

SAMPLE INVESTMENT POLICY

1. **Investment Policy**
2. **Goals & Objectives**
3. **Investment Strategy**
4. **Selection Criteria**
5. **Review & Control**

Source: 2019 Condominium Greenbook

GREEDY INVESTOR

When: 1990s

Where: SF Bay Area

How: Stock market investment \$7 million

Loss: \$2 million



: CPA



Penalty: Owners lose \$1 million after insurance recovery



WARNING SIGNS AND COUNTER MEASURES



- ❖ **Do not invest in stock market**
- ❖ Board members are fiduciaries
- ❖ No investment policy

SECTION V

FINANCIAL ACCOUNTING

FINANCIAL PRESENTATION

1. Commercial Accounting Single Column Presentation
2. Fund Accounting Three Columns, Operating, Reserve
And Total Funds
Most Prevalent With HOAs

BALANCE SHEETS

	2016			2015
	Operations Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents	\$ 10,000	\$ 135,000	\$ 145,000	\$ 130,000
Assessments receivable	5,000		5,000	4,000
Prepaid insurance	12,000		12,000	9,000
Equipment, at cost less accumulated depreciation	5,000		5,000	5,000
Total assets	<u>\$ 32,000</u>	<u>\$ 135,000</u>	<u>\$ 167,000</u>	<u>\$ 148,000</u>
LIABILITIES				
Accounts payable	\$ 8,000	\$ 5,000	\$ 13,000	\$ 9,000
Insurance payable	2,000		2,000	7,000
Assessments paid in advance	3,000		3,000	2,000
Income taxes payable		2,000	2,000	1,000
Bank line of credit payable (Note 3)		100,000	100,000	
Major component replacement liability (Note 4)		300,000	300,000	375,000
Due to (due from) other fund	5,000	(5,000)	-	-
Total liabilities	<u>18,000</u>	<u>402,000</u>	<u>420,000</u>	<u>394,000</u>
Commitments (Note 5)	-	-	-	-
FUND BALANCE (DEFICIT)	<u>14,000</u>	<u>(267,000)</u>	<u>(253,000)</u>	<u>(246,000)</u>
Total liabilities and fund balances	<u>\$ 32,000</u>	<u>\$ 135,000</u>	<u>\$ 167,000</u>	<u>\$ 148,000</u>

INCOME STATEMENTS

	2016		2015	
	Operations Fund	Replacement Fund	Total	Total
REVENUES				
Assessments	\$ 80,000	\$ 25,000	\$ 105,000	\$ 95,000
Interest income	500	9,500	10,000	9,000
Other income	500		500	1,000
Total revenues	81,000	34,500	115,500	105,000
EXPENSES				
<u>Operations</u>				
Major component re- placement provision	-	40,000	40,000	35,000
Buildings maintenance	21,000		21,000	24,000
Landscape maintenance	23,000		23,000	22,000
Depreciation expense	5,000		5,000	5,000
Pool maintenance	4,000		4,000	4,500
Utilities	4,000		4,000	2,700
Other	500		500	300
Total operations	57,500	40,000	97,500	93,500
<u>Administration</u>				
Management	9,000	-	9,000	9,000
Insurance	7,000		7,000	6,500
Legal and accounting	2,500		2,500	3,000
Interest expense		5,000	5,000	
Office and other	500	1,000	1,500	3,000
Total administration	19,000	6,000	25,000	21,500
Total expenses	76,500	46,000	122,500	115,000
INCOME (LOSS)	4,500	(11,500)	(7,000)	(10,000)
FUND BALANCE, BEGINNING OF YEAR	9,500	(255,500)	(246,000)	(236,000)
FUND BALANCE, END OF YEAR	\$ 14,000	\$ (267,000)	\$ (253,000)	\$ (246,000)

