

SOUTH COAST HOMEOWNERS ASSOCIATION

P. O. BOX 1052, GOLETA, CALIFORNIA 93116

(805) 964-7806

www.southcoasthoa.org

gartzke@silcom.com

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Michael J. Gartzke, CPA, Editor

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UPCOMING SOUTH COAST MEETING

Thursday – September 25, 2008 – 7 PM

Encina Royale Clubhouse

250 Moreton Bay Lane, Goleta

(101 to Fairview, exit north towards mountains -2 blocks to Encina Road, right one block to Moreton Bay Lane, left into association)

“2009 Association Budgets”

Speaker: Michael J. Gartzke, CPA

Many associations will be in process of developing their 2009 budgets in the fall since calendar year associations must distribute them to their members by the end of November. At this meeting we will discuss:

- Financial reports needed to start the budget process
- Sources of information to develop realistic budget amounts
- Current issues (e.g. bad debts, utility costs, etc.)
- Formatting your budget
- Additional disclosures required to be distributed by California with the budget
- Reserve study disclosures – funding plans
- Assessment/expense trends – 2005-2008

Mr. Gartzke has a solo practitioner accounting practice in Goleta, CA with over 110 association clients for whom he reviews year-end financial statements and/or prepares annual tax returns. He is a co-founder of South Coast HOA and is a former association treasurer.

AVOIDING FRAUD IN YOUR ASSOCIATION

By: Joelyn K. Carr-Fingerle, CPA

Editor's Note: Joelyn Carr-Fingerle is a certified public accountant in Fremont (East Bay Area), with a large homeowner association accounting practice. She is a past-President of the Executive Council of Homeowners (ECHO) and has served the accounting community as the chair of the California CPA Education Foundation's biannual Common Interest Realty Association Accounting Conference several times. She has written numerous articles and made presentations to HOA groups including one for us in our early years. Questions can be directed to her at 510-796-3279 or fingerle@pacbell.net

Fraud takes motivation and opportunity. If both are not present, fraud cannot occur. The board of directors cannot control the motivation. That comes from the fraudster. The association board can, however, control the opportunity.

Most of the typical fraud types and characteristics discussed by the fraud experts do not apply to common interest developments (CIDs) since the revenue stream is very predictable and the volume of expenses is small. This is the main reason that the annual CPA review engagement is sufficient for associations and an audit is not necessary. The board on a monthly/quarterly basis can compare the revenues and expenses to budget and to the prior year and get a pretty good feel whether the financial reports are reasonably correct.

PROFILE OF A DEFRAUDER

Typically, a defrauder, or a person planning to perpetrate a fraud, is a trusted long-term employee, not someone newly hired or a flashy, slick operator. The defrauder is someone who knows the association and its systems well and knows how to get around the controls that are in place. However, what sets him or her apart from the ideal employee is the change in circumstances that makes him or her look to the association as a target for theft. This could be sudden money problems stemming from a spouse's loss of job, new extravagant life style, sudden medical bills, stock market reversals, gambling debts, and/ or alcohol or drug abuse. Often they think of it as a temporary borrowing or loan from the association. They will rationalize it by thinking they deserve the "extra" funds because they are underpaid or underappreciated. Alternatively, they may seek to take revenge on a board that has thwarted them in some way.

INTERNAL CONTROL: THE KEY TO SUCCESS

The system of internal control, the checks and balances, is what either keeps the fraud from taking place or allows it to happen. By setting up and using a system where no one individual alone is completely responsible for the intake or dispersal of money, the association will be protected from most significant fraud. There may still be the disappearance of office supplies, small tools, the unauthorized use of the association telephone for personal long distance phone calls, but the significance of these pale against the theft of association cash and cash equivalents.

Generally, the safeguards over association cash receipts are good because little cash is received. Mostly assessments are paid by checks, and many payments go directly to a bank lockbox; so there is no opportunity for someone to misappropriate the money coming in. However, the board needs to discuss with the bank their procedures to ensure that the checks are properly applied to the association's bank account.

If the cash does not go directly to the bank but rather to the treasurer or manager, more oversight procedures need to be installed. First, the person receiving the cash cannot be the one signing checks and reconciling the bank account. There needs to be a verification trail showing that all the cash received was deposited and that it was also credited to the proper owner or other account, such as the monthly laundry receipts. This is also made easier when an association has a policy that all monies coming in must be in the form of checks or money orders, not cash.

If receipts of cash are significant, procedures to safeguard the cash must be set up. These procedures would include cash counts, some sort of register and frequent bank deposits. If your association has significant cash receipts, then work with your association CPA to set up and maintain a good system of internal control over the cash. Generally, cash coming in is not significant in associations when compared to the money coming in by check or automatic payment so that it does not become an issue in a review or an audit of the financial statements.

