

FINANCIAL AID

THERE'S NO SUBSTITUTE FOR AN EXPERT FINANCIAL TEAM. YOUR ACCOUNTANT, RESERVE STUDY PROVIDER, INSURANCE AGENT, AND BANKER HAVE INTERRELATED AND INTEGRAL ROLES. HEED THIS HIRING ADVICE.

By Vishnu Sharma, CPA, CFE; Peter B. Miller, RS; Karen O'Connor Corrigan, CIRMS; and Bruce Bent II

Reprinted with permission from the January/February 2021 issue of Common Ground™ magazine, the flagship publication of Community Associations Institute (CAI). www.caionline.org

WHETHER A COMMUNITY ASSOCIATION is self-managed or opts for professional management, boards still need financial services, reserves planning, insurance coverage, and other expertise to help them meet their responsibilities and achieve their goals.

There are many financial professionals with the necessary knowledge to work with common interest communities, giving boards plenty of choices. However, hiring the most capable professional is a process that requires careful consideration and scrutiny of their experience, credentials, skills, and reputation in the industry.

Before starting your search, consider the insights from these experts in the fields of accounting, reserve studies, insurance, and cash management. These professionals speak from experience and know what it takes to meet a community association's specific needs.

BALANCED ACCOUNTS

By Vishnu Sharma, CPA, CFE

BOOKKEEPER, ACCOUNTANT, AND AUDITOR are three common titles that are frequently, but mistakenly, used interchangeably by many outside the professions. The way that I like to explain the differences between these professionals is: Bookkeepers and accountants track accounting transactions and prepare financial statements. A bookkeeper may not necessarily understand the why behind recording these transactions, whereas an accountant understands the debits and credits and the reasoning for tracking them. On the other hand, an auditor is a certified public accountant who is retained to provide a year-end audit, review, or compiled financial statement.

When selecting one of these three professionals to meet your association's accounting needs, there are some criteria that must be considered.

First, and possibly the most important, is experience. This covers both how long the professional has been in the field and how much of their practice is focused on community associations.

Community association finances are unique as they require a mix of bookkeeping, accounting, and auditing and are governed by generally accepted accounting principles as well as state laws. You want a professional who has both many years of experience in accounting and whose focus is working with associations.

Credentials, college degrees, and professional certifications also are important to consider. They offer a level of independent confirmation of the skill of the professional you are seeking to hire. Credentials go hand-in-hand with experience, as both ensure that the most qualified individual will be the one working with your association's accounts.

Obtaining referrals from trusted sources is very helpful when narrowing down which accounting professionals to contact. You also may choose to do an online search. CAI's Professional Services Directory, for example, provides listings of accounting providers who are knowledgeable on community association finances.

In addition, don't limit your choices from the beginning. Interview at least three accounting professionals, as you'll learn from each of them and what they can bring to your community before making a decision.

Once you select an accounting professional, make sure you understand their fees and if there is any billing outside of a standard fee. Determine how the association will make payments for services rendered by the bookkeeper, accountant, or auditor.

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Using these criteria when hiring the right accounting professional means you'll have an experienced individual who is qualified to meet your association's financial needs.

Vishnu Sharma is chief executive officer of *Sharma & Associates Inc.*, an accounting firm in Fort Lauderdale, Fla. Sharma is the chair of CAI's 2021 Business Partners Council. He is a certified public accountant and certified fraud examiner.

ON RESERVES

By Peter B. Miller, RS

ASSOCIATION BOARDS have the responsibility of determining how much to set aside in reserve funds to replace specific components as they age. Conducting a reserve study will recommend an amount that the association should budget annually to contribute to its reserves by analyzing the physical condition of major components and their estimated service life.

A comprehensive reserve study is too important to the financial sustainability of the association for a board to be making a selection based on the lowest bidder. Choosing cost over qualifications is rarely prudent for board members who must assume their fiduciary duty to homeowners.

Here are some steps a board should take when selecting the right professional to prepare a reserve study for their community association.

Ideally, find professionals who have earned the Reserve Specialist (RS) designation from CAI. This designation confirms that the person possesses the requisite skills and specialized experience in preparing reserve studies to make sure associations allocate reserve funds as accurately as possible. Ask for referrals from communities of similar size and nature. Be specific, as there are many different types of condominiums just as there are many types of homeowners associations.

On a similar note, request a sample reserve study that fits the requirements of your community and has the following qualities:

Make sure the report is easily understood. Important financial decisions will be based on a similar report, and its contents must be properly explained to homeowners.

All reserve studies are based on the professional judgment of the reserve specialist. However, the board, committees, and the community manager must be aware of hot-button issues and how these are reflected in the report.

If the board anticipates a large increase over the current recommended annual funding level, notify the reserve specialist so they can design an alternate funding plan to avoid a single large funding increase.

