

# apm NEWS

**News, Issues & Information for Community Associations - Spring 2001**

## FINANCIAL REPORTING FOR COMMUNITY ASSOCIATIONS

**By John R. Math, LCAM**

Association Officers and managers have found themselves in the position of being responsible for hundreds and thousands of dollars in revenue and expenses. In order to keep track of an Association's finances, it is extremely important to understand how and why a financial report is compiled. In most instances, these individuals are very responsible but they do not possess an accounting or book-keeping background and find it difficult to understand financial statements.

In order to become more effective to your Association, you should become more familiar with the basics of what makes up a good financial report and how a book-keeper makes an Income Statement and Balance Sheet.

We will summarize a typical financial report and how you can better understand this critical area of your Association's operation.

A financial statement reflects the financial condition of the Association for a certain period of time (Monthly, Quarterly, Semi-Annually, or Annually). The overall equation that expresses the financial condition of an Association is the Income Statement and Balance Sheet.

The Income Statement will detail the income and expense activity for that period of reporting time and it will also show the cumulative activity for the year-to-date. This report will detail the income and expense activity against the budgets. The bottom line will show the Net Surplus or (Loss) for the period and for the year-

to-date. The Balance Sheet will detail the Association's Assets, Liabilities and Capital (Equity). In all cases, the Assets will equal Liabilities and Capital.

In order to prepare an Income Statement and a Balance Sheet, the following procedures are followed in the accounting cycle. Business transactions are made daily in the Association's accounts.

The transactions are entered in the Association's books in the General Journal. The information in the General Journal is posted to a record called the Ledger.

A trial balance is prepared to verify balances in the Ledger. If required, the trial balance is adjusted to correct the account balances. The adjusted information is then used to prepare an Income Statement and Balance Sheet.

A good Financial Report will have the following details to substantiate and back up the Income Statement and Balance Sheet.

### **GENERAL LEDGER**

This will detail daily transactions that have been posted for each account in the books and it will correspond to the Income Statement format. It will show the account code number, the account name, date of the transaction, and a brief description of the transaction, whether the transaction was a debit or a credit and, finally, where the transaction was posted as a journal entry.

### **GENERAL JOURNAL**

This will show any business transactions not recorded in any journals and will

again show on the General Ledger. Included in this report will be the date, the amount, the debited account, the credited account, the type of entry and a brief description of the activity.

### **ACCOUNTS RECEIVABLE DETAIL**

This report details who owes maintenance assessments, late fees and penalties, if any. Prepaid maintenance for an individual would be reflected in this section as well.

### **ACCOUNTS PAYABLE DETAIL**

This would show any outstanding bills for goods and/or services known at the time of the close of the reporting period, owed but not paid.

### **TRIAL BALANCE**

This is a procedure whereby all of the balances of the accounts of the Association are determined. The Trial Balance will then take each individual account as they are listed as a debit or credit. The total of the Debits will equal the total of the Credits. After all accounts are in balance or any corrections have been made, the Balance Sheet and Income Statement can now be prepared accurately.

### **BALANCE SHEET**

A Balance Sheet is provides a summary of the financial condition of the Association as of a certain date. It contains the following elements:

### **ASSETS**

The Assets portion of the balance sheet will detail the "Current Assets" including all cash balances in the operating account, savings for reserve funds, working capital savings and petty cash. In addi

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tion, it will show if any "Other Assets" such as maintenance that are billed but not received, utility deposits, prepaid deposits, prepaid insurance and prepaid expenses.

**LIABILITIES AND CAPITAL**

The Assets of the Association will always balance or equal the Liabilities and Capital of the Association. Items that are considered liabilities would be accounts payable (all unpaid bills that are known), prepaid maintenance assessments collected, any accrued real estate taxes, any payroll taxes, which were unpaid, and any other debts. The difference between the Assets and Liabilities for that reporting period is the Capital or Equity of the Association. Another way to think of it is to imagine this as the Association's net worth. The Equity or Capital will vary from reporting period to reporting period based on the amount of cash on hand, prepaid expenses, prepaid maintenance, maintenance receivables and the amount of net income/loss (This is taken from the Income Statement and added or subtracted from the prior reporting period's Equity.)