Cash going out, or cash disbursements, is the other area of exposure. The most common and logical method for covering cash embezzlement is the false debit. The trusted employee (let's call him Sam an authorized check signer) makes out a check for, say \$500, to himself or his own phony company but indicates in the books that the check is voided. Then when Sam records the check for perhaps the gardener or someone else, he records that invoice at \$500 more so the checkbook will balance. Lastly, Sam has to prepare the bank reconciliation so that he can destroy the check to himself and mark the gardener's, or whoever's, check as properly cleared since the amounts net out. If Sam could not sign the check himself, he could not perpetrate the fraud.

Sam may need to have Jerry, the president, also sign the checks because the checks require two signatures. Nevertheless, if Jerry signs blank checks, or never really looks at what he is signing, the control is thwarted. The bank cannot be relied upon to check the signatures because the volume of checks they process is so great. Every

check signer has an obligation to review the documentation supporting the disbursement. In addition each signer should note his or her review on the documents in the form of a signoff of some kind (initialing, signing or marking some other way and making sure that the check number, date, and account coding are noted somewhere on the payment package) signifies approval of the payment. If multiple invoices are paid at one time, the amount paid is also good to note. In the above example, there would be two chances for Jerry to catch Sam's fraud. The first check would have no support and the second one would not match the invoice. Even if false invoices were presented to Jerry, one would hope that he would remember that the usual payment to Carson Landscaping Inc. was a lesser amount and/or that the monthly payment had already been paid.

California Civil Code calls for the board to review the bank statements at least quarterly so that such items can be readily caught. However, that means that the reconciliation and bank statement must be closely reviewed. The treasurer or someone other than the bookkeeper could periodically, without warning and on an irregular basis, prepare the bank reconciliation. That way "Sam" would not be able to cover his tracks. However, if the board chooses not to prepare the bank reconciliation, a board member should at least inspect the cancelled checks or the copies sent by the bank with the statement. It is very hard to eliminate one of the returned checks when they are one of many micro-sized on a bank statement. Check out who the payees are. Why is there a check to Carson Landscaping Inc. and another for the same amount to CLI? The board can even call Carson Landscaping Inc. to see if they are getting checks from you for CLI. If the board members are doing their job, this sort of embezzlement should be caught in the first quarter it was started.

Another form of control would be to have the bank statement mailed directly to a board member who would open and examine it before giving it to the bookkeeper or treasurer for reconciliation. This would not eliminate the need to review the reconciliation on a quarterly basis, but it would ensure that the statement could not be altered without notice and cancelled checks could not be removed.

The Civil Code mandated budget-to-actual comparison should also show a budget discrepancy as the embezzlement unfolds. The defrauder has to make the cash balance; therefore the money has to be expensed somewhere. Association budgets are tight. Small differences can be noted and addressed. This comparison needs to be done quarterly so that any problems are promptly addressed and corrected. If the defrauder knows that the procedures are done frequently and thoroughly, there is much less temptation since they will know that they will be caught quickly.

USE THE ECHO INTERNAL CONTROLS CHECKLIST

The board of directors of a CID is responsible for the establishment and maintenance of an effective internal control structure. The Internal Controls Checklist which follows this article has been developed by the ECHO Accountants Resource Panel to help your board document that structure. The checklist covers the major items that a board needs to consider when establishing or reviewing an association's internal control structure.

Keep in mind that the safeguarding of assets as covered by the checklist refers only to protection from loss through errors or irregularities in the processing of transactions. It does not include, for example, loss of assets arising from management operating decisions (such as redeeming a certificate of deposit prior to maturity or purchasing material or services that later prove to be unsatisfactory or unnecessary). In addition, collusion and the intent to defraud can circumvent some controls, but an effective control environment and attitude by the board will help reduce the probability of such irregularities.

So put on your hat as the skeptical detective and go through this checklist with the appropriate people. In fact, reviewing the list each year with the new board so that all members can learn (or be reminded anew) how the association controls work would be a good training session. There is no right or wrong answer to this checklist; rather its purpose is to help you document what you do and to suggest items that may help you do things in a more efficient or controlled manner, given your association's size and personnel resources.

TIMELY REPORTS

The board should be getting the association financial statements and bank reconciliations within the month following the month end. If this is not happening, and it is a regular occurrence, the board needs to consider changing its financial arrangements so that they, the board members, can perform their fiduciary duties. "Within the following month" is not a hard and fast rule, but the reason for the delay needs to be very good - like a change in management, a natural disaster or the like. Sometimes at year-end it takes longer, but preliminary statements should be ready on the regular monthly schedule. In short, with proper vigilance the board can catch most frauds in short order if they are performing their duties. Moreover, by the board performing their duties, most defrauders will not be tempted to defraud the association because they do not want to be caught, and certainly not quickly!

