BOARD BRIEFING

Smart HOA Finance

CAN YOUR BOARD CONFIRM ITS RESERVE BALANCE?

THIS MONTH'S FINANCIAL OVERSIGHT FOCUS

Verify the Money

THIS MONTH

How to confirm your HOA's reserve balance, why the board should verify it, and the questions every board should ask.

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SMART HOA FINANCE

Board Briefing

Can Your Board Confirm Its Reserve Balance?

THIS MONTH'S FINANCIAL OVERSIGHT FOCUS

Verify the Money

A reserve balance on the financial statements is important, but the board should also be able to confirm that the money is actually there.

Verification means comparing the amount shown in the HOA's financial records with information obtained directly from the bank.

This briefing shows a simple, practical way to confirm reserve funds without redoing the bookkeeping or reviewing every transaction.

THE KEY DISTINCTION

A financial statement shows what the HOA's accounting records say.
A bank or investment statement shows what the financial institution is holding.
The board should be able to connect the two.

IN THIS ISSUE

- Why confirm the reserve balance
- The difference between reviewing and verifying
- Records that help confirm the balance
- How to verify reserve funds independently
- A simple HOA scenario
- Questions every board should ask
- Warning signs that need follow-up
- One practical step to take this month

WHY THIS MATTERS

Why the Board Should Confirm the Reserve Balance

Financial reports show what was recorded.
Bank records help confirm what is actually there.

Reserve funds are set aside for major repairs and replacements in the community.

Depending on the association, these funds may eventually pay for roofs, paving, pools, elevators, tennis courts, infrastructure, or other large projects. Because reserve funds may build up over many years, the balance can become one of the association's largest financial assets.

What the Financial Reports Show

Financial reports may show:

- The reported reserve balance
- Interest earned
- How reserve funds are assigned to future projects
- Money added to reserves
- Withdrawals or transfers

What Financial Reports Cannot Confirm by Themselves

A reported balance does not by itself confirm:

- That the money is actually in the bank
- That the account is in the association's name
- That withdrawals and transfers were properly recorded
- That access to the account is appropriately limited
- That the reported balance agrees with the bank's records

KEY POINT

The board gains greater visibility and confidence when reported reserve information is periodically compared with records obtained directly from the financial institution.

The next step is understanding the difference between reviewing what was reported and verifying selected information independently.

REVIEW VS. VERIFICATION

Reviewing and Verifying Serve Different Purposes

Each answers a different question about the reserve balance.

REVIEW THE MONEY

Reviewing the reserve balance

- Read the reserve balance shown on the financial statements
- Compare the balance with the previous month
- Review contributions and withdrawals
- Compare reserve activity with the budget
- Ask about an unexpected change

Review helps the board understand what was reported, notice changes, and identify questions.

VERIFY THE MONEY

Verifying the reserve balance

- Obtain or view the statement directly from the financial institution
- Confirm the account is held in the association's name
- Compare the statement balance with the financial report
- Confirm significant withdrawals or transfers
- Confirm who can access or move the funds

Verification adds confidence that the reported reserve balance and significant activity agree with reliable records outside the accounting system.

KEY POINT

The board gains greater confidence when the reported reserve balance is periodically compared with records obtained directly from the bank.

Next, we'll see how independent verification helped one HOA board discover a difference in its reserve balance.

A SIMPLE EXAMPLE

The Reserve Balance Looked Right Until the Board Checked

This example shows why a board should not rely only on the financial reports it receives.

THE SITUATION

A condominium board received monthly financial statements showing $425,000 in reserve funds. The balance stayed fairly consistent from month to month, so the board had no reason to think anything was wrong.

The management office maintained the accounting records and prepared the financial reports. Board members received those reports, but they did not obtain bank statements independently.

As a major repair project approached, one board member asked to confirm how much reserve money was actually available. The board obtained statements directly from the banks holding the association's reserve funds.

