



## Is your Association Fiscally Responsible?

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[www.ReserveStudy.com](http://www.ReserveStudy.com)  
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Miss the webinar? Watch it [here](#)

In this webinar, former manager and financial expert Russell Munz provides financial “best practices” and walks attendees through the four key reports that help you know where your association’s money is and where it is going. Then we explain how “planning ahead” (updating your Reserve Study) is a natural element of operating in a fiscally responsible manner.

Key topics covered include:

- Preventing Fraud and Embezzlement
- Managing Payroll
- Managing Accounts Payable
- Managing Delinquencies
- Explanation of the four key reports to review monthly:
  1. Income & Expense (budget & variance)
  2. Balance Sheet
  3. Bank Reconciliation
  4. Aged Delinquencies
- Reserve Basics (how much is enough)
- Demonstrating Reserve Fund “adequacy”

Please find the Questions and Answers portion of the program on the next page, followed by the presentation’s slide-show.

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# WEBINAR QUESTIONS ASKED BY ATTENDEES

## Finance Related

**Q: Is "owner equity" typically on the Balance Sheet? Is that the walls, roofs, concrete, etc., example you showed?**

A: Yes, owners' equity is always on the Balance Sheet. It is made up of all prior years' operating surplus and any fixed assets. This means from the day the HOA started through the end of the previous fiscal year this is the difference between any fixed assets and all income collected, less all expenses paid, less allocations to the reserve fund.

**Q: What to do when only the president and the treasurer having access to the bank statements and the two vice presidents don't? Also, no other directors! President and Treasurer also are the ones managing the association! With no management company or accountant.**

A: If you have 2 board members that is better than only 1 for checks and balances. Many communities we work with, the signers on the bank account are the President, Treasurer and the Secretary and they have online access to the bank accounts. Some communities provide access to all board members. You can vote on this at a board meeting if other board members want access to view the accounts. However, the Treasurer should provide financial statements with bank statements monthly which would be reviewed by all board members for transparency.

**Q: Are POAs allowed to require new owners to pay a lump sum deposit direct to the Reserve Account in their purchase/closing?**

A: More communities are doing this as a way to add funds to their reserve account. This would have to be stated in the governing documents. If this is not in your current governing documents you can add it by an amendment. To do this, be sure to consult your HOA attorney.

**Q: Is it appropriate to hire a member to do work for the association (for example, painting a building)?**

A: This is where conflict of interest can arise. Yes, you can hire a member to do work but you'll want to make sure you collect several bids and the member wins the bid. You may also want to show this in the meeting minutes when it was voted on / the bid was approved. This way if any homeowners raise an issue, or if the project goes sour, there is back up to reduce any risk for the Board.

**Q: We are a small (under 10) unit Association using a management company with \$500.00 monthly fee. Should we consider having an accountant look over our books?**

A: It's a best practice to have your association books audited every so often. This is typically based on the size of your budget and complexity of your association (with larger and more complex associations doing this annually). I've seen smaller associations do a check up every 3 years. There are different kinds of audits so make sure that you select the one that covers your intended purpose. The basic (cheapest) audit may not provide much value to the association other than checking the box that the board had the reports audited by an accountant.

**Q: Is dual authorizations above a certain amount practical for HOAs?**

A: It's a best practice. All our client's bills are approved by 2 people. That may be a property manager and then a board member, or 2 board members (typically the Treasurer and President). This provides for transparency and checks and balances. Why take the risk if you are the board member approving all the payments and someone questions a payment? For some of our clients the 2<sup>nd</sup> approver may only approve bills over \$500 or \$1000, but in most cases both approvers approve all bills.

**Q: Can the board change the budget midway through the year?**

A: Yes. If your community's circumstances changed this may be a good idea, such as a natural disaster, major repair needed, or high delinquencies. Then you may need to put off a scheduled project, do a special assessment, delay funding your reserve account, etc.

**Q: Do you recommend a line of credit in the event of a potential disaster?**

A: Yes, in fact many communities in Florida with the exposure of a Hurricane have lines of credit set up for this. It is always best to set it up before you need it, as it will take a few weeks for the bank to underwrite.

**Q: Should reserve payments be paid monthly from the operating account?**

A: Yes. Make them regularly, so they don't get neglected or "misspent" on Operating expenses.

**Q: Is a prepaid credit card an alternative to an unlimited amount card where it will not be refilled until documentation is submitted and approved?**

A: This is in reference to my saying that petty cash, debit cards and credit cards open up the association to risk of fraud. A prepaid card is not much different from a regular credit card with a spending limit. I would say first you want to use vendors and suppliers that will invoice the community and you can pay through your regular processing routine. If you have infrequent purchases outside of the normal payment routine the best bet is for a board member to purchase the item and then reimburse them. Our clients submit their invoices with a cover sheet and it goes through our online 2 board approval process and they get paid before their credit card statement is due.

**Q: What are your thoughts on providing a Journal Entry report to boards as part of the monthly reporting package?**

A: I think this level of detail is not necessary. My experience is the more reports like this that are given to the board, the more they tend to confuse and disguise instead of clarify or explain the community's financial situation.

**Q: How much can we increase the maintenance fees without a vote of owners?**

A: It will depend on your state regulations and / or your governing documents. In many states though it is 15-20%.

**Q: Do you have suggestions for the type of reporting you do for your Reserve Fund activity...how much detail do the normal owners get?**

A: Typically owners will get a copy of the year end income and expense report as well as the balance sheet (usually posted to the online portal or by mail). On these whatever the break out of reserve items is what typically owners will see. If your community wants to share a schedule of reserve savings, income and expenses I have seen that provided as well.

