Focus on Leadership

Treasurer

It is Called Cooperative Living.
You Enjoy Living. And Your Home Cooperates.

Leadership Series Handbook

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THANK YOU FOR Volunteering!

You take pride in your home and in being part of a great community. When you saw an opportunity to make things even better, you decided to step up to the challenge and take on a more active role with your Cooperative. But, as board member, you are probably asking yourself: “Now what?”

Do not worry. We have seen it all, and we know all about the stress and responsibilities of being a board member. That is why we have put together a comprehensive resource guide to help.

In this book, is the collective knowledge of our 57+ years of experience working alongside countless board members to improve their communities. Keep reading to learn the fundamental roles and responsibilities of a cooperative board, how to find success in your new position, and the next steps you need to take a board member.

Role of the Treasurer

To function correctly, a cooperative must have a board of directors that is authorized to act on a community’s behalf, create and enforce community guidelines, and maintain shared spaces. Generally, the cooperative board has four officer positions: President, Vice – President, secretary, and treasurer.

What does the board treasurer do?
The HOA board treasurer acts as the financial manager for the association . He or she is responsible for the association funds and maintaining all financial records . From billing and collections to disbursement of funds, the treasurer oversees all things financial.

What makes a good board treasurer?
The importance of the Cooperative treasurer should not get overlooked. and finding the right person for the job is crucial to the success of the association. some treasurers may not feel comfortable handling the associations financial operations, so may not be as involved in the role. on the other hand, opposite can occur, and the treasurer may be too involved or make suggestions that are not in line with the appropriate business practices. It is best to select someone with an accounting background and sound business judgment to serve as the treasurer.

For over 57 years, MAHC has been the partner of choice for Cooperatives across the country. Our technology, products and services are designed to add value to your community. You will find that nobody has the expertise that we do when it comes to helping you achieve your community’s goals. Because of our commitment to community, we have become a leader positioned to provide actionable insights that deliver results for our Cooperative communities.

AUDITING PRACTICES

The treasurer's accounts should always be audited at least annually, for his own protection as well as that of the society. A vote of the society adopting the treasurer's unaudited report is of no value and should not be taken. It does not relieve the treasurer of responsibility, because the society has nothing on which to base its judgment except the word of the interested party, the treasurer. The treasurer should insist, if necessary, upon his accounts being properly audited, as the adoption of the auditor's report that his accounts are correct relieves him of responsibility for the period covered by the report, except in case of fraud.

When the amounts involved are very large and the reports complicated, it is usual and necessary that they be audited by registered public accountants. But in ordinary societies it is practicable to have the treasurer's reports properly audited without expense by an auditing committee of two or more members of the society. Some societies prefer to elect one or more auditors, who may or may not be members of the society. In nearly all cases it is better to appoint the auditors, as the auditing committee will be called, in advance, so that the treasurer's report may be audited before it is submitted to the society.

The duty of the auditors is to examine the report of the treasurer, and his books and vouchers, and see that all the money received is properly accounted for. The treasurer must show a receipt for every disbursement and must show that it was authorized. The balance in the treasury must be deposited in a bank to the credit of the treasurer in his official capacity, unless the amount is too small for such a deposit. When the auditors are satisfied the report is correct, they certify to the fact at the bottom of the report. This certificate may be as brief as this: "Examined and found correct." It should be signed by the auditors officially; their title being written underneath or on the side.

What are the primary duties of the board treasurer?

The treasurer is the custodian of the funds, securities, and financial records of the association. while specific roles and responsibilities vary by association, primary duties typically include:

- Reviewing financial recorders for accuracy.
- Overseeing billings and collections.
- ensuring timely payments of invoices.
- Making necessary investments of the association's funds.
- confirming audit and reserve studies get preformed.

Sometimes an association manager or management company handles funds and day-to-day. record-keeping functions. if this is the case, the treasurer's duties include ensuring appropriate parties following the association's governing documents and bylaw in maintaining all financial records and reports.

Budget Preparation: The Board treasurer's most important task.

As the leader in preparing the annual, the board treasurer must be willing and able to fulfill this crucial task with expert thoroughness. In preparing the budget, the treasurer must:

Review all contracts.

All contracts should be reviewed to ensure they are being fulfilled, the pricing is correct, and the services are still required. The contract and pricing review should be completed early on in case new contractors or venders are needed.

Contract Utilities.

Board members should contact all utilities to find out if the prices are as expected to increase and calculate this into the working budget.

Review financial statements.

It is important to review the income statement, the balance sheet, and the comparative budget for the current fiscal year to evaluate the associations current financial position, the board must determine where there are shortages and excesses and make the necessary adjustments.

Review recent reserve study.

Make sure the associations reserves are properly funded so money is available in case a reserve component requires maintenance. Reserve expenses should also get allocated as recommended by the professional reserve study analyst to avoid special assessments.

What is a reserve fund?

Two main accounts are used to pay for expenditures—the operating fund and the reserve fund. While the operating fund is used to pay for everyday and planned yearly expenses such as insurance, taxes, landscaping, legal fees, and other paid contractors, the reserve fund is set aside for future replacements and repairs that do not occur on an annual basis.

