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# Financial Record-Keeping Following the Money

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Whether your community is a co-op, condo, or HOA, proper record-keeping is the difference between a healthy property and one headed toward peril. And while meeting minutes and election results require well-organized documentation, records such as bills, invoices, bank statements, receipts and taxes informs a community's long-term financial health—and how these financial records are stored and accessed is critically important.

## What You Must Know

“Each board member should be familiar with their property manager’s monthly management report, which will provide cash balances, receipts and payments for the month and accounts receivable, a listing of residents who owe maintenance or common charges currently, and for over 30 days,” says Barry Korn, CFA and managing director for the New York City-based Barrett Capital Corporation. “Also, the monthly report will show income and expenses in comparison against the budget.”

Board members, Korn adds, must understand that the management report is most often prepared on a cash basis opposed to an accrual basis, which is an annual audited financial statement. “The difference is that the building may have incurred expenses in a particular month, but if they haven’t yet been paid, [those expenses] will not show up in the monthly management report,” says Korn. “While the monthly report shows cash balances, it does not show liabilities. Thus, understanding the timing differences and liabilities are an important financial consideration.”

At a minimum, explains Richard Montanye, CPA with the Uniondale, New York-based tax and business consulting firm, Marin & Montanye, LLP, board members should have a working knowledge of budget status, reserve fund balances, unit owners in arrears and major upcoming expenses. But beyond these basic financial touch points, board members can get careless or be otherwise uninformed.

“The most common mistake with record keeping is dependence on others to maintain historical information,” says Montanye. “Frequently, boards have a need to look back at financial documents that cannot be located. I actually had a board once lose the records for a certificate of deposit in the reserve fund. After the board members changed, it ceased to be reported as part of their reserves. When we brought it to their attention, they thought they were rich again!"

**Record Safekeeping**

As is the case with most boards, each member brings a different professional skillset to the table. Some may even be accountants or professional financial advisors—but even if they aren't, says Korn, they should be able to understand the building's annual financial report in general terms. "It's advisable for the building's accounting firm and financial advisor to be able to clearly explain the ramifications of their building's financial position," he notes. "Every board member should have a general idea of the expected capital maintenance expenditures anticipated over the next three to five years. Reserve studies (sometimes called capital needs assessments in New York)...should be made annually so that board members' can properly plan for ongoing maintenance expenses/common charges and the need, if any for financing and/or assessments."

There are two basic requirements to ensure that a property's financial documents are in fact being handled and stored properly: identifying who can view the records, and ensuring that the records are kept in a secure location. The latter issue may seem simple, but according to the pros, one might be surprised. For example, according to Robert Mayer, CPA and managing partner for the Long Island-based Prager Metis CPAs, LLC, important documents and records should definitely not be kept in a box in a board president's closet.

Korn agrees, and says that documents, including all financial records, are generally kept by the managing agent at its office. "When the building's auditor performs its annual review, it will request necessary information," he says.

If the property doesn't have an off-site management company, "Then the records should be kept locked in the [property's] administration office - especially any bank account or credit card numbers. Records should be kept locked, and access limited and papers should never be kept in open sight,” adds Mayer. “If they do not have an office, then the records should be kept in a safe deposit box at a bank.”

There's a third solution that's far better than a banker's box, and perhaps more convenient than keeping documents in a distant office, says Korn. “For a self-managed building, I suggest some form of cloud-based storage, so that the information is available to successive board members.”

The storage and record-keeping methods used by boards usually don’t vary all that much between different types of ownership, but Korn says there are some differences. “Generally, co-ops tend to be much more secretive about disclosing financial information to owners than do condos.” Montanye adds that co-ops typically have more records than condos—things like proprietary leases, resale packages, mortgages and financing agreements, all of which need to be kept orderly, secure, and yet accessible to those who may need to reference them.

Electronic record-keeping doesn't stop with simple cloud-based storage. When it comes to finances, many well-meaning board members labor under the often-false assumption that other board members or the managing agent are maintaining records. This can lead to redundant administrative tasks on one hand, and serious gaps in the community's financial and administrative record on the other.