**INCOME STATEMENT**

This report will detail in terms of Income and Expense, changes in the financial condition of the Association over a specified period of time. A good Income Statement will show actual income and expense activity for that period of time (Monthly) and for year-to-date calculations. This report will also detail current budgets for the month and for year-to-date as well. Variances will occur when actual income taken is more than what was budgeted. This will be shown as (-). Also, the income Statement will report the Net Surplus (Profit) or Loss for that period and for the year-to-date. The Surplus or Loss for the period will be added or subtracted from the proper reporting period's Fund Equity.

The proper management of any Association is made up of many diverse factors such as rules enforcement, professional management, sound operations and good fiscal management. Boards of Directors, Owners and Managers need to know and understand good accounting practices in order to manage and operate their Association more cost effectively in the future.

# Ask The Attorney

By Edward Dicker, Esq.

**Q.** *Our association has a "No Pets" rule. Recently, we have new owners who have ignored this rule and have brought in dogs and cats. What can be done about this?*

**A.** A restriction contained in the governing documents which prohibits pets within a community should be enforceable. In the event new owners are ignoring this restriction, they should be advised by the Board that it is necessary to remove the pet within a specified time frame. If this letter is ignored, the Association may consider fining (if the authority exists in the governing documents), or ultimately seeking injunctive relief, which is an order from the Court, requiring the pet to be removed. Upon prevailing in such an action, the Association should be entitled to recover its costs and attorney fees from the violating owner. If timely action is not taken against these owners, the Board may lose the right to enforce this restriction.

**Q.** *Every year we have to beg people to run for our Board. This year the current Directors have stated that they will not run. What can we do to ensure that we have a Board to operate with?*

**A.** In order to operate any Association, there must be at least a quorum of Board members in order to have the authority to make decisions. If there is less than a quorum of directors on a Board, any owner has the right to request that a Court appoint a receiver to operate the Association.

The receiver will be paid by the Association and may not perform all of the services which a Board of Directors typically performs. Further, having a receiver appointed would likely have a negative impact on resale value. Consequently, having a receiver appointed is not advantageous to an Association. An Association which is experiencing difficulty in having people serve on the Board should notify all members of the ramifications of not having sufficient Board members. Perhaps this will cause enough individuals to reconsider whether to serve on the Board.

**Edward Dicker is a partner in the law firm of St. John, Dicker, Krivok & Core, P.A. The firm represents more than 800 community associations in Palm Beach County. They can be reached at 561-655-8994**

## REMINDERS!

**The deadline for Corporate Annual Reports is May 1, 2001. Make sure that all Officers and Directors are listed, with any changes in positions. Also, make sure that your Registered Agent and your business address is correct. The fee for Not-For-Profit Corporations is \$61.25**

**If you have Officers and Directors who will be leaving to go north for the summer, make sure that you have their addresses and telephone numbers on hand.**

# 50 Ways to Save Water

## By The South Florida Water Management District

With Phase II and additional restrictions soon to be upon us, we need to conserve our valuable supply of water. The South Florida Water Management District has provided us with 50 ways to save water. Each way will help to ensure an adequate water supply. Please educate your Board of Directors and residents in these matters, as it is important that we all do our part to save water.

### In Your Home

Never pour water down the drain when there may be another use for it. Use it to water your indoor plants or garden.

Make sure your home is leak-free. Check your water meter when you are certain that no water is being used. If the meter reading changes, you have a leak!

Repair dripping faucets by replacing washers. One drop per second wastes 2,700 gallons of water per year!

Retrofit all household faucets by installing aerators with flow restrictors.

Check for toilet leaks by adding food coloring to the tank. If you have a leak, the color will appear in the bowl within 30 minutes. (Flush immediately to avoid stains.)

If the toilet handle frequently sticks in the flush position, letting water run constantly, replace or adjust it.

Install a toilet displacement device to cut down on the amount of water needed for each flush. (Don't use a brick! There are devices available at most hardware and home centers.) Be sure installation does not interfere with the operating parts. Consider low-volume toilets, which use less than half the water of older models. NOTE: In many areas, low-volume units are required by law.

Take shorter showers. Replace your showerhead with an ultra-low flow version.

Place a bucket in the shower to catch excess water to water plants.

In the shower, turn water on to get wet; turn off to lather up; then turn the water back on to rinse off. Repeat when washing your hair.

Operate automatic dishwashers and clothes washers only when they are fully loaded or set the water level for the size of load you are using.

When hand washing dishes, save water by filling two containers – one with soapy water, one with rinse water containing a small amount of chlorine bleach.

Store drinking water in the refrigerator. Don't let the tap run while you are waiting for water to cool.