**Q: If an owner merely suspects financial irregularities, how do they tactfully address the issue without causing "friction"? Who should they approach?**

A: It depends on who they suspect if from. As an owner you can request a copy of the financial reports and you can look them over. If you find something, you can talk to the President or Treasurer (if they are not the suspect) and share your concerns.

**Q: In what situation can you move money from your Reserves account to our Operating account?**

A: Most transactions are actually paid from the Operating account (for traceability). Reserve expenses should not be paid from the Reserve account. So to pay a Reserve expense, funds should be transferred first to the Operating account. Otherwise, a transfer of Reserve Funds to the Operating account (for use on non-Reserve projects) is either an improper use of Reserves or should be considered “borrowing” and a payback plan should be established.

**Q: Can you show the 4 reports again? (I missed #3&4)**

A: Please see our Outline and the recording and you can find more here:  
<https://communityfinancials.com/4-best-condo-community-hoa-financial-reports/>

**Q: What can we do if the property management company refuses to provide financial statements or answer questions when the bank reconciliation statement does not match the Income and expense report? I recognize that we can always leave the Property Management company but how do I know if money is missing or not without the data?**

A: This is a big red flag. The board should request the financial reports and any required back up so that it can be analyzed and understood. If the manager wants to keep your business they should comply. If they still won't provide the board with information, I suggest you have your HOA attorney write them a letter. Then they can help you obtain the financial information. That may be a good reason to also hire an accountant to audit the financial reports.

**Q: Our collection agency does not report to credit reporting agencies. Can we do the reporting?**

A: You cannot do the reporting. The credit rating agencies have to approve the company providing the information. There is a company that can help with this called [Sperlonga](#) that we work with or you can use a different collection agency that bundles reporting in with their service.

**Q: Please discuss appropriate investment options for reserves/capital improvement funds.**

A: General best practice is to only make investments where there can be no loss of principle. That means “safe” investments, which likely means relatively low rates of

return (less than inflation). It is one thing to “lose ground” against inflation (because you can factor that into your multi-yr Reserve Funding plan). It is a very different thing to actually “lose money” in an investment that unexpectedly went south, suddenly catapulting your association into a special assessment situation!

Most associations use CDs and vary the term to match when the funds are needed for a capital replacement project. The longer the term, the higher the interest. Beyond that I would advise that the board not take on any additional risk themselves of “managing” money.

**Q: Is there a link for the collections best practice sample policy?**

A: Yes [CLICK HERE](#).

**Q: Any tips for updating signature cards?**

A: If you work with a financial management or community management company they may do this for you. Otherwise work with your banking contact and they will help you.

**Q: We are implementing a special assessment that will cost homeowners \$1,000 to \$2,000. Should we charge an installment fee if we allow owners to pay the assessment over 6 or 12 months?**

A: I typically don't see any fee for special assessments. By their nature they are typically 12 months or less in duration. Your main concern is to get the money and adding a fee is a penalty. But consider characterizing it differently... stimulate cash flow by giving a slight discount to owners if they pay up front in a lump sum (e.g.: \$1000 in 30 days or \$100/mo for 12 months).

**Q: Are you saying we need two different bank accounts for Reserves and Operating Expenses?**

A: Yes, this is a best practice. Then these 2 accounts are reflected on the Balance Sheet and you can see how much you have set aside in reserves at a glance.

## Reserve Related

**Q: In addition to reserving for clubhouse individual assets like furniture, drapes, and carpets, many communities also plan for clubhouse renovations every 7-10 years. Do communities reserve for such "renovations" which includes expenses for things other than replacements?**

A: Yes. Renovation freshens up the look and feel of the area. Often that includes those individual component projects you mention. We often characterize renovation as the combination of all those projects, which may involve some other minor projects (and design fees).

**Q: What about reducing reserve contribution to provide additional operating funds?**

A: That can be done, but it is usually unwise. If you need additional operating funds, you should increase assessments. Reserve needs have not gone down just because your Operating budget is in a deficit situation! All your common area components are deteriorating daily. Just because the roof (or asphalt, or painting, or hallway carpet...) doesn't send you a bill for its deterioration every month, doesn't mean that cost of deterioration can be ignored. Treat that ongoing Reserve component deterioration with the same seriousness as any other bill (management, electricity, landscaping...). If you don't pay it on an ongoing basis, it doesn't go away. It just accumulates and will need to be paid at a later date.

**Q: What can you do if your board doesn't have a reserve study done? Whether you are a homeowner or a potential buyer.**

A: When there is no Reserve Study, there is no "map to the future". As a buyer, you need to prepare for a likely future special assessment, offering less than perhaps full market value. As an owner, plan to set aside about 20-25% of homeowner association assessments in your own savings account, because that is commonly the size of Reserve contributions needed to prevent special assessments. You can create your own "Reserve account"!

**Q: What should HOAs do to avoid loss in reserve fund buying power due to inflation?**

A: Inflation is real, and safe investments provide returns lower than the rate of inflation. That reality needs to be factored into your multi-yr Reserve Funding Plan.

**Q: If a lender advises our Reserves do not meet their requirement, why would they then ask to see the Reserve study?**

A: Most lenders want to see at least 10% of budget going towards Reserves (if your total monthly assessment income is \$25,000, they want to see at least \$2,500 of that going towards Reserves, leaving \$22,500 for Operational expenses). Most associations need to be setting 15-40% towards Reserves, so that 10% number is just a minimum threshold. There are a few rare associations where adequate Reserve contributions are less than 10% of total budget. If your Reserve contributions are under the lender's threshold, they are likely asking for documentation to see if yours is one of those rare associations.

