



Asset Management Practices for Homeowner Associations

A growing number of people are participating in a unique form of property ownership called homeowner associations (HOA).

An HOA, also known as a community, condominium or townhouse association, is the legal entity that governs the business affairs of planned communities. An association is set up to administer a piece of land or building that is owned “in common.”

It is estimated there are over 250,000 HOAs in the United States. This organization is frequently used by condominiums or townhomes, where the association is responsible for maintaining common areas such as the grounds and building exterior. Other associations are located in residential neighborhoods where the group may own and maintain recreational facilities such as pools or tennis courts.

As a member of an HOA, you are expected to pay association fees as well as actively monitor the finances of the association. One of the biggest responsibilities of an HOA is to account for the income and expenses of the association. In order to help make sure that funds are managed properly, use the following tips when managing your own funds or when hiring an outside firm to pay bills and manage the association’s fund.

HOA business practice requirements:

- » Require authorization from at least two board members on all association checks and association savings or reserve accounts withdrawals.

- » Never sign a blank check to an HOA.
- » Do not accept handwritten receipts for reimbursement.
- » Use an independent accountant to prepare financial statements and conduct audits at the end of each fiscal year or every other fiscal year.
- » Inform board members to mail signed checks directly to vendors.
- » Do not allow a property management company to commingle association funds with other associations.
- » Require a fidelity bond for the property manager and employees of a property management company

Methods for assessing HOA operations:

- » Review monthly financial statements including check registers and fund transfers.
- » Investigate outstanding checks written for large amounts or those outstanding for an extended time period.
- » Monitor the petty cash fund balances.
- » Regularly review the association’s fidelity insurance and directors and officers’ liability insurance.

For more information about American Family’s Loss Control Services, visit www.amfam.com

DISCLAIMER

The recommendations printed here follow generally accepted safety standards. Compliance with these recommendations does not guarantee that you will be in conformance with any building code, or federal, state or local regulations regarding safety or fire. Compliance does not ensure the absolute safety of your operations or place of business.