Reserves are funded by association member assessments, dues, fees, and fines. Additional money can come from interest and returns earned from existing reserve funds.

It may be helpful to think of your reserves like a college savings account—money that is set aside by parents each month to pay for a significant, future expense. For the savings account to become fully funded and be used for its intended purpose, several things must occur. Money should be set aside on a planned schedule and then left alone to mature, only being withdrawn at the appropriate time and place. And, just like any college fund, it is best to start saving as soon as possible giving you years rather than months to save.

Illustration by Chris Gash

Why do you need a reserve fund?

A reserve fund is your community's way to plan and prepare for the inevitable. Being prepared means having money set aside to pay for repairs and updates you know will happen, such as replacing a shared roof or resurfacing common roads and driveways.

Beyond paying for needed repairs, reserve funds also help your community attract new buyers and meet requirements put into place by some lenders. It also helps show homeowners your board is responsible and well prepared.

How much money should a cooperative have in Reserve?

There is not a “one-size-fits-all,” amount cooperatives should have in reserve. Instead, your reserve amount will depend entirely on your community’s needs, size, type, location, and many other factors. For example, a condo association with shared roofs, pools, and other expensive amenities may require far more funds compared to a small, single-family home community with limited common property or anticipated repairs.

To determine how much your community needs, you must crunch some numbers. Determine what your association owns, estimate how much time you have until things will need to be replaced, and then calculate how much everything is going to cost. A simple, straightforward way to figure out these seemingly complicated details is by paying for a professional reserve study.

What can HOA reserve funds be used for?

Your HOA reserve is not a piggy bank that can be dipped into at any time for any reason. Some states, like California, have strict laws against using reserve funds for regular, everyday expenses. Be sure to check your governing documents as well as your state laws before allocating any reserve funds.

In general, reserve funds will have a plan in place for how and when any money can be spent. Reserve fund expenditures often include, but are not limited to:

- Roof replacements
- Pool pumps
- Playground equipment
- Replacing fencing in common areas
- Painting of community-associated buildings

HANDLING FUNDS

In many societies that handle very little money, the treasurer is likely at any meeting to receive funds and may also wish to make payments. On this account, he should have with him at every meeting a pocket memorandum book in which he enters at the time every receipt and every disbursement. He should always keep the society funds separate from his own, and from time to time compare the society funds on hand with his books. If a bank account cannot be started, the funds should be kept in a separate package in a safe, or surplus funds could be deposited in a savings bank.

BONDING

When the treasurer handles large sums of money, it is prudent and customary to have him bonded for a sum sufficient to protect the society from loss. The bonds should be furnished by a corporation, not by individuals, and the expense should be borne by the society in all cases where the treasurer is not a salaried officer.

The auditor can only recommend closer personal supervision of the treasurer's records by the president, with instruction and guidance as needed, to ensure proper accounting records are maintained. The examples of discrepancies are offered to help the organization prevent future discrepancies that could lead to Internal Revenue Service penalties. "

No action is taken on the second part since its purpose is for information of those directly involved in administration of the fiscal affairs of the organization. A budget is a plan for spending the anticipated income. The treasurer is a major source of information in preparing the budget.

PREPARING THE BUDGET

The first step is to analyze the organization's ability to obtain income.

- Will membership remain stable? Increase by 5, 10, or 25 percent?
- Will there be a due increase?
- What fund-raising events will be held? Will net proceeds be more than in the previous year(s)?
- Will donations increase? Is a motivational program being planned?
- Will bank interest rates increase or decrease?
- Are there new areas for generating income?

The second step is to determine how the members want to spend their income.

- How will the cost-of-living increases affect your spending power?
- Are postage rates likely to increase? How much? When?
- Are travel costs likely to increase during the fiscal year?
- Have dues to higher membership levels of the society increased?
- Will costs to conduct fund-raising events increase?
- Will printing costs go up or remain stable?
- Will the organization's newsletter and other publications be issued fewer or more times? Be larger or smaller?

The third step is to draft the budget. Use the final comparative financial statement for the previous fiscal year. You will see what was budgeted for each line item and how much was spent. By applying the results of your analyses in steps one and two, it should be easy to develop a good budget.

Always remember that a budget is simply a guide for effective control of spending. It can be amended at any time by the adopting body. Approving a budget is very different from approving bills for expenditures. The budget is approved in advance and bills are approved after expenditures. So, unless there is a rule to the contrary, bills must be presented for approval, even though they fall within the adopted budget.

LITTLE THINGS THAT COUNT

- Major landscaping projects
- Construction and major renovations
- Road and sidewalk resurfacing

What is a reserve fund study, and how much do they cost?

A reserve study looks at reserve accounts and analyzes all foreseeable capital improvements and repairs. For example, if your community has a clubhouse with a roof that needs to be replaced every ten years, the reserve study will advise how much and how quickly your association needs to save to make the repair at the appropriate time.

A Reserve Specialist or professional Reserve Analyst can perform a reserve study for your association. Check with your governing documents and state regulations for any additional requirements.