**Q: If borrowing from Reserve lines, if we set up a payment plan can we extend payment over a year?**

A: If borrowing from one Reserve line item to another, just make sure you update your Reserve Study for the next year (a No-Site-Visit Update is likely sufficient) to re-balance your Reserve allocations. Consider calculating your Reserve contributions using the [Cash Flow Method](#), which eliminates all the inter-fund transfers. In addition, seriously consider raising your Reserve contributions, to ensure you are collecting sufficient Reserves so you don't run into shortfalls.

**Q: What is the proper "Percent Funded" of reserves?**

A: There is no proper % Funded. "Percent Funded" is a measure of Reserve Fund strength, comparing cash in Reserves to the value of deterioration at the association. Percent Funded thus provides a meaningful indication of Reserve Fund sufficiency, as comparing cash in Reserves between two different associations of different ages and sizes would be meaningless. In general, 0-30% means a high probability of an upcoming special assessment, 30-70% (the range in which the majority of associations are found) means a small or moderate risk of special assessments, and over 70% indicates Reserve Fund strength (special assessments in this range are rare).

**Q: What professional would be best to hire to make sure as we pay for infrastructure projects over the year, we are not going to run short?**

A: Start with an independent, credentialed Reserve Study provider. If additional expertise is needed (a plumbing investigation, or building envelope investigation, a building structural engineer...), the Reserve Study provider should be able to make that type of recommendation.



**Q: Does borrowing from reserves requires a vote of the owners only?**

A: That depends on your Governing Documents and State Law.

**Q: Should termite repairs, fumigations, dry rot wood replacement be part of the Reserves?**

A: Yes, if they pass the National Reserve Study Standards four-part test (which they commonly do). See more [here](#).

**Q: Our HOA has been saving for several years and now has several million in reserves for large projects (which we won't have to do again for many years). We are planning to spend most of our reserves on these projects over the next 5 years, which will reduce our reserves balance from over 5M to around 1M-1.5M. As long as our reserve study still shows us as 70% or more funded, is it a problem to have so much less on hand?**

A: No problem. It is a general guideline to always have at least 10% cash margin left in your Reserve Fund after any large expense. So even after a \$5M expense, that would mean leaving \$500k in Reserves. Update your Reserve Study regularly through your high-expense years to make sure everything is staying on-track (adjusting when expenses come in over or under budget and preparing for upcoming expenses after emerging from your high-expense years), and your association should be just fine.

## **WEBINAR QUESTIONS ASKED BY ATTENDEES *in prior years***

**Q: Is there any sense in reducing Reserve payments temporarily to survive these days?**

A: Yes, if done carefully. Sustaining the association is more important than sustaining Reserve contributions. Look [here](#) for a webinar on this topic called “Reserves to the Rescue”, designed to address a potential COVID-19 cash flow crisis.

**Q: Some Owners feel we should just use Reserves to balance our operating budget if some people do not pay. The Board feels that withdrawals from the Reserve fund need to be used only for Reserve items.**

A: I agree with you in principle, because Reserve funds are necessary to offset ongoing deterioration (that doesn't stop in a pandemic). But in emergencies, one needs to focus on sustainability of the association. Future plans may need to be adjusted to solve the current (2020) crisis. See above.

**Q: How do you show "budget" vs actual activity in the Reserve Fund?**

A: If you were to budget Reserve disbursements annually they should be reported on the Budget Comparison report reflecting the actual disbursements made from the Reserves vs the budgeted estimated cost of the projects. Since the Reserve funds are an accumulation of years of allocations, the budgeted disbursement amounts may be greater than the annual income projected. It is not necessary to budget for disbursements (you would for the allocation from operating to Reserves), but it is a helpful tool for the Board to project major projects scheduled for the year and track completion and actual cost.

**Q: Money Market Investment is currently yielding only .1 percent. This results in annual loss of Reserve values due to inflation. How can you suggest using Money market investments?**

A: Research other options. There are other safe options out there offering higher interest. Protection of Principal is paramount. Reserve interest earnings may not quite keep up with inflation, but the #1 rule of Reserve investments is “don't lose money”. That means a conservative investment strategy (unfortunately, low-interest bearing) is appropriate.

**Q: An elective project such as asphalt rejuvenation or front entrance - shouldn't these projects proceed as planned even if economy falters? Doesn't the Board owe it to all owners to keep the assets looking "as promised"?**

A: We will address that issue in our "Reserves to the Rescue" webinar in May of 2020. Find it [here](#). The board has a responsibility to manage cash carefully. Presuming the cash has been set aside per an effective Reserve plan and it is not needed for imminent and critical Operating Budget expenses, now might be a great time to perform that project (and enjoy a minor discount due to the economic slowdown).

**Q: How best to proceed with boards who do not wish to proceed with a Reserve Study?**

A: Deterioration is inevitable, the cost of deterioration is inevitable, and it is the board's job to maintain the assets of the association. So it is the board's job to learn what appropriate Reserve set-asides should be, and implement a financial plan to provide for the needs of the association. As an owner, consider the benefit of moving to an association where the board is committed to providing timely funding for necessary projects (maximizing home values), and/or plan to set aside funds for the inevitable special assessment. As a manager, make sure your recommendations are in writing. See more [here](#).

**Q: I understand that a Homeowner Association must choose which of the 3 Reserve Funding goals it will pursue: Full Funding, Threshold Funding, or Baseline Funding. However, when choosing Threshold, does the Board have to determine the percentage it expects to follow?**

A: When choosing a Threshold goal, the actual threshold should be clearly disclosed (x % Funded, maintaining a Reserve balance above \$Y, etc.). See more [here](#) or [here](#) (National Standards from CAI, see p12).