Do not use running water to thaw meat or other frozen foods. Defrost food overnight in the refrigerator, or use the defrost setting on your microwave.

Kitchen sink disposals require lots of water to operate properly. Start a compost pile as an alternate method of disposing of food

waste.

Do not waste water waiting for it to get hot. Capture it for other uses such as plant watering or heat it on the stove or in a microwave.

Consider installing an instant hot water heater on your sink and insulating your water pipes.

Think twice about installing a water-to-air heat pump or air-conditioning system. Newer air-to-air models are just as efficient and do not waste water.

Don't let water run while brushing your teeth, washing your face or shaving.

Install water-softening systems only when necessary. Turn softeners off while on vacation.

If you have a well at home, check your pump periodically. If the pump kicks on and off while water is not being used, you have a leak.

Avoid flushing the toilet unnecessarily. Dispose of tissues, insects and other similar waste in the trash rather than the toilet.

### Saving Water Outdoors

Don't over water your lawn. Lawns only need watering every five to seven days in the summer, and every 10 to 14 days in the winter. A heavy rain eliminates the need for watering for up to two weeks. Buy a rain gauge. Most of the year, lawns only need one inch of water per week.

Plant it smart. Xeriscape landscaping is a great way to design, install and maintain both your plants and irrigation system. It will save time, money and water.

Water lawns during the early morning hours when temperatures and wind speeds are the lowest. This reduces evaporation and waste.

Position sprinklers so water lands on the lawn and shrubs and not on paved areas.

Install irrigation devices that are the most water efficient for each use. Micro and drip irrigation and soaker hoses are examples of efficient devices.

Check sprinkler systems and timing devices regularly to be sure they operate properly. Florida law now requires that "anyone who purchases and installs an automatic lawn sprinkles system MUST install a rain sensor device or switch which will override the irrigation cycle when adequate rainfall has occurred."

Raise the lawn mower blade to at least three inches, or to its highest level. A higher cut encourages grass roots to grow deeper, shades the root system and holds soil moisture.

Avoid over fertilizing your lawn. Applying fertilizer increases the need for water. Apply fertilizers, which contain slow-release, water-insoluble forms of nitrogen.

Use mulch to retain moisture in the soil. (Help preserve native cypress forests by selecting other types of mulch such as treated

## Mailing Label

C/O ASSOCIATED PROPERTY MANAGEMENT  
400 SOUTH DIXIE HIGHWAY, SUITE 10  
LAKE WORTH, FLORIDA 33460

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melaleuca.) Mulch also helps control weeds that compete with landscape plants for water.

Plant native and/or drought-tolerant grasses, ground covers, shrubs and trees. Once established, they do not need water as frequently and usually will survive a dry period without watering. They also require less fertilizer or herbicides. Group plants together based on similar water needs.

Use a broom or blower instead of a hose to clean leaves and other debris from your driveway or sidewalk.

Use a shut-off nozzle on your hose, which can be adjusted down to a fine spray, so that water flows only as needed. When finished, turn it off at the faucet instead of at the nozzle, to avoid leaks. Check hose connectors to make sure plastic or rubber washers are in place. Washers prevent leaks.

Do not leave sprinklers or hoses unattended. A garden hose can pour out 600 gallons or more in only a few hours. Use a bell timer to remind yourself to turn sprinklers off.

Avoid purchasing recreational water toys, which require a constant stream of water.

Consider using a commercial car wash that recycles water. If you wash your own car, park on the grass and use a hose with an automatic shut-off nozzle.

Avoid installing ornamental water features (such as fountains) unless they use recycled water.

If you have a swimming pool, consider a new water-saving pool

filter. A single back flushing with a traditional filter uses 180 to 250 gallons of water.

### General Water Saving Tips

Participate in public water conservation meetings conducted by your local government, utility or water management district.

Follow water conservation and water shortage rules in effect. Even if your water comes from a private well – you are included in restrictions.

Encourage your employer to promote water conservation in the workplace.

Patronize businesses, which practice water conservation, such as restaurants that only serve water upon request.

Report water losses (broken pipes, open hydrants, errant sprinklers, abandoned free-flowing wells, etc.) to the property owner, local authorities or your water management district.

Encourage your school system and local government to help develop and promote a water conservation ethic.

Support projects that will lead to an increased use of reclaimed wastewater for irrigation and other uses.

Support efforts that create a concern for water conservation amount tourists.

Promote water conservation in community newsletters, on bulletin boards and by example.