YEAR-TO-DATE GENERAL LEDGER

11/30/2012 9:04 AM		General Ledger			Page: A 41		
For Dates 11/01/2011 To 10/31/2012							
For All Accounts							
Account	Type	Ref #	Description	Date	Debit Amount	Credit Amount	Balance
SL Landscape 08.12	AVC	00208425	LANDSCAPE SER	08/08/2012	3,645.00		
SL Landscape 09.12	AVC	00210185	LANDSCAPE SER	09/05/2012	3,645.00		
SL Landscape 10.12	AVC	00212198	LANDSCAPE SER	10/02/2012	3,645.00		
Account Total					43,740.00	0.00	43,740.00
Ending Balance							43,740.00
50210	Landscape - Extras		Beginning Balance				0.00
Gopher reduction	AVC	00193531	LANDSCAPE SER	12/29/2011	80.13		
Gopher reduction	AVC	00193532	LANDSCAPE SER	12/29/2011	78.42		
plants	AVC	00193535	LANDSCAPE SER	12/29/2011	564.00		
plants	AVC	00194350	LANDSCAPE SER	01/12/2012	486.00		
gopher reduction	AVC	00198220	LANDSCAPE SER	02/29/2012	76.14		
tree work	AVC	00198834	MAPLES FOR ALL SEASO	03/12/2012	2,500.00		
ReimbExp	AVC	00198835		03/12/2012	8.97		
Recl Landscape Extra JE		00027077	Recl Landscape Extra	03/31/2012	350.00		
Recl Landscape Extra JE		00027077	Recl Landscape Extra	03/31/2012	390.00		
tree removal	AVC	00203075	LANDSCAPE SER	05/21/2012	182.50		
landscape extras	AVC	00203529	LANDSCAPE SER	05/25/2012	674.00		
landscape extras	AVC	00203531	LANDSCAPE SER	05/25/2012	150.00		
gopher reduction	AVC	00204239	LANDSCAPE SER	05/31/2012	85.26		
plants	AVC	00208662	LANDSCAPE SER	08/10/2012	2,500.00		
plants	AVC	00208664	LANDSCAPE SER	08/10/2012	1,500.00		
Tree Maint	AVC	00211767	TREE360	09/27/2012	700.00		
LS Project	AVC	00211787	LANDSCAPE SER	09/27/2012	190.00		
LS Project	AVC	00211789	LANDSCAPE SER	09/27/2012	585.00		
LS Project	AVC	00212014	LANDSCAPE SER	09/28/2012	400.00		
soil addition	AVC	00212017	LANDSCAPE SER	09/28/2012	1,310.00		
Tree Maint	AVC	00212756	TREE360	10/08/2012	500.00		
landscape extras	AVC	00214789	LANDSCAPE SER	10/31/2012	123.00		
landscape extras	AVC	00214790	LANDSCAPE SER	10/31/2012	231.09		
Account Total					13,664.51	0.00	13,664.51
Ending Balance							13,664.51
50225	Sharon Land		Beginning Balance				0.00
sign remodel	AVC	00196850	Sharon Land Company,	02/16/2012	2,698.00		
median strip	AVC	00198219	Sharon Land Company,	02/29/2012	135.00		
median strip	AVC	00202775	Sharon Land Commanv.	05/15/2012	172.83		

CPA FINANCIAL STATEMENTS

- Preparation
- Compilation
- Review
- Audit
- Agreed Upon Procedures



REVIEWED FINANCIAL STATEMENTS

1. **Accountants' Report**
2. Balance Sheets (2-year comparative presentation)
3. Income Statements (2-year comparative presentation)
4. Cash Flow Statements (2-year comparative presentation)
5. Notes To Financial Statements
6. Unaudited Supplementary Information (Reserves)

