

TRADE HOA STRESS FOR SUCCESS

**FOCUSING ON
FINANCIAL
HEALTH**

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 - Currie & McLain CPA's
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- Find out more about the sponsors on the web
- www.currie-mclain.com
- WWW.therightbank.com
- The spreadsheet supporting the examples is available free of charge by writing to johncaughell@currie-mclain.com

OBJECTIVES AND GOALS OF TODAY'S PRESENTATION

- Gain an Understanding of Financial Controls to Reduce Risk
- Provide Budgeting Tools to Ensure Fair Assessments
- Understand the Replacement Reserve and How it Works
- Gain an Understanding of How to Evaluate Property Management Companies
- How to Effectively Work with Accountants and Attorneys

INTERESTING FACTS

- HOA's were first established in the middle 1800 but didn't take off until the 1960's
- There were approximately 340,000 associations representing 26 million households in 2015
- 4 States account for 38% of all Associations
- Homeowner Associations account for over half of all Associations
- Washington has over 10,000 Associations Oregon has under 4,000
- Over \$23 Billion was contributed to Replacement Reserves in 2015 (Average \$884/household)
- Over \$85 Billion of assessments collected (Average \$3,269/household)
- \$1.76 Billion is the estimated value of volunteer board time spent on Association business

- Source Community Associations Institute (caionline.org)

HOA STRESS POINT FINANCIAL HEALTH

- Budgeting for Cash or Accrual or Both
 - Highly recommend accrual based budgeting
 - Use weighted cases to calculate budgeted expenditures
 - Do not forgot to assess bad debt

HOA STRESS POINT FINANCIAL HEALTH

- Budgeting for Reserve Expenditures
 - Updated Reserve Study will guide the amount to charge
 - Do not reduce it without consultation with an expert
 - Keep in mind that it is subject to risk of non-collection also

HOA STRESS POINT FINANCIAL HEALTH

- Getting Quotes and Setting Performance Standards for Significant Financial Areas
 - Maintenance
 - Legal fees
 - Audit
 - Accounting
 - Management

HOA STRESS POINT FINANCIAL HEALTH

- Separation of Duties Can Reduce Risk
 - Check signers should not initiate transactions
 - Annual conflict of interest evaluation
 - Bonding for Treasurer or others with access to accounts

HOA STRESS POINT 1 FINANCIAL HEALTH

- What are Good Financial Controls
 - Two check signers
 - Bank reconciliation performed by a non-check signer
 - Dues payments to lock box
 - Evaluate expense variances
 - Follow up with delinquent accounts
 - Review your financial statement audit

HOA STRESS POINT DEALING WITH RESERVES

- The Reserve Study
 - Helps plan for future expenditures on common property
 - Needs to be evaluated against reality

HOA STRESS POINT DEALING WITH RESERVES

- Funding the Reserve
 - Reserve study provides the amount to assess
 - Consider factoring in uncollectible assessments

HOA STRESS POINT DEALING WITH RESERVES

- Special Assessments
 - Typically arise when reserve assessments not fully charged to unit holders
 - Requires some sort of borrowing in almost all cases
 - Homeowners, not the Association, should borrow funds
 - Ideally Association would have a new fund for debt service in addition to future reserves

HOA STRESS POINT ENGAGING WITH MANAGERS

- Self-Manage or Hire a Manager?
 - Manager can be one of the larger expenses
 - Requires more engagement
 - Can add stress to board
 - If you lack time and expertise, outsource management

HOA STRESS POINT ENGAGING WITH MANAGERS

- Evaluating and Engaging a Manager
 - Create and follow a checklist of items important to the Association
 - Interview at least two management companies
 - Request and check references

HOA STRESS POINT 3 ENGAGING WITH MANAGERS

- Cost Saving Ideas for working with a Manager
 - Have board meetings at Managers office if their attendance required
 - Set clear guidelines for escalation of services
 - Give Manager reasonable time to reply to requests

IN CONCLUSION

- Serving on an HOA board should not be all consuming
- Good financial controls will reduce risk and sleepless nights
- When in doubt, outsource the detail work to a trusted partner
- Manage your outsourced partners by establishing goals and objectives

THANK YOU FOR ATTENDING

- Questions?
- Additional Resources
- Feel free to contact me at johncaughell@currie-mclain.com
- Or by Skype [johncaughell@currie-mclain.com](https://www.skype.com/people/johncaughell@currie-mclain.com)
- PDF of this slideshow is available upon request and will also be posted at
- www.linkedin.com/in/johncaughellcpa

Our March Lunch and Learn is “Changes to Generally Accepted Accounting Principles that may impact your business” If you are or know a small business owner, controller, or advisor consider coming to learn more about GAAP and options for financial statement presentation.

March 16, 2017 11:30-1:30.