Last but not least, seek the input of your community manager. It is likely that they have worked with several reserve study providers and will be able to advise the board on the most suitable professional for your community's needs.

Remember, this is your reserve study, and it will be used to make crucial decisions for the association. Do your due diligence to make sure that the professional you select will be a good fit.

Peter B. Miller is principal and co-founder of capital reserve consulting firm *Miller Dodson Associates* in Annapolis, Md. Miller is a member of CAI's Board of Trustees.

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NAVIGATING INSURANCE

By Karen O'Connor Corrigan, CIRMS

INSURANCE IS ONE of the critical parts of a community association's risk management process, helping offset liability and loss exposures by transferring some of the risk to the insurer. Because associations serve a variety of functions, it's important to work with an insurance agent or broker who is familiar with the intricacies of community association exposures to ensure proper coverage is purchased.

Finding the right insurance coverage begins with finding the best insurance professional for the job. There are a couple ways to go about your search: looking up providers through your local CAI chapter and obtaining referrals from other community associations. Often, the candidate will be an independent agent who represents many insurance companies and can tailor the community's coverage options.

If an individual or company is mentioned frequently, it likely means they are a specialist. This person should have a minimum of five years experience handling coverage for associations, and preferably has a Community Insurance and Risk Management Specialist (CIRMS) designation from CAI. Community associations require unique coverage, so having a specialist is essential.

Once you narrow down the candidates, there are several items you should check off the list. First, request a broker selection profile that includes an insurance review and alternative proposals. The profile should highlight the insurance professional's specific experience working with community associations. In addition to references from other association boards, check for references from community association lawyers. The report also should describe the insurance agent's team to determine what type of support the community can expect. How does the team handle claims? Do they assist the homeowners in coordinating their policies with the master insurance policy? These are all questions to ask the candidate.

Next comes the insurance review, which is where you can determine the candidate's technical knowledge on coverage. Don't be afraid to release entire policies to this broker to allow them to list possible improvements to the community's current coverage.

Finally, it's time to look at alternative insurance proposals for the association. Remember that the least expensive proposal is not always the best and having a side-by-side comparison can be valuable.

Be sure to take the time to read the entire report. You might be surprised by what you learn about the current insurance coverage, the candidate who will serve as the insurance broker, and how to make cost-effective improvements that will benefit the association's risk mitigation.

Karen O'Connor Corrigan is president of O'Connor Insurance in St. Louis.

MONEY MATTERS

By Bruce Bent II

MANAGING THE CASH of a community association ensures its long-term operation and stability. Proper cash management leads to capital preservation, liquidity to meet financial obligations, and high yields from accumulated interest in savings.

A community association can conduct an online search for companies that can take care of its cash. First, identify how much total cash the association has on hand, and separate them into two accounts. One can be for operating expenses, such as payroll, landscaping, maintenance, or any expenses incurred on a daily, weekly, or monthly basis. The second—your reserves account—can be thought of as savings for planned, occasional, or unforeseen expenses, like capital improvement projects or storm damage.

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The cash for operating expenses should be in an account that is easy to make payments from, offering online checking, debit cards, and more liquidity. The reserves account should pay a much higher rate of interest than the operating expenses account. Make sure the interest rate isn't a limited time offer that will soon disappear, and be aware of any minimum balance requirements.

Find out how good a cash management provider's online services are and what fees they charge before opening both accounts. Companies that offer accounts with high federal insurance coverage ensures that the cash is kept safe. These two accounts can be at separate institutions, as long as they can be linked easily online and the money can be transferred back and forth quickly.

In addition to cash management accounts, banks routinely provide associations loans for renovation or capital improvement projects, a system for collecting assessment payments, and lock box services. Other services include fraud-prevention tools and online systems.

Most banking services are offered a la carte, and costs vary. Your banker should be able to attend meetings, work with reserve specialists, and understand collection practices in your state.

Bruce Bent II is president of Landing Rock in Manhasset, N.Y., which offers cash management solutions.

DESIGNATED PROVIDER

MUCH LIKE THOSE offered to community managers, credentials and designations set professionals apart from the competition by certifying their knowledge, skills, and experience working with community associations. CAI has two credential programs for business partners to help better lead their communities and achieve desired business results:

- RS: Reserve Specialist
- CIRMS: Community Insurance and Risk Management Specialist

CAI also offers a program specific to attorneys, the College of Community Association Lawyers (CCAL), and a general program available to all community association service providers, the Educated Business Partner distinction.

» Learn about the requirements to obtain CAI credentials.

» Search CAI's Directory of Credentialed Professionals to find community association managers, management companies, insurance experts, reserve specialists, and attorneys who have earned CAI credentials and recognition.

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