

# Handout



## **Board Leadership Development Workshop**

### **Part 2 – November 9, 2021 Fundamentals of Financial Management**

# Speaker & Sponsors

## Speaker



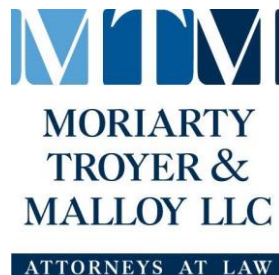
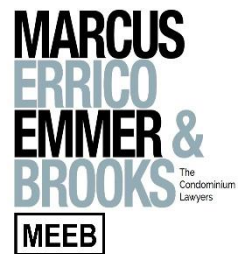
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Kenneth A Bloom, CPA, is a partner in the accounting firm of Bloom Cohen Hayes LLC. An active member of CAI, he has served as a member of the *Condo Media* Board as well as the CAI New England Chapter Board of Directors and is a past president of the chapter. In addition to his involvement in the local chapter, he has served as a CAI National trustee, is a past member of both the CAI National Accountants Committee and the Government and Public Affairs Committee, and CAI National Faculty. He is a member of the American Institute of Certified Public Accountants and the Massachusetts Society of Certified Public Accountants.

## Webinar Sponsors



# Objective



You will learn to:

- Recognize effective practices for protecting assets

## Protecting Assets

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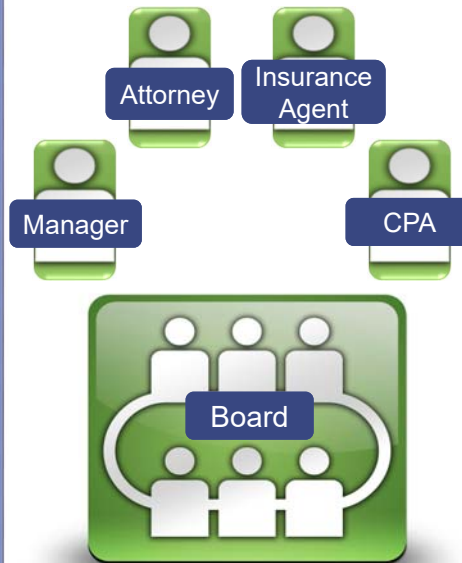
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# The Board's Responsibility

Having professional assistance in complex situations is always a good idea.

The board of directors, however, is **ULTIMATELY** responsible for ensuring adequate policies, practices and procedures are in place to safeguard assets.



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## What the Board Must Protect

~~Liability~~

Cash Assets

Income

Real Estate Value

Physical Assets

~~Waste & Corruption~~

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## Protecting Cash Assets

Examples:

- Set roles for people
- Set limits for the monetary amount on checks that can be written without board authorization
- Require board signatures for withdrawals

Identifies internal controls to minimize risk

Checks and Balances

Stipulates:

Investment Policy

- What investments are acceptable
- Who has authority to make decisions
- What terms must be met

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# Objective



You will learn to:

- Describe effective practices for preparing a budget

## Preparing a Budget

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# The Budget as a Tool

The budget provides a means for:

- Planning community activities
- Controlling the community's financial operations
- Providing continuity of services
- Minimizing unexpected expenditures
- Establishing the annual assessment



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## Budget Preparation: Historical Trend



Historical trend budgeting means looking at a particular line item over a period of time to identify either an increasing or decreasing trend.

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## The Budget Process

The budget process includes four basic stages:

- Stage 1 Planning
- Stage 2 Gathering information on expenses
- Stage 3 Reviewing revenue
- Stage 4 Setting assessments

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## Stage 1: Planning

Budget preparation starts with an annual management plan—a list of goals and tasks needed to make the goals a reality.

### GOALS

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_



Once you have these identified, separate your mandatory goals from your discretionary goals and prioritize.

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## Stage 2: Gathering Information

Once you've finalized your annual goals, you're ready to gather and review information regarding expenses.

