



Avoid Costly Mistakes – Can't Miss Warning Signs Reviewing Association Financials

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Balance Sheet											
	<p>“Total Assets” should equal “Total Liabilities and Fund Balances”.</p> <p>Unless the association’s investment policy has overriding requirements, check to ensure that the association has no more than \$250,000 in any one bank, regardless of the number of accounts involved.</p>										
	<p>Compare Accounts Receivable balance to the previous month. Is it increasing? Is there a trend?</p>										
	<p>Divide the Accounts Receivable Assessments balance by the Monthly Billed Assessments. What is the percentage?</p> <p>As a rule of thumb, the percent of delinquent assessments in associations should generally adhere to the following:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Percent Delinquent</th> <th style="text-align: left; border-bottom: 1px solid black;">Rating</th> </tr> </thead> <tbody> <tr> <td>3% or less</td> <td>Excellent</td> </tr> <tr> <td>4% to 5%</td> <td>Good</td> </tr> <tr> <td>6% to 10%</td> <td>Poor to Average</td> </tr> <tr> <td>Greater than 10%</td> <td>Deteriorating Financial Position</td> </tr> </tbody> </table>	Percent Delinquent	Rating	3% or less	Excellent	4% to 5%	Good	6% to 10%	Poor to Average	Greater than 10%	Deteriorating Financial Position
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	<p>“Total Accounts Receivable” should equal the balance due on Receivables Report.</p>										
	<p>“Prepaid Assessments Report” should equal the balance on the Balance Sheet.</p>										
	<p>The entry in the change column for the “Operating Fund Balance – Beginning of Year” should be zero.</p>										
	<p>The fund balance for “Excess Revenues (Expenses) – Current Year” should equal the year-to-date actual excess of revenues or expenses on the Statement of Revenues and Expenses.</p>										
	<p>The “Replacement Fund Balance” should equal the “Total Ending Fund Balance” on the Schedule of Changes in Replacement Fund Balances.</p>										

	All cash and investment account balances should appear on reconciliations for that account
Bank Reconciliations	
	Check bank statements against bank balances on financial reports and review reconciliations.
	Scrutinize reconciling items for anything unusual or outstanding for longer than 60 days.
	An actual copy of all bank statements should be included in the information provided.
	Reconciliations should include reconciliations of all the investment accounts.
Comparative Profit and Loss Statement (Statement of Revenues and Expenses)	
	In accrual accounting, the actual assessments should equal the budgeted assessments. The variance for assessments for both month-to-date and year-to-date should be zero.
	A budget is input in the month of service, rather than dividing by 12 months. Thus, assuming a balanced budget, the excess revenues or expenses under both the month-to-date budget and the year-to-date budget are zero only at year end. This is a way to verify the accuracy of individual entries on the statement.
	Survey the month-to-date and year-to-date variances under the revenue and expense categories for anything unusual. Investigate significant variances.
	Review any revenue or expense accounts that are not budgeted accounts, this is either a misclassification or revenue or expense that was not budgeted. Find out why.
Check Register	
	Survey check numbers to ensure that they are in sequence and all checks are accounted for.
	Check each payee and description on each check for any discrepancies.
	Compare Invoice dates and payment dates to see if there is a long delay, if there is there were probably late payments assessed.
	Check to see that discounts are taken when appropriate.

General Ledger											
	Scan the General Ledger for any apparent and misclassifications.										
	Review the General Ledger for any discrepancies.										
	Look further into any credits to expense accounts or debits to revenue accounts , many times this is an adjustment that should be explained.										
	The total debits and credits in the general ledger should be equal.										
Trial Balance											
	Opening Balance should be zero.										
	Closing Balance should be zero.										
	Total Debits and Total Credits should be Equal.										
Aged Receivables Report											
	Check report for delinquencies and make notes to follow up on any balances due.										
	Check delinquency procedures. Are they being followed?										
	Scan report for any apparent discrepancies.										
	From time to time, check the accounts receivable ledger for discrepancies, are there names on the report that are no longer owners?										
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	Bring extenuating circumstances for individual situations to the board's attention, e.g. bankruptcy, probate.										
	Compare report to association attorney's collections list, are they the same?										
	Are late fees being charged per procedures?										
Schedule of Changes in Replacement Fund Balances											
	Survey report for any apparent discrepancies.										

	Compare report to budget plan for funding.
	Compare report to the reserve study.
	Check for missing items.
	Do expenditures appear to be properly stated as replacement fund expenses vs. operating?
	Do expenditures appear to be properly stated as replacement fund expenses vs. improvements?