“It is extremely important for a board to institute written procedures for the maintenance and destruction of documents. Historically buildings had board rooms or offices where filing cabinets of paper documents were filed,” says Montanye. “Fortunately, with today’s computerized sophistication, documents can be maintained electronically, which will insure security, availability and orderly destruction. In addition, it is easy to transfer custody from one board to the next.”

**Other Considerations…**

There are consequences for boards that do not properly manage and secure their community's documents. Industry experts implore boards to learn from the mistakes of others— and unfortunately, there are plenty of examples of mishaps and wrongdoing. When asked about theft of financial records, Mayer said there were too many examples to put on paper; however, he did share two instances from his own experience:

"We have had situations where a treasurer had the building's bank statements sent to their home, [mixed up the information] and…used the property's funds to pay their personal needs," says Mayer. "We've also had experienced bookkeepers who have had wire privileges and used common funds for non-property expenses."

While technology has streamlined certain documentation services, it is a double-edged sword, especially for co-ops. The frequency of identity theft has significantly increased, and it's often very difficult to determine the origin of a hack or information leak. Nevertheless, it's part of a board's fiduciary duty to make sure residents' sensitive information is properly secured.

"All boards have access to sensitive information about their employees, and co-op boards have custody of purchaser's financial information, bank account numbers - even medical records might be available to boards," says Montanye. "Often, social security numbers must be maintained for tax compliance reasons. Most boards would rather not have custody of sensitive information, but unfortunately it is part of the business operation, so security must be maintained."

## Streamlining Operations

While technology advances can help boards keep better financial records and secure access to them, there are time-proven approaches (like professional audits) that can better prepare boards for the managing of these all-important documents.

“An annual audit of the property's books and records, if performed by a competent CPA, should reflect any defalcations—funds misappropriated by a person trusted with their charge,” says Mayer. “In addition, the management, as well as the board, should make sure that monthly reports are sent to the CPA to review. Unfortunately, the fees that some CPAs charge do not allow them to perform the proper and necessary work to prevent instances like fraud.”

To make the CPA’s job—and in turn the board’s—easier, Montanye advises maintaining the least number of bank accounts as possible. Additionally, he says board officers should be signatories on all bank accounts, and reserve funds should be centralized.

“Many boards are concerned with maintaining Federal Deposit Insurance Corporation (FDIC) coverage,” says Montanye. “The result of that can often be multiple accounts and banks being used, complicating record-keeping and reporting,” says Montanye. “There are investment vehicles available that provide centralized reporting and FDIC coverage of the funds without the need to use multiple banks.”

To further simplify operations, Montanye suggests that boards develop a collective calendar of deadlines to include date stamps for tax reporting, board meetings and insurance renewals, among other line items.

“The best answer is to have an active board and committees to keep tabs on all transactions and monthly activities. No one individual should be able to execute financial transactions unilaterally,” says Montanye. “Sometimes convenience is dangerous as well, such as having credit or debit cards for board members or employees. The temptations are too great, proper records are never kept and when mistakes are made or when theft occurs it never gets resolved quickly and rarely satisfactorily."

**Board Resources**

While there are numerous education tools and industry portals for boards to access, the ability to tap these resources is dependent upon various factors, including how much a building or association is willing to spend on financial services and advice.

"This should be a team effort," says Korn. "The property manager keeps the records, the accountant reviews the records and the building's financial advisor/mortgage broker should be involved to provide an independent credit assessment for the building for proper planning purposes."

For boards that do not have a managing agent or self-govern, board members can reach out to industry organizations in their municipality or state for guidance and resource materials. "I think the first resource would be the corporate accountant," says Montanye. "Management companies also provide advice on how and where to maintain records. Since not every building has storage space, each building becomes unique with their needs and capacities. There are multiple membership organizations that provide classes on board operations that would be helpful."

For new board members, there is always a learning curve, which is understandable for a wide variety of board responsibilities, such as elections and fielding general questions from unit owners and shareholders. When it comes to finances, however, there is no room for error. To this end, industry experts say boards with accountants must tap that resource whenever the smallest of questions arise. And whether a board is self-managed or has a financial advisor, all documentation should be thoroughly vetted and backed up.

“All board should make it a priority that all financial records and software and [data] back up are maintained on site,” says Mayer. Korn adds, “It is the responsibility of the board members to review the monthly report and question any item that seems out of line.”

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