The board must review the bank reconciliations for all accounts. This means the investments, certificates of deposit, treasury bills, savings accounts and so on, in addition to the checking account(s). You need to see that statements are sent at least quarterly, although US Treasury statements are only sent when there is activity - at purchase, maturity or renewal. These are your largest cash accounts and as such must be reviewed quarterly. The Legislature recognized this when they mandated the quarterly review and required that at least two board members or an officer and board member must authorize reserve fund withdrawals. Some professionals believe this includes a transfer from one account to another even within the overall category of reserve funds, which is a good, conservative, cautious stance. Review the statements for the dollar amount (and the financial statement carrying value is the purchase cost plus investment/interest earnings, not the market value) and for the account title. The accounts should always be in the name of the association, not the manager or an owner or anyone else. If the account is not in the association's name, then the association does not own it and someone else has control of it and can take it.

WORKING WITH YOUR CPA

Your CPA will look at your system of internal control during preparation of your annual review and, if you have an audit, will test those controls as well. However, the CPA only comes in once a year. The board is required to review the statements at least quarterly. A lot of fraud can happen between CPA visits.

If you suspect fraud from management or a fellow board member, call the CPA in to look at things early. We CPAs want to be of service to you and we hate to see anyone get away with fraud. However, what we cannot do is question the propriety of your management decisions. If you picked a bad contractor and continued to pay the change orders for work not properly done but properly approved for payment, internal control is not the issue, but rather proper oversight is. But that issue is beyond the scope of this article.

EDITOR'S POSTSCRIPT

As noted in Joelyn's article, the board must review its bank statements and reconciliations quarterly as well as its financial activity compared to budget. We have included a summary form that you can adopt for your use, courtesy of Connie Burns at Town'n Country Property Management. Copies of all the bank account statements, reconciliations and bank statements can be attached to the summary sheet for board member inspection at an open meeting. While California law requires quarterly review, some associations which meet monthly will perform the review at each monthly board meeting. On the bank reconciliations, look for deposits in transit more than a month old – these may be duplicate entries. Outstanding checks over 60 days old may indicate a lost check or a duplicate payment that needs to be voided. At your association year-end, be sure that all CD balances are up-to-date by obtaining interim statements as necessary. Many banks have stopped sending monthly or quarterly statements on CDs. On your income and expense statements compared to budget, look for large variances, especially negative ones, that may need to be addressed via increased or special assessments or steps to reduce controllable costs (not as easy as it sounds).

BOOKS FOR SALE AT SOUTH COAST HOA

We have a limited number of the *2008 Condominium Bluebook* remaining in stock – Regularly \$18/each **now only \$10/each** until they are gone.

In addition, we have a few copies left of the *Condo Owners Answer Book* by attorney Beth Grimm. A copy was distributed to each association and professional member in July. These are available for \$18/each tax and postpaid.

If you know an association that could benefit from membership in South Coast HOA, refer them to our website at www.southcoasthoa.org for a membership application or call us and we'll send an application. Membership remains at \$60 and new members will receive the balance of 2008 and all of 2009 with their dues payment. New members will also receive both of the books listed above until supplies are exhausted.

HOA INTERNAL CONTROLS CHECKLIST

GENERAL CONTROLS: (Those that have an indirect impact on the accounting system; their contribution is to provide an environment that is conducive to the protection of assets.)

A. ORGANIZATIONAL STRUCTURE	Y	N	NA
1. Is there a coordinated insurance program, reviewed annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there adequate comprehensive liability insurance for the association's assets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the liability insurance level in accordance with CC §1365.7?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is association personal property listed and tagged with an association ID?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is there an accounting capitalization policy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the general membership vote on earthquake insurance annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is there a Directors & Officers liability policy in force, conforming with governing document requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Are there records retention policies and procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Do budget and insurance disclosures conform to CC §1365?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are there periodic (at least yearly) safety checks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Is a reserve study performed every three years per CC §1365.5 and updated annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Does the board clearly understand the duties, authority and responsibilities of each member?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Are there written job descriptions for each member of the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Does the board have a written manual of policies and procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Does the board keep accurate minutes of board and of committee meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. ACCOUNTING ADMINISTRATION			
1. Is there an accounting manual listing items in each general ledger account?*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a general ledger account for each association budget line item?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board receive prompt financial reports at least quarterly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the board regularly compare financial results to the budget and review variations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the comparison done in accordance with CC §1365.5?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the board obtain bids for services and document decisions for acceptance of all bids?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**NOTE: Lack of an accounting manual or defined chart of accounts can lead to inconsistent accounting treatment or misclassification of revenue or expenses from one period to the next. Such misclassification can deter comparability from period to period and make it difficult for the board to understand financial results or make meaningful comparisons to the budget.*