**Q: Please send me the specifics for expenses in the Reserve Study, specifically sewer lines. We have a sizeable amount in that category (sizeable to us). I need more information on what that portion of the Reserve should be.**

A: Sorry, but a good answer requires more information. See the National Reserve Study Standards four-part test [here](#). Ask your Reserve Study provider what led to that cost estimate, and their expectations for when that work needs to be done. That discussion should be enlightening.

**Q: If we have a management company, how do they embezzle?**

A: I can't be sure if or how your management company embezzles. But there are a number of ways someone can steal funds. To prevent this from happening make sure you 1) get timely financial reports, 2) the financials include a bank reconciliation report and 3) you get copies of the bank statements or have online access to see the bank accounts. For more information you can read one of our [case studies on how managers embezzle funds here](#).

**Q: If a Board revises a budget mid-year, are they required to have this ratified by the membership at a meeting again?**

A: Refer to your governing documents, and consider asking for legal counsel on this matter.

**Q: We have an owner that has informed us that they live in the UK. They said they are unable to exchange money to send us during this COVID-19. They say they have the funds, but won't be able to pay until current complications are over. How would you handle the late payments until this is over?**

A: I find it unlikely that an owner cannot mail a check or make an online payment during this crisis. You may want to ask for documentation from them that outlines what their difficulty is and then the board can decide what to do.

**Q: We have a unit owner that lives in France. He is behind on his dues. How do we go about collecting the money from him?**

A: The same way you collect funds from other owners. Follow your collection policy, make sure you are mailing & emailing late notices and other pre-lien letters to the new address and then consult with your collection attorney or agency on how to proceed.

**Q: I am looking for a dashboard style of quarterly financial reporting (key performance indicators) for our homeowners. Do you have examples and recommendations of 4-6 items to include in the dashboard? This is high-level reporting in addition to full financial information that is available to the owners.**

A: Here are three suggestions to get you started: 1) % of delinquent \$ vs budgeted income or % of owners delinquent versus total # of owners; 2) YTD collected funds versus budgeted collected funds for that time period so you can see if your collections are down and by what %; % of reserve funds in the bank versus what is planned in your reserve study (if you have such study).

**Q: What software program do you use for the financial statements?**

A: Our company uses the top 2 software programs used by managers nationally – Caliber and TOPS. These programs are specific to this industry and provide owner portals, board access and the reports are geared to running a community association. You can [watch some demo videos in the video library section of our website](#).

**Q: What are board responsibilities to invest the Reserve funds? Bonds versus CD's?**

A: Protection of Principal is #1. The board members should not take additional risk in their capacity as board members. I suggest you talk to your insurance agent about your investment ideas and if principal was lost are board members liable (not covered by the D&O insurance). I would not go investing in bonds but would stick to safer CDs and money market funds unless you were using an outside investment advisor that you can lay risk off on but that can get costly. You may also want to ask your bank about CDARs programs if you have funds in excess of \$250K.

**Q: Please define the various scenarios of embezzlement. Can property management company vendor recommendations become a problem?**

A: We have many blog posts on our website that deal with [case studies of embezzlement \(here are 3 from Arizona\)](#). They go over the crime, how it was perpetrated and how it could have been prevented. Some cases I have seen theft where a vendor that is selected by the manager or board bills higher than market rates and the manager or board member that is collaborating receives a “kick back”. If you are vetting vendors and getting bids you can reduce this. Remember that vendors submit invoices and statements for payment. Payments should match the invoices. I’ve seen where boards did not know there was a difference which resulted in \$50,000 over payment. Fortunately, someone caught it and the vendor refunded the overpayment.

**Q: Is there an issue with giving our onsite handyman a Home Depot Gift Card rather than a Credit Card to purchase supplies?**

A: This is probably a safer idea as you have a lower limit on the available funds. However, you have to make sure the gift card is not “lost” and that it is used 100% so no remaining balance is left on it so you are not losing money that way.

**Q: Can an association get a credit card in the name of the association without having the property manager apply in her own name and having her supply information for a credit check? All the banks we have contacted want to run a credit check on the property manager herself (we are self-managed property - small condo).**

A: All banks will want to receive personal information on the card holder. I am not sure if they will all run a credit check (it is likely). Most bank forms request the person's: Social Security Number, Date of Birth, Drivers License info, Home address, Work address, Employer name etc.

**Q: Due to the current prospective delinquencies situation I presume a plan should be made beforehand. Should that be an overall plan for all or handled individually? And how long should the Association allow the situation to go on?**

A: These are the questions that all associations are grappling with now. First you will want to make sure you have your standard collection policy. If you don't have one you can [see a sample collection policy here](#). Here is [a blog post I wrote a year ago on preparing before the next recession](#) that may be helpful. Additionally, [here is information on how to handle delinquencies during the crisis](#) and a link to register for our 4/29/20 webinar and Q&A on the topic.

**Q: How can you encourage homeowners who pay monthly assessments but not fines and late fees, and homeowners who let the assessment build up and pay most but not all every two to three months?**

A: The best method is to have a [collection policy](#) for the association that outlines your collection process. Then you'll want to use late fee, late letters and then follow through with a collection agency or lawyer to finish the process. Then the Board will confer with their collection agency or attorney and discuss what fees to waive. Remember the late fees and interest are penalties so that you receive the assessment that is the primary objective. For people that let balances build up and then pay maybe you want to ask if it is easier to pay in a lump sum at the beginning of the fiscal year than paying monthly in arrears, or find out what their personal reasons are for doing this and explain that it creates more work for the volunteer board, etc.

**Q: Under the CARES Act, should we apply for a PPP loan?**

A: It depends who's asking. If you are a management company you may want to consider this if your business is being impacted. If you are a Homeowner Association with employees, as of this writing you are not currently covered by the PPP.