Primary resources include:

- Financial statements
- Reserve study
- Service contracts
- Miscellaneous issues



Planning



Gathering information on expenses



Reviewing revenue



Setting assessments

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# Financial Statements

Financial statements:

- Provide economic information needed to make decisions
- Enable the board to monitor financial activity



What are common types of financial statements?

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# Components of Financial Statements

Balance Sheet


- Reflects the financial status at the time the report was prepared
- Lists all assets and liabilities

Revenue & Expenses


- Reflects financial transactions during a specific period of time
- Includes comparison of actual versus budget

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## Reserve Study

- An in-depth evaluation of a property's physical components
- An analysis of the cost and time frame for anticipated replacements or major repairs to common area elements, such as parking lots, playgrounds, pools, lighting, roofs, etc.



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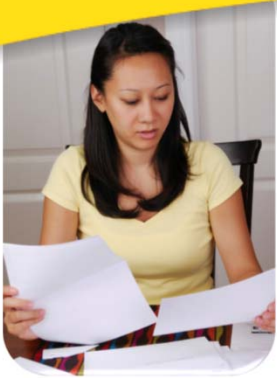
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## Service Contracts



Check existing contracts for terms and specifications; research renewal rates or make new inquiries.

### Includes:

- Lawn care
- Pool management
- Snow removal
- Trash removal/recycling
- Pest control
- Utilities
- Communications
- Annual audit and tax return preparation
- Security
- Legal
- Management

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## Miscellaneous Budget Information

Examples:

- ✓ New building codes for sprinkler systems
- ✓ Changes in local statutes on building signage
- ✓ Updates to the American with Disabilities Act (ADA) requirements
- ✓ Notices about utility and insurance company rate increases



Reflects various issues that could impact next year's budget

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## Stage 3: Reviewing Revenue

Once you've identified all anticipated expenses, the next stage is to identify how much money is needed to pay for the anticipated expenses.



Planning



Gathering information on expenses



Reviewing revenue



Setting assessments

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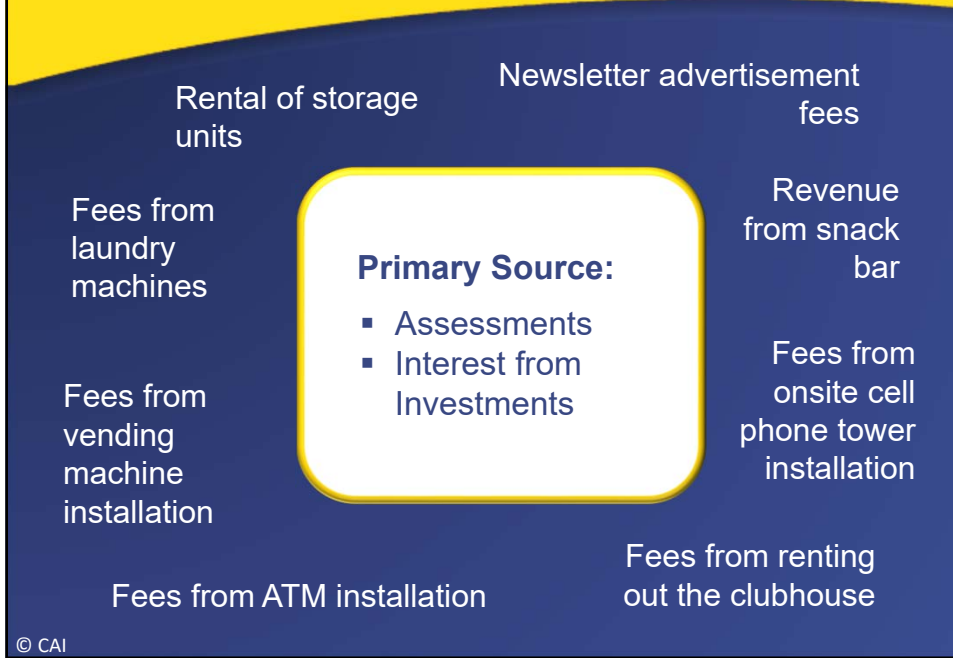
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## Sources of Income