***Required if Gross Receipts > \$75,000**



REVIEW V. AUDIT DIFFERENCES

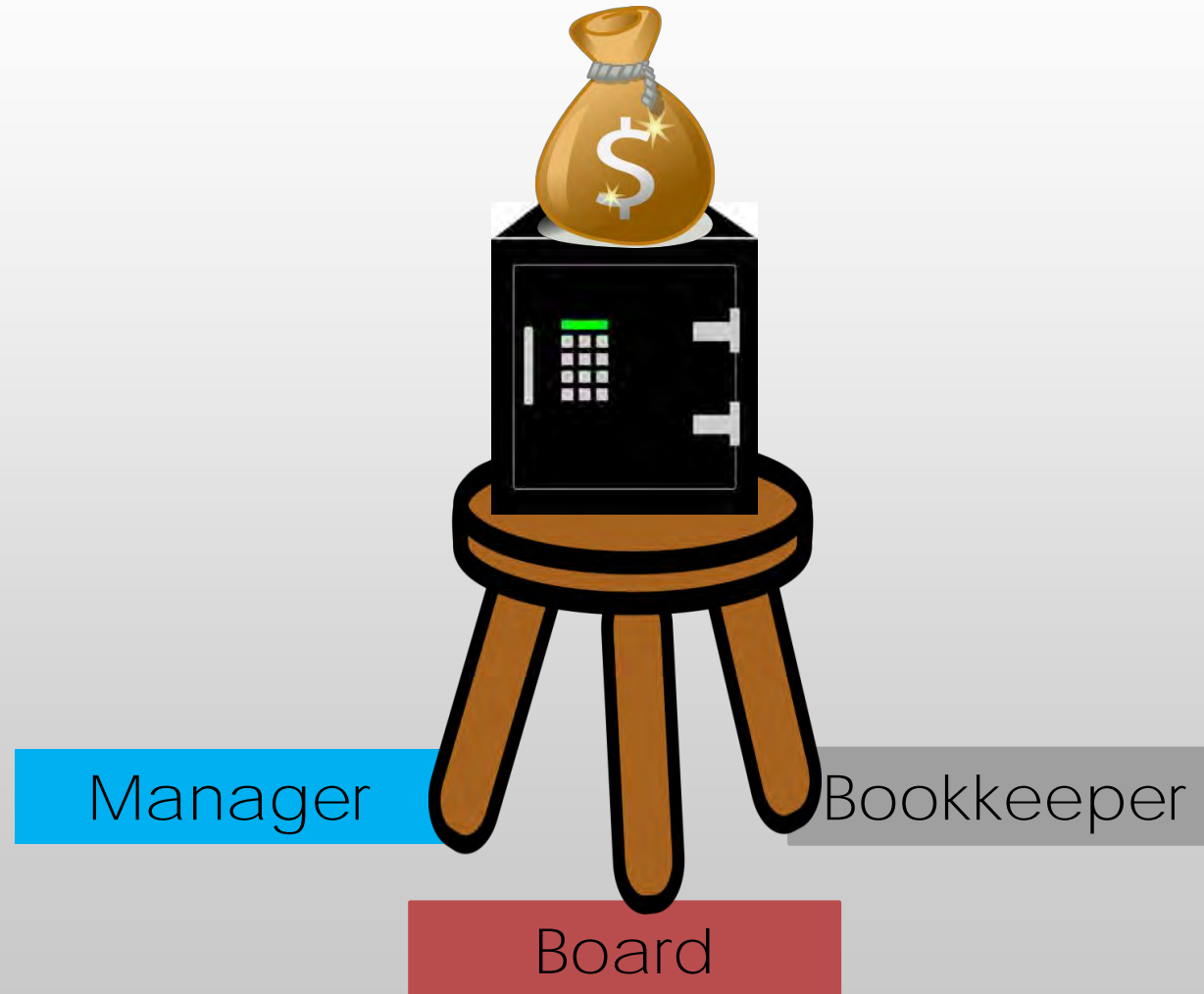


1. **Audit – testing checks and invoices**
2. **Audit – verification of cash balances**
3. **Audit – looking at internal controls**
4. **Audit – costs more than a review**
5. **Audit – subject to AICPA GAAS
(Generally Accepted Auditing Standards)**
6. **Review – subject to AICPA SSARS
(Statements on Standards for Accounting and Review Services)**
7. **Both – subject to CPA's professional judgment**

SECTION VI

WHITE COLLAR CRIME

SEPARATION OF DUTIES



ALTERED BANK STATEMENTS

When: 1990s and 2000s

Where: SF Bay Area

How: No balance sheet, no bank

Loss: \$2+ million



: Treasurer, CPA, FBI



Penalty: Prosecution in progress



WARNING SIGNS AND COUNTER MEASURES



- ❖ No monthly balance sheets
- ❖ No monthly bank reconciliations
- ❖ No comparisons of actual and budgeted expenses
- ❖ No CPA reviews or audits
- ❖ No independent receipt of bank statements
- ❖ No HOA banks used

BRAZEN CHECK ENDORSEMENT

When: 1990s and 2000s

Where: SF Bay Area

How: Endorsed checks for deposit to personal bank account and altered accounting records

Loss: \$1+ million



: CPA, Local Law Enforcement



Penalty: Prosecution currently in progress



WARNING SIGNS AND COUNTER MEASURES



- ❖ **Compare actual to budgeted expenses**
- ❖ Use construction manager and/or outside consultant as supervisor for large jobs
- ❖ **Look at check endorsements**
- ❖ Consider an occasional audit

PAINTING CAPER

When: 2000s

Where: SF Bay Area

How: Manufactured fictitious invoices
and collusion

Loss: \$2.8 million

 **:** Local Law Enforcement

Penalty: __? and 7 years state prison





WARNING SIGNS AND COUNTER MEASURES



- ❖ Get competitive bids
- ❖ Carefully review original contracts and change orders
- ❖ Use construction manager and/or outside consultant as supervisor for large jobs
- ❖ **Compare actual to budgeted expenses**

GHOST VENDOR

When: 1990s and 2000s

Where: SF Bay Area

How: Manager manufactured fictitious maintenance related invoices

Loss: \$___ millions



: Internal Auditors

Penalty: Perp deceased