**Q: When a member fulfills a delinquency, the oldest debt should always be liquidated first, correct? FIFO vs LIFO or base amounts vs variable additional charges.**

A: Not correct. This depends on your association's collection policy which will spell out how payments are to be applied. You should discuss as a board and also with your collection agent or collection attorney. [See # 10 on our sample collection policy here](#) as an example.

**Q: What is GL coding?**

A: "GL" is an abbreviation for General Ledger. The GL code is the numerical identification (code) for the text description of each line item in your income & expense report.

**Q: Should you destroy checks after they are scanned?**

A: Yes the best practice that banks who provide desktop scanners suggest destroying checks after 45 days as that provides plenty of time for the check to clear or bounce. You don't want live checking account numbers and routing numbers lying around your office that could be used for fraudulent purposes.

**Q: In the end, is the board responsible for fulfilling a fiduciary duty to the association (including holding management accountable for carrying out all financial duties per the statutes) or can the board delegate all duties to the manager to avoid liability and breach of duty?**

A: The board can delegate the duties but it can't delegate their responsibility. The board needs to know enough to manage the manager, and claiming "we didn't know" is not a viable legal defense. I would also recommend that the board make sure that they review their Directors and Officer's insurance policy and the Manager's Errors and Omissions coverage with the association's insurance agent to make sure they are adequate (often times they are not) and make sure they offer real protection for the board from liability.

**Q: Is it a requirement for COA's to maintain accrual based books or can they be cash basis?**

A: Some states have regulations on the operation of the association but I don't believe they have requirements for accrual accounting. I know many smaller associations that use a cash basis. That being said, the industry typically recommends accrual based accounting.

**Q:** Are you in favor of making a projection of budget changes during the year to see how things are going? Following up on the driving analogy, we do this so that we are “not driving down the road with our eyes fully planted on the rear view mirror”.

**A:** Certainly, we recommend reviewing the financial status of the association throughout the year. A projection of how things are going year-to-date will help you know where you need to tighten your belt or how much “extra” cash the association might find available, helping you make wise third and fourth quarter adjustments in income or spending.

**Q:** Do you recommend sharing the financial reports with just the BOD or the membership?

**A:** I recommend sharing the year end income and expense report and the balance sheet with membership at a minimum. Some states even require this. This should be done in a timely way at the end of the fiscal year typically within 30-60 days. They can be mailed or posted to an online owner’s portal or access restricted community website. The only report that you cannot share with membership is the aged delinquencies – many states have laws around protecting the privacy of this information.

**Q:** Do you recommend any financial management software that allows invoices to be reviewed by all board members prior to the treasurer and president approving the invoices?

**A:** Some HOA / Condo industry specific software provides this invoice approval functionality within the software (Caliber and Tops Software, etc.) but these systems are often more complex than a board can use on their own (designed for management company with trained accounting staff). However, I find that these built in systems are not as user friendly or robust as using a tailored accounts payable software like Strongroom. This system though is mostly used by management companies or a company like [Community Financials](#) and paired with other accounting software to handle the financial management of the association. This system allows for a manager (if you have one) and 2 board members to approve invoices prior to payment and allows for others to have view only access. You can read more about it in this [blog on Accounts Payable Best Practices here](#).

**Q:** What steps can we use when a Property Management Company handles the issuance of the checks?

**A:** You have a few choices if your manager doesn’t have an online system like the one outlined above. 1) you can require that the manager show you the invoices to approve prior to them paying – this can be done by manager emailing you scanned invoices and you reply approved or they can mail or come over to review the paper invoices in person and you initial and date them. 2) another way is to require a check that has two signatures on it – if



you go this route make sure you have printed on the check “two signatures required” as otherwise if there is only one signature it will still be valid.

**Q:** What if you have an aged owner balance over 90 Days?

**A:** You need to make this the highest priority at the next board meeting. Review your collection policy and “work the plan”. If you don’t have a collection policy, come up with one and then notify owners of the new policy (this will help going forward and put past due owners on notice of a change in your approach to handling delinquencies). Then work with a collection attorney or collection agency to help go after these past due owners. [Here is a sample collection policy](#) you can review with the board and your attorney. For additional info here is an article I wrote for CAI: [“6 Steps to Improve your Collection Practices Before the Next Recession”](#).

**Q:** Who pays the credit card processing fees?

**A:** The homeowner does and the charge is typically around 3%, but it may be worth it for some owners to avoid further costly collection actions.

**Q:** How do you handle "Shall" versus "Will" when trying to settle an account.

**A:** I am not quite sure what you are asking in this question. You can explain more on our [contact us page](#) and I’ll be happy to answer your question.

**Q:** Our association manager and Treasurer oversee payments. Will this be considered two signatures?

**A:** Yes this is considered two signatures – you have some checks and balances in place so not one person is approving / making payments.

**Q:** What is your opinion of posting financials on HOA website with subject to possible hacking?

**A:** I am seeing more and more communities post the year end income and expense and balance sheet on their website. Access is usually limited to the owners that have unique logins. If hacking is a concern I would suggest you talk to your website provider and see what they can do to improve security or encryption.

**Q:** What is GL coding?

**A:** Good question and sorry that I used the abbreviation in the webinar. GL is short for General Ledger and when this is mentioned it is used to numerically identify line items that show up as income or expense on your income and expense statements, because computers handle numbers better than text. By having adequate GL codes you will have a better idea of where your money is coming from or going to, and it helps with spotting variances.

**Q:** Our manager forgot to pay the park's taxes. Owning up to his mistake, he offered to pay it with his own funds. Our membership is unaware of the situation. What are the disclosure rules?