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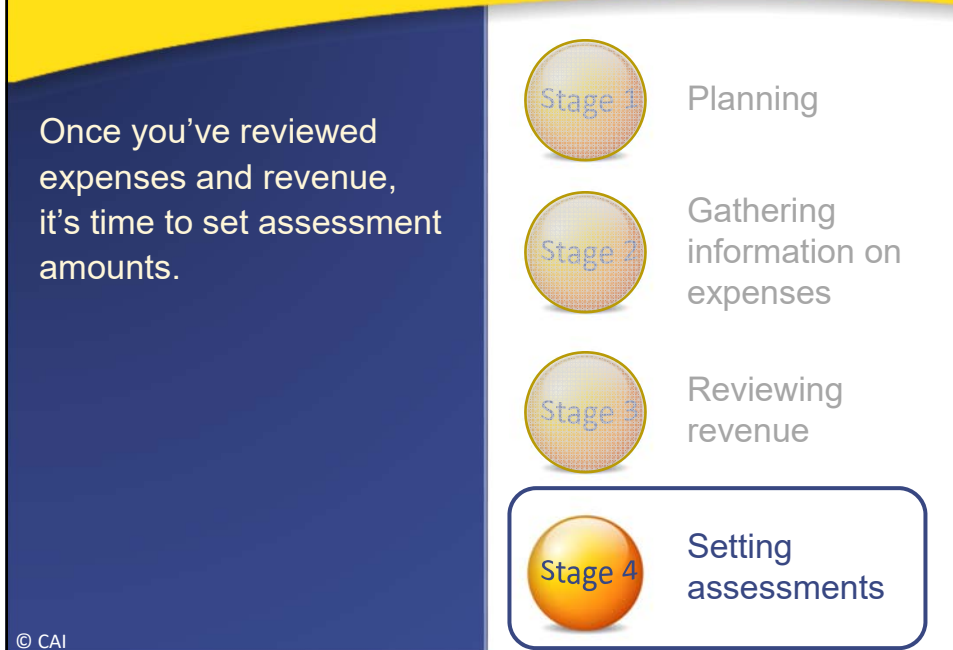
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## Stage 4: Setting Assessments



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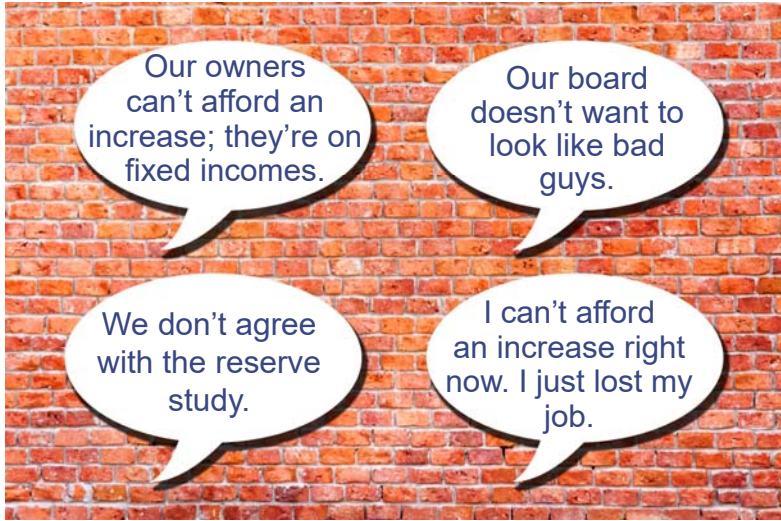
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# Assessment Traps



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# Objective



You will learn to:

- Describe effective practices for conducting and implementing a reserve study

Planning for the Future

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## Reserving Funds

Almost two-thirds of states have statutes:

- Requiring community associations to have reserve funds
- Specifying criteria for using the money



How much reserved money is enough?

Only your reserve study can answer that.

