The Role of the Association Treasurer

By Rafael A. Martinez and Howard Goldklang, CPA, MBA

Treasurer, as defined by Merriam-Webster's dictionary, means, "An officer entrusted with the receipt, care, and disbursement of funds." In the association landscape, the treasurer has a fiduciary responsibility to maintain the finances and ensure the financial growth of their community. Additionally, association bylaws likely require the treasurer to maintain a complete set of financial/accounting records, invest funds as directed by the board, prepare an annual budget, and ensure that the association's books are available for audit by a Certified Public Accountant. If those tasks weren't time consuming enough, the recent turbulence in the financial markets have placed an even bigger responsibility on those who have volunteered to provide good stewardship of their association's funds. However, with a solid plan in place, staying on top of the books and the changing market conditions is manageable. Let's review some of the key responsibilities of an association treasurer.

Reserves

A key aspect of an associations' financial health is the development of a long term replacement reserve program. Association replacement reserve funds are for future major capital expenditures; they are not another form of operating funds. Once the treasurer has defined the concept of replacement reserve funds to the board directors, steps must be taken to develop and implement a reserves program. Best practices suggests that a committee be established to assist the treasurer in inventorying major capital assets, establish remaining useful service lives, and to determine individual asset replacement cost. During this process, contractors and association professionals should help the committee conduct the study. The committee should also consider engaging a certified Reserve Specialist to guide the study. The reserve study is a budget planning tool which identifies the current status of the reserve fund and a stable funding plan to offset the anticipated future major common area expenditures. Once the study is complete, it should be funded annually and updated periodically for changes in replacement costs. The treasurer and the board should follow the reserve schedule set forth in the study, to properly set annual assessments so that adequate cash is available when needed. Associations should update their reserve schedule every three to five years for replacement cost and remaining useful lives.

Association Investments

The majority of association invested funds result from the need to fund the replacement reserve schedule. A well crafted replacement reserve schedule allows the association to match investments with scheduled reserve expenditures. To ensure that association funds are placed in sound financial instruments, a formal investment policy must be established to guide current and future boards. The three key elements to this investment policy, in order of importance, are: safety, liquidity, and yield.

Safety*:* Association investments are usually limited to instruments of the federal government (e.g. treasury bills or Money Market Accounts/Certificates of Deposit at federally insured institutions). Treasury bills are safe investments because they're backed directly by the federal government and are not limited to a ceiling amount. Financial institutions have been at the epicenter of the recession and many have failed or are struggling to stay afloat. Treasurers must perform due diligence when reviewing banks to ensure health and soundness. Trusted online resources such as Bauer Financial, give an impartial and in depth review of a bank's financial standing (www.bauerfinancial.com).

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. Under this Act, the Federal Deposit Insurance Corporation (FDIC) has permanently increased its insurance coverage to $250,000.00 per depositor. Additionally, Dodd-Frank provides unlimited FDIC insurance for noninterest-bearing transaction accounts in ***all*** banks effective on December 31, 2010 and continuing through December 31, 2012.

Liquidity: The right product mix of short and long term investments will give the association access to its funds without incurring early withdrawal penalties. Two to five year CD ladders are typical investment set-ups for associations as under this scenario, certificates are always renewing in three to six month intervals. Combined with short term treasury bills and money market accounts, this should provide the foundation for a sound, liquid investment structure.

Yield: The old adage that "if it's too good to be true, it probably is" should be the mindset that the association treasurer adheres to. After the recent financial market collapse, laws were enacted to prevent weaker financial institutions from offering above market rates on their investment products. The combination of a well performing financial institution with a competitive rate is the ideal scenario for associations.

Once an association's investment policy has been established, it should be reviewed by an attorney to ensure it is in accordance with the association bylaws and all appropriate state laws.

Borrowing

Treasurers should work very closely with the finance committee to make recommendations to the board about project funding. The treasurer can report about the capacity of an association to self fund a project out of reserve funds, impose a special assessment to association members, or recommend borrowing funds from a local financial institution. The recent downturn in the economy has impacted associations' ability to collect

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dues from membership and has stagnated the growth of reserve funds, thus some associations have turned to borrowing as a way to complete necessary projects. Considerations when seeking a loan are:

- Be prepared with a comprehensive loan application package.
- Find a friendly bank and banker with the necessary community association experience.
- Be realistic with the cost of borrowing.
- Understand that the bank will be in the loan for the long haul and the association will need to agree to and report on financial progress.

Selecting the Certified Public Accountant

The person that the association treasurer will spend the most time with is the accountant. Selecting the firm that will oversee the books, give guidance on all financial matters, and prepare the taxes is not a process to be taken lightly. Only knowledgeable CPAs with a proven background in association work should be considered. General guidelines for selecting a CPA firm are:

- Obtain a list of qualified CPA firms – Use Community Association Institute and the local chapter of the state CPA society to compile your candidates.
- Ask for a referral from other associations – Reaching out to fellow association treasurers will provide an idea of who the reputable firms are and their engagement requirements.
- Meet with the team that will serve your association – Meeting with the firm's partners is great, but sitting down with the people that will handle your association on a personal level will provide the comfort level needed to make a selection.
- Check references – Ensure that your candidates have undergone a successful peer review and ask for a reference from one of their clients.
- After the selection is made, the engagement documents should be thoroughly reviewed by counsel and executed by the association board. The treasurer will then keep contact with the firm to ensure all financial reporting is kept current.

The role of the association treasurer has always been a key to the success of the community, and given the recent economic woes, the treasurer's responsibilities have been enhanced to ensure financial soundness. Times like these are a good reason to ensure that the right association professionals and sound internal policies are in place to keep your association running smoothly. Communicating with your professionals is a great way to stay on top of the ever changing economic conditions and will lead to beneficial strategic planning. Remember, treasurers are the trusted stewards that will navigate the association's finances safely home during rough waters.

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