**A:** If the manager made a mistake, admitted it and paid the cost then I don't see the need to disclose this to membership. I would say that they are being generous and may have only needed to pay any fines or interest and not the original tax. Billing and payment mistakes can happen and it is how they are handled that shows you the true colors of your manager/ vendor.

**Q:** What happens if the wrong collection policy is mailed out? Can it be retracted and a new one be sent at any point during the year?

**A:** Yes you can update your collection policy when changes occur. I would just review the notice provisions of your governing docs to be safe, but I would say that this policy will replace the former and go into effect 30 days from now (pick the 1<sup>st</sup> of the month about 30 + days out).

**Q:** You suggested redoing the budget mid-year? What is the suggestion for that and why?

**A:** This would be applicable to an association that has had a major change. Some examples are if the community just went from developer to board control or added a new amenity and the budget would be updated to reflect any new expenses.

**Q:** What suggestions do you have if the management company refuses to provide 1/2 of the financial statements over a 2-year period?

**A:** First if the management company has not provided financial statements in a timely way and is only providing limited financials this is a red flag – it shows 1) they do not know accounting, don't have proper staff and/ or systems in place, or possible wrongdoing. 2) if they have provided all the reports outlined in your management agreement on time all along

but you are not getting the historical/past statements you should have your attorney make a written request to help get the documents. In either case the 2 main reasons communities change management is due to 1) poor financials or 2) poor communication / response time (or both). So you may want to look into a new management company. That being said if you love your manager but they are just poor at financials the community may separate the physical management from the financial management for better expertise and also checks and balances. [You can read more about this arrangement in this blog post.](#)

**Q:** Is there an independent process or organization that validates and certifies property management processes for customer assurance?

**A:** In a handful of states there are regulations for operating community associations and for managers. However even in these states there is limited oversight to validate processes. If this is of interest to you, you may consider hiring an independent professional manager with a designation to go thru your processes and provide suggestions. You can ask your [local Community Association Institute chapter](#) for a recommendation or [send me a message](#) and I'll see if I can refer someone in your area.

**Q:** Please provide the website link for the sample collection policy you described.

**A:** Here it is: <https://communityfinancials.com/wp-content/uploads/Collection-Policy-Sample-Community-Financials.pdf>

**Q:** Do you have samples of the balance sheet & aged delinquencies reports that you showed in the webinar?

**A:** Yes the best place to find that is on our website – at the top of the page there is a link for [Financial Reports](#) and you can see the four financial reports. There is also a pdf of this info at the bottom of the page that you can email or print out to share with other board members.

**Q:** Do you need to amend your condominium documents in order to report to the credit bureau?

**A:** I haven't seen a case where this was necessary but it's always a good idea to consult your association's attorney. Usually, the board signs a short agreement for the service. To read more here is a post: [How Does Reporting Delinquent HOA and Condo Owners to a Credit Rating Agency Work?](#)

**Q:** Are collection telephone calls unusual?

**A:** Yes, they are unusual from board members or the management company. It is best that collection issues have a “paper trail”, eliminating the “he said – she said” problem. Typically late charges are added to the owner’s ledger, and those late charges appear on mailed statements, late letters, pre-lien certified letters, followed by documentation with a collection agency or attorney. In addition, some states regulate collection actions, so in those states calls are left only to licensed collection agencies or attorneys that will make the proper disclosures at the beginning of the call like: “this is an attempt to collect a debt”.

**Q:** How do you feel about turning off services: garbage pick-up, gate access, etc. to a delinquent owner?

**A:** Check with your governing documents and your association attorney on what is allowed. I have seen where a delinquent owner can’t vote in community elections and loses the privilege of using community amenities, but you typically can’t limit access to their house (gate access) and vital services like garbage pick-up. Even so, you may be able to restrict their guests (or carpools!) from entering the association.

**Q:** What about prepayment discounts? Do any HOAs offer these?

**A:** I do see owners pre-paying the dues – this is mostly for their convenience – not having to remember to make a payment, mail checks, etc. However, I do not see discounts for these. I am not sure if you offer an incentive you will get more people to pay early either – it would depend on the financial condition of your owners. But if you have more financially strong owners and you need money now for a project and want to incentivize early payments you can discuss what an appropriate discount would be and see if it works.

**Q:** After 25 years should landscape planter boxes that need to be replaced or have a major overhaul be funded thru operating expense or should they be funded thru the Reserve Fund if they have not been listed as a Reserve Fund item?

**A:** A project is an appropriate Reserve expense if it meets the National Reserve Study Standard [four-part test](#). Planter boxes typically meet this four-part test. If planter box replacement is not listed in your Reserve Study, it is fine to spend the money from Reserves because the four-part test is the governing authority on Reserve expenses. Just make sure to get your Reserve Study updated for the upcoming fiscal year, with the addition of a planter box replacement line item!

**Q:** What are the required items that must be disclosed in reserve study summaries that are mailed annually to condominium association members (prior to the start of the new fiscal year)?

**A:** Two states have specific annual disclosure forms (CA and WA). In addition, some states (FL and WA) have specific (short) lists of components that must be addressed in the Component List. In all states, it is best practice to distribute the Reserve Study's "Executive Summary" to the owners, which consists of the Component List (what we're Reserving for), starting Reserve balance and description of Reserve Fund Strength (typically reported in terms of Percent Funded, which reveals "where we are" or "how we're doing"), and the recommended Reserve contribution rate ("where to go from here").

**Q:** Are onsite reserve studies being conducted every 3 years optional for condominium homeowner associations?

**A:** Different states have different requirements. Also – check if any requirements are stated in your Governing Documents. The most common state requirements are that With-Site-Visit updates be conducted at a minimum every third or fifth year. Statistics show that associations enjoy the benefit of lower special assessments when they update their Reserve Study annually (with a No-Site-Visit update) in between their With-Site-Visit updates, whether performed on three-yr or five-yr intervals. Those associations reviewing and adjusting their Reserve Study annually enjoy approximately 30% fewer special assessments.

