the collection of delinquent balances.

The level of delinquencies is the most important measurement of the community's financial health. A key financial indicator for the condominium's treasurer is the level of delinquencies to total assessments. Following is a rule-of-thumb guide regarding delinquent assessments:

#### 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

The treasurer should also investigate any long-standing prepaid balances to determine if the balance is actually prepaid or if an error has created the prepayment. The treasurer should recommend to the board of directors that small balances (for example, \$10 or \$25) be written off periodically. Assessing in whole dollars is one good way to avoid carrying forward numerous, small delinquent or prepaid balances.

### Selecting the Association's Management Agent

The treasurer understands the association's financial position more thoroughly than anyone else on the board. Therefore, the treasurer should lead the evaluation of the financial strengths of prospective management companies.

The treasurer should visit the office of each management company that is being considered, meet with the controller, take a tour of the accounting department, and see how each aspect of financial activity takes place and who is in charge. The treasurer should also talk to treasurers of associations currently managed by the prospective management companies and see if they had any problems with the timeliness of financial reports or with accuracy of financial data.

The treasurer should get the input of the association's attorney and its CPA about a prospective management agent before making a change. When an association has decided to change management agents, the treasurer should make sure that there is a smooth and accurate transition of financial data.

A sample checklist can be used when making a transition from one management company to another. (See Figure 2, page 20.)

.....  
When an association has decided to change management agents, the treasurer should make sure that there is a smooth and accurate transition of financial data.  
.....

## Record Retention

The treasurer should make sure all important financial records are safely maintained and available in fireproof filing cabinets in the association's office. Important financial records should be kept for a reasonable amount of time before they are discarded. (See Figure 3, below.)

FIGURE 2. Sample Transition Checklist

<b>Transition from One Management Company to Another</b>	
<i>This checklist can be used to ensure the smooth and accurate transition of financial data when changing management companies.</i>	
<input type="checkbox"/>	Involve the association's CPA before making a change in management companies.
<input type="checkbox"/>	The CPA should evaluate the prospective management company's financial records and be certain that he or she feels that the new company's financial records meet the association's needs.
<input type="checkbox"/>	Make arrangements for the CPA to perform an audit of the interim period financial records. If possible, the shift from one management company to another should be done at the association's year-end when an audit would also be performed.
<input type="checkbox"/>	Obtain a letter from the prior management company stating that all obligations have been satisfied.
<input type="checkbox"/>	Make certain that responsibility for tax filings for the past and current periods have been assigned to either the outgoing or incoming management firm.
<input type="checkbox"/>	Ascertain where all bank accounts are located and the amount of the balances. Make arrangements for their orderly transfer. Determine well in advance the bank's requirements for new signatures to be added and signatures to be deleted.
<input type="checkbox"/>	Obtain an inventory of all assets that were purchased and make sure that arrangements have been made for their transfer to the association or its new management agent.

FIGURE 3. Sample Retention Schedule

<b>Maintaining the Association's Financial Records</b>	
<i>The following list contains an approximate length of time that association records should be kept before they are discarded.</i>	
<b>Association Records</b>	<b>Time Frame</b>
Audit reports; Federal and state income tax returns; Personal property tax returns; Minute books; Deeds and other property records; Budgets	Permanently
Bank statements; Deposit tickets; Canceled checks	7 years
Bank reconciliations	3 years
Contracts (no longer active)	3 to 5 years
General ledgers; Cash receipts and cash disbursements journals	7 years
Insurance policies (no longer active)	3 to 5 years
Payroll records	7 years
Vendor invoices	3 to 5 years