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## Components of a Reserve Study



- 1 Physical Analysis
  - Inventory of all major common area components
  - Assessment of each component's current condition and remaining life
  - Description of how the assessment was conducted
  - Cost estimates for each component's repair or replacement
  - Source(s) used to obtain cost estimates

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## Components of a Reserve Study



- 2** Financial Analysis
- Summary of the reserve amount needed
  - Evaluation of the adequacy of the association's reserve balance (measured by the percent currently funded)
  - Recommendation on contributions
  - Description of the methods used in computing the fund status and developing the plan

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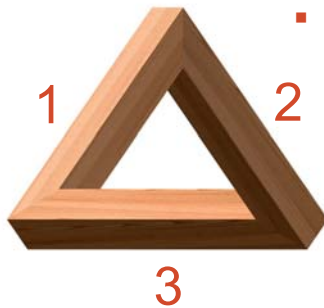
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## Implementation

### Select a funding plan:

- Full funding
- Baseline funding
- Threshold funding
- Statutory funding



### Determine frequency of follow-up:

- By state statute or governing documents
- Typically between 3-5 years

**Invest the funds according to association policy**, focusing on reasonable foresight rather than high rate of return.

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## Preventive Maintenance



By following the schedule and practices recommended by the manufacturer, the association can help ensure each component lasts as long as it should.

“A stitch in time saves nine.”

Benjamin Franklin  
1706-1790

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## Funding for Maintenance

The Internal Revenue Service (IRS) differentiates between:

- Repairs used to achieve the life of the asset, which are funded from the reserve account
- “Typical” or preventive maintenance, which is funded from the operating account



Typical/  
Preventive  
Maintenance



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## Asphalt Example



Every 3-5 years, asphalt also requires seal coating, which is typical/preventive maintenance funded by the operating budget.

Asphalt for roadways or parking lots is a common reserve component for many community associations.

Every 20-25 years, asphalt surfaces require replacement, which is funded by the reserve account.

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## Objectives



You will learn to:

- Describe criteria for an effective assessment policy

**Collecting Assessments**

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## Assessment Responsibilities

The board's responsibility:

- Maintain accurate and current assessment records
- Routinely monitor delinquent assessments
- Adopt a firm policy
- Vigorously enforce the policy in a uniform manner

An **assessment** is the owner's legal financial obligation to the community association during a given period of time.



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## Benefits of a Written Policy



A written policy:

- Is not intended to punish owners, but to *protect* them against those who don't pay on time
- Serves to educate owners about legal obligations and consequences
- Serves as a roadmap to guide the board in handling and enforcing the policy consistently

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## Module Summary

- Recognize effective practices for protecting assets
- Describe effective practices for preparing a budget
- Describe effective practices for conducting and implementing a reserve study
- Describe criteria for an effective assessment policy

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# Chapter Partners

2021

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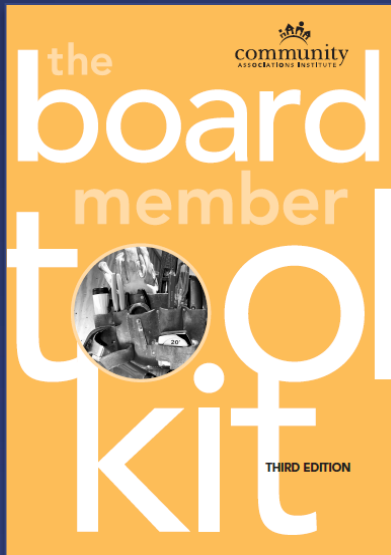
Schernecker Property Services, Inc. (SPS)

Swerling Milton Winnick Public Insurance Adjusters, Inc.

WTPhelan Insurance Agency

# Resources

## Online Resources



CAI New England Chapter (CAI-NE)  
[www.caine.org](http://www.caine.org)

Community Associations Institute (CAI)  
[www.caionline.org](http://www.caionline.org)

CAI Foundation for Community Association Research (CAI-RF)  
[www.cairf.org](http://www.cairf.org)

Community Association Managers International Certification Board (CAMICB)  
[www.camicb](http://www.camicb)

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