**Q:** Our association manager updates reserve study in-house. Is it better to have Reserve Study by an outside source?

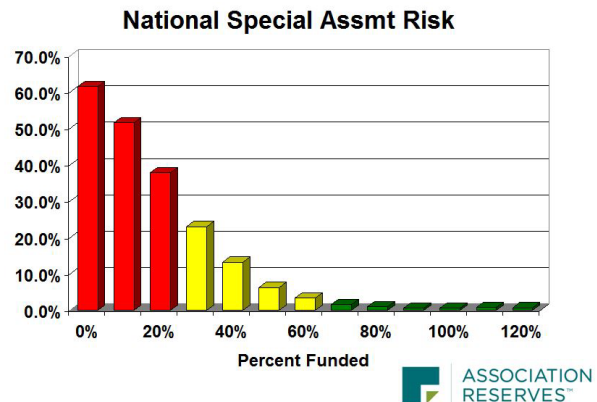
**A:** Having the update done by an independent professional provides insights, accuracy, independence, and credibility that a manager can't offer. The manager is not responsible for an ineffective plan that results in a roofing shortfall 15 yrs later (Whoops! Sorry!). Some things are worth getting done well by hiring a credentialed professional.

**Q:** Do you have more information on the reserve study plan? What makes up the Fully Funded reserve balance?

**A:** See our webinar "Reserve Study Basics" [here](#), or download our ebook on Reserve Fund Strength [here](#). The Fully Funded Balance is the total value of Reserve Component deterioration at the association. For example: if you have a \$100,000 roof (current value) with a 20-yr life expectancy that is 10 yrs old, half of its life has been expended. So the Fully Funded Balance of the roof is half of the current replacement cost, or \$50,000. Do this for all the components to get the total Fully Funded Balance for the association. See [National Reserve Study Standards](#) to find the definition for Fully Funded Balance and other key Reserve Study terms.

**Q:** What Percent of required Reserves are to be held in cash?

**A:** There is value in having Reserves readily available to be spent, instead of tied up in an investment. But that percent, or fraction, depends on your projected upcoming expenses for the next year or two. But if I interpret your question to be how much Reserves you should have compared to the amount required, that is a different question with a different answer. The chart below shows that associations that maintain Reserve cash in the 0-30% range of their Fully Funded Balance (FFB), also known as “Required Reserves” commonly experience special assessments when they don’t have enough Reserve cash (whether through lack of planning, bad planning, or bad luck). So while Reserve adequacy is technically a plan that shows your Reserves will be cash-positive (0% or higher) for the next 20 yrs, there is value in having some margin for the (inevitable) unexpected. As you can see, special assessments are rare among associations maintaining their Reserve cash at or above 70% of FFB. That’s why many associations enjoy having a strong Reserve fund and pursue the goal to be “Fully Funded”!



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<b>Robert Nordlund, PE, RS</b> Association Reserves Founder, CEO	<b>Russell Munz, CMCA</b> Community Financials Founder, CEO
	
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 **Outline**

**Introduction**

Best Practices

The Four Reports

Planning Ahead

Summary

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## What do I do?

- Owner Delinquencies
- Bills to pay (which one first?)
- Prevent Embezzlement
- Manage Payroll
- Operating vs Reserves
- And so many more!



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It's good to learn from your mistakes. It's better to learn from other people's mistakes.

— Warren Buffett —

AZ QUOTES

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## Decision Strategy

***"Let's work the problem people, let's not make things worse by guessing!"***



Gene Kranz, Apollo 13 Flight Director

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## Outline

- Introduction
- Best Practices**
- The Four Reports
- Planning Ahead
- Summary

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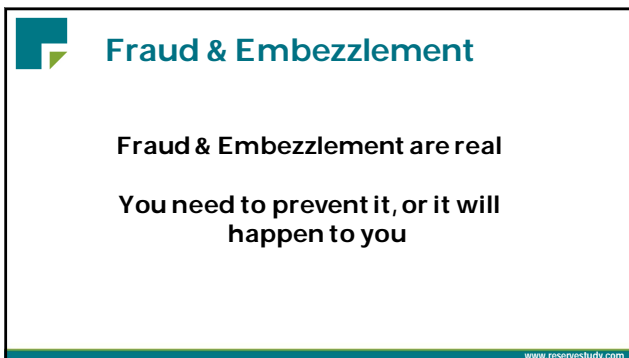
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## Fraud & Embezzlement

**Fraud & Embezzlement are real**

**You need to prevent it, or it will happen to you**

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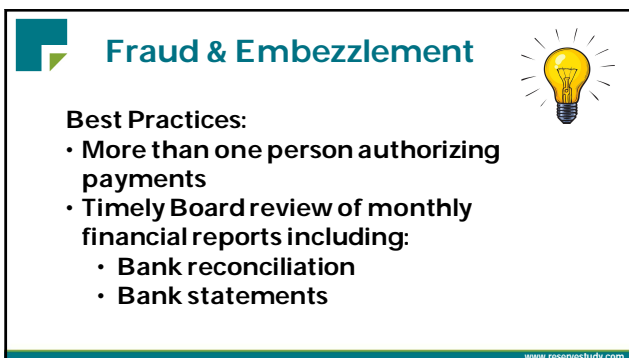
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## Fraud & Embezzlement

**Best Practices:**

- More than one person authorizing payments
- Timely Board review of monthly financial reports including:
  - Bank reconciliation
  - Bank statements