The cost of a reserve study varies with the size and complexity of your association. The cost for conducting a first-time reserve study for a small HOA typically starts at $2,400.

How often should a reserve fund study be performed?

The frequency with which your board should perform a reserve study depends on your association's governing documents, as well as local and state laws. For example, Virginia requires a reserve study to be conducted every five years, while California requires one every three years.

If you are serving on the board, check your association rules and state laws to ensure reserve studies are being completed within the proper
time frame. If you live in a community or state without guidelines, do what makes the most sense for your community and work with a trusted community manager to put a reserve study schedule into place.

How do you plan and budget for a reserve fund?

Performing a reserve study is the best way to plan and budget a reserve fund. These studies will give you an overview, plan for how much needs to be saved and how long it should take.

Typically, a predetermined percentage of yearly or monthly assessments will go towards the funding of a reserve account—usually between 25% and 40%. How much money your association puts aside can change as reserves become fully funded, and the needs of your community change. Be sure your association is on track to meet its reserve goals and be careful to ensure owners are never paying too much or too little.

If your community is facing a potential shortfall in your reserve funds, then adjustments can be made. Your board should work closely with your accountant, community manager, and a certified reserve fund study specialist to find a proper resolution.

TREASURER'S CHECKLIST

- The scope of the treasurer's activities varies according to the needs of the organization and its rules.
- All transactions by the treasurer should be authorized by the organization either in the bylaws or by an adopted motion.
- Bylaws should specify the procedure for dues payment, including data on delinquent dues. When dues are received, the treasurer should issue a receipt or membership card to each member. Dues and fees sent to higher levels should be sent by registered mail.
- A bank account should be maintained in the name of the organization. Under no circumstances should the funds of an organization be kept in a personal account or in an account identified by the name of the treasurer or other officer. The treasurer is responsible for the signature cards, properly signed and filed with the bank, prior to writing checks.
- The treasurer's books should be audited annually by an independent auditing firm or by an auditing committee. A new treasurer should not accept books unless they have been audited.
- The treasurer's annual financial report should be prepared soon enough for the audit to be completed before the report is presented to the assembly.
- The treasurer should sign both his name and title at the bottom of the report before submitting it for audit.
- The adoption of the auditor's report relieves the treasurer of any responsibility for the period covered by the report, except in case of proven fraud.
- If the bylaws fail to specify who is to perform the audit and when, a motion should be adopted to establish a special committee and specify how the members will be chosen.

TREASURER'S REPORT

The treasurer's report should contain:

1. **Balance on hand at the beginning of the period for which the report is made.**
2. **Receipts (money received)**
3. **Disbursements (money paid out)**
4. Balance on hand at the close of the period for which the report is made.

The written report will contain the details to support the totals in each of the four categories. However, the verbal report to the assembly should only include the four totals.

The treasurer's report, given at each regular meeting, is not adopted. It is given only for information. The president and secretary should receive a copy of the report. After taking questions, the Chair announces that the report will be filed for audit.

An annual report covers the receipts and disbursements for the fiscal year. A fiscal year is an accounting period of twelve consecutive months. If it is to be other than the calendar year (January through December), the period it covers must be specifically designated (usually in the bylaws).

COMPARATIVE STATEMENT

A comparative statement should be prepared periodically to keep the members and the executive board aware of how well the organization is staying within its budget. The statement should show each account in the budget, the budgeted amount for each account, and the actual disbursements against each account as of the report date. The following sample should help you prepare your next comparative statement.

THE AUDIT

As treasurer, you are responsible for assembling the records needed by the auditing committee. They will need for the period being audited:

- Treasurer's ledger of accounts
- Bank book and register of checks.
- Monthly bank statements
- Amount of cash on hand
- Minutes of the meetings
- Bylaws and standing rules
- Periodic treasurer's reports
- Annual financial report for the fiscal year
- Audit report for the previous fiscal year
- Adopted budget.
- Authorization to obtain the last bank statement from the bank.

The audit report often is in two parts. The first part is a ce1tification to the effect that the annual financial statement has been audited and found correct. This certification is adopted by the assembly.

The second part highlights weaknesses in the accounting procedures with recommendations for improvement. For example:

"The following discrepancies made auditing the treasurer's records very difficult. They should be corrected in future accounting practices:

1. Cash record book not totaled and balanced 'to date' should agree with each treasurer's reporting period.
2. Cash record book not totaled and balanced at the end of the treasurer's term in office.
3. Cash record book not annotated with check numbers on disbursements or cash receipt numbers on income.
4. Personal checks were sent by the treasurer in lieu of the organization's checks, leaving the organization without verified disbursement records for two past president pins and one new membership pin.
5. Check stubs #279 through #282, #284 through #287, and #290 are missing from the checkbook. Treasurers must be made aware of the correct way to VOID checks and the check stubs. They should also be made aware of the possible penalties for removal of official records, in case of an Internal Revenue Service audit.
6. Checks were printed with sequential numbers for easier monitoring, yet they have not been disbursed in sequence, e.g., #II8 through #125; then #276, #277, etc.