The board compared the financial report with bank records for the association's reserve accounts and found a significant difference that could not be explained by normal timing differences. A closer review found several transfers that had been recorded incorrectly and another transfer that could not be clearly explained. The problem had gone unnoticed because the board had relied on the financial reports without periodically comparing them with the bank records.

WHAT THE BOARD LEARNED

- A financial report can look complete and accurate even when the bank balance has not been confirmed.
- Getting records directly from the bank gives the board another way to check the information it receives.
- Periodic verification can uncover mistakes or questions before the money is urgently needed.
- Asking to confirm an account balance is a normal part of financial oversight, not an accusation.

THE LESSON

Verification gives the board a simple way to confirm the information it receives, catch problems earlier, and have greater confidence in the HOA's financial records.

BOARD DISCUSSION

Questions for Board Discussion

When did someone on the board last confirm the reserve balance directly with the bank?

About the Accounts

1

- Are all accounts in the association's legal name?
- Does the board know about every bank account currently open?
- Can the board clearly tell which funds are reserves and which are operating funds?

About the Records

2

- Does a board member receive or view bank statements directly from the bank?
- Do the bank balances agree with the balances reported to the board?
- Are bank reconciliations provided and reviewed?

About Access

3

- Who can view each account?
- Who can authorize transfers or withdrawals?
- Are former directors, employees, or management staff still listed on any account?
- Does the board periodically review who has access to the accounts?

About Major Activity

4

- Were large withdrawals supported by records and any required board approval?
- Were unusual transfers explained?
- Were reserve funds used for their approved purpose?
- Were questions documented and followed up?

NOTES & FOLLOW-UP

What reserve balance or account information, if any, does the board need to verify or follow up on before the next meeting?

BOARD REFERENCE

Records to review and warning signs to notice

RECORDS TO REVIEW

Documents that help confirm the reserve balance

- Bank statements obtained directly from the bank
- Current bank reconciliations
- Records of transfers between accounts
- Accounting records showing reserve activity
- Approvals for transfers and withdrawals
- Records showing who owns and can access the account
- Board minutes supporting major reserve spending

WARNING SIGNS

Things that should be followed up

- Bank statements are delayed, incomplete, or unavailable
- The financial report and bank balance do not agree
- A bank reconciliation is old, incomplete, or missing
- A transfer does not have a clear explanation
- A large withdrawal does not have supporting records
- One person can initiate, approve, and complete a transaction
- Questions receive incomplete or changing answers

KEEP THE RESPONSE MEASURED

If something does not agree:

- Make sure the board is comparing the same account and the same date.
- Ask for the bank reconciliation or supporting records.
- Write down the question and the response.
- Allow reasonable time for errors or timing differences to be explained or corrected.
- Seek professional help if an important concern cannot be resolved.

PUT IT INTO PRACTICE

One Practical Step for This Month

THIS MONTH'S STEP

Choose one reserve account and confirm it from beginning to end.

01 Get the most recent bank statement directly from the bank.

02 Confirm that the account is in the association's legal name.

03 Compare the bank balance with the bank reconciliation and financial statements.

04 Review outstanding reconciling items and any unusual withdrawals or transfers.

05 Confirm who currently has access to the account.

06 Report the results to the board and note any questions that need follow-up.

Once the board is comfortable with the process, repeat it for the association's other reserve accounts.

THE KEY TAKEAWAY

A financial report shows the reserve balance that has been recorded. Comparing it with bank records gives the board greater confidence that the money is there and properly recorded.

HOA FINANCIAL OVERSIGHT

UNDERSTAND → REVIEW → VERIFY → PROTECT → RESPOND

These five steps work together. Each Board Briefing focuses on one financial topic and uses the steps that are most helpful for that subject.

SMART HOA FINANCE
Helping boards understand the money, ask better questions, and strengthen financial oversight.

Next month
Are Your HOA's Reserve Funds Being Used as Intended?