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## Fraud & Embezzlement

**Best Practices:**

- Limit # of debit/credit cards
- Petty Cash

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## Fraud & Embezzlement

**Best Practices:**

- Eliminate single-person control
- Share responsibility

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## Accounts Payable

**Best Practices:**

- Two people required
- Lock up blank checks
- Accurate GL coding
- Note duplicate payments
- Compare to budget

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## Payroll

**Best Practices:**

- Use Outside service




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## Delinquencies

**Best Practices:**

- Communicate regularly with owners
- Provide multiple payment methods
  - Check
  - BillPay (owner's bank)
  - Credit card
  - ACH (eCheck)
  - Payment over phone

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## Delinquencies

**Best Practices:**

- Have a clear/public collection policy
  - Late Letter Process
  - Late Fees
  - Legal Action/Collection Agency
  - Credit reporting

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## Manage Income!



**Best Practices:**

- Separate accounts – each community
- Payments go directly to bank
- Check scanner (then destroy)
- Monitor accounts online
- Close unused accounts



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## Outline

- Introduction
- Best Practices
- The Four Reports**
- Planning Ahead
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## The Four Reports that Matter

- Learn the financial “pulse” of the community
- Use your time wisely
- Plug holes
- Train boards (good patterns & habits)



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## The Four Reports that Matter 1

### Income/Expense (Monthly "budget")

- Where are the \$ going?

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## The Four Reports that Matter 2

### Balance Sheet

- How much \$ do we have?
- Where is it
- Typical Ratios (Op, Reserves)

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## The Four Reports that Matter 3

### Bank Reconciliation

- Confirms math
- Bank & assoc "agree"

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[illegible][illegible]

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## Summary

- Many moving pieces!
- Four reports tell you what you need to know
- Get help (it's wise)\*



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## Drive (the Association) Safely!



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## Drive (the Association) Safely!



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## Drive (the Association) Safely!

<b>Reports</b> <ul style="list-style-type: none"> <li>• Income/Expense</li> <li>• Balance Sheet</li> <li>• Bank Reconciliation</li> <li>• Aged Delinquencies</li> </ul>	<b>Driving</b> <ul style="list-style-type: none"> <li>• Roadway ahead</li> <li>• Speedometer</li> <li>• Instrument Panel</li> <li>• Mirrors</li> </ul>
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## Outline

- Introduction
- Best Practices
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- Planning Ahead**
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## Business Judgment Rule



**Duty of Care**      **Duty of Loyalty**

**Duty of Inquiry**

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## Reserve Contributions

How much is enough  
(for our association)?



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## Reserve Contributions

Successfully  
underfunding  
is failure!



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## Reserve Contributions

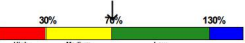
Report Period: January 1, 2021 through December 31, 2021

Findings/Recommendations as-of: January 1, 2021

Starting Reserve Balance	\$678,925
Currently Fully Funded Reserve Balance	\$960,922
Average Reserve Deficit (Surplus) Per Unit	\$2,720
Percent Funded	71.4 %
Recommended 2021 Monthly "Full Funding" Contributions	\$15,000
Recommended 2021 Special Assessments for Reserves	\$0
Most Recent Reserve Contribution Rate	\$13.97%



Reserves % Funded: 71.4%



Special Assessment Risk: High Medium Low

### Find your recent recommendation

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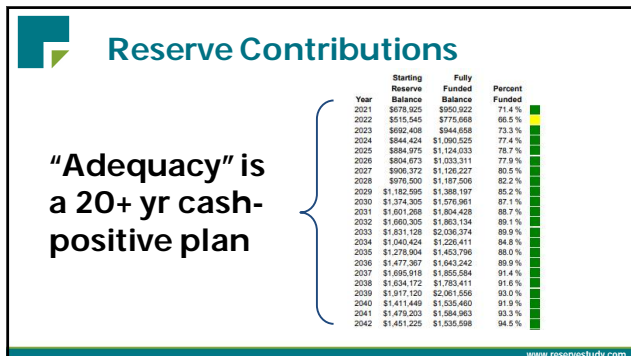
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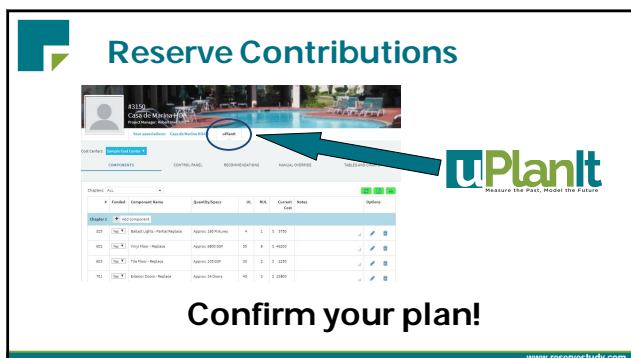
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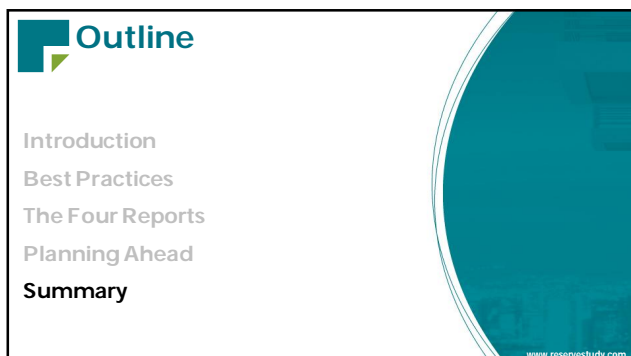
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## Additional Resources

Reserve Components,  
Funding, and much more!

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For further questions...

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