SPECIFIC INTERNAL CONTROLS: (Those that relate to specific assets such as cash and receivables)

C. CASH AND BANK ACCOUNTS	Y	N	NA
1. Are bank and investment accounts in the name of the association?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are bank signature cards current?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are persons handling association cash bonded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Total cash balances with any one financial institution do not exceed \$100,000?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. All cash deposits in FDIC insured accounts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Are bank statements reconciled monthly by someone with no other cash receipts or disbursement functions? ("Other cash functions" include making bank deposits, recording cash receipts, writing checks or approving payments.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the reconciler receive the bank statement unopened (to prevent loss or alteration)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the reconciler compare check details with journal entries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the reconciler examine checks for signatures, alterations, or irregular endorsements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Does the reconciler compare bank dates of deposit with the cash receipts journal?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Are long outstanding checks (over 90 days) reviewed for disposition?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Are bank reconciliations reviewed and approved by the board at least quarterly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

South Coast Homeowners Association – August 2008

D. CASH DISBURSEMENTS

- | | | | |
|--|--------------------------|--------------------------|--------------------------|
| 1. Does the association use prenumbered checks issued in sequence? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are checks prepared from a properly (initialed) approved invoice or request? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are invoices and bills checked for accuracy and pricing before payment is authorized? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are invoices checked for proper classification in the general ledger? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Do all checks require dual signatures, at least one of which is a board member? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do reserve checks and transfers between accounts require two board members or one board member and one officer's signature authorization? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Does the signing board member check and cancel invoices or other documentation when signing? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Is there a policy of never making checks payable to cash? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Is there a policy of never signing blank checks? and is it adhered to? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Signed checks do not "backtrack" to preparer to reduce possibility of alteration? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Bills are paid timely to avoid charges and to take advantage of available discounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

E. ACCOUNTS RECEIVABLE

- | | Y | N | NA |
|--|--------------------------|--------------------------|--------------------------|
| 1. Is the delinquency policy statement issued to all homeowners annually? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are late charges levied against overdue accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Late charges do not exceed \$10 or 10% of the monthly assessment? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is interest charged, not to exceed 12% per annum, on overdue accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are receivables aged to identify delinquent accounts and reviewed monthly? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Are delinquent accounts pursued in a timely manner and according to policy statement? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Is there a written collection policy and has it been sent to all homeowners? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Are liens filed in a timely manner to enhance collectibility of overdue accounts? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Are bad debt write-offs reviewed and approved by the board? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Are checks received restrictively endorsed immediately after the mail is opened? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Are cash receipts deposited intact, daily? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. If on an accrual basis, are subsidiary accounts reconciled to general ledger periodically? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

F. INDEPENDENT CONTRACTORS

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| 1. Do independent contractors have W9s on file before payments are authorized? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are dollars for all independent contractors accumulated? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are 1099s issued by Jan. 31 for all independent contractors who were paid \$600 or more? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

G. PAYROLLS (Use this section only if the association hires regular employees and maintains its own payrolls.)

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| 1. Do different people do the following: | | | |
| A. Approve hours worked as recorded on time cards | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| B. Prepare paychecks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| C. Distribute paychecks? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 1. Are detailed personnel records kept, including W4 forms, I-9 forms, employment applications, performance reviews, approvals for pay increases? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are approvals required before adding or deleting from the payroll? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are records kept of benefits, unused vacation, sick days, etc.? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Is payroll preparation rechecked and calculations verified? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are payroll tax returns reconciled to the general ledger? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Are payroll reports, including DE34 forms for new employees, filed regularly? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Compiled by members of ECHO's Accountants Resource Panel
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FINANCIAL COMPLIANCE CHECKLIST

TO: Board of Directors of _____
FROM: _____

Please find enclosed the financial report and copies of statements (as available) for the operating and reserve accounts for the quarter ending _____.

The California Civil Code Section 1365.5(a) requires the Board of Directors to review the following financial information at least quarterly:

OPERATING ACCOUNT

1. The account reconciliations and statements for the operating account at
Bank _____ BALANCE: _____
2. Current year's actual operating income and expenses compared to the current year's budget. (See financial report.)
3. Income and expense statements (See financial report.)

RESERVE ACCOUNTS

1. The account reconciliations and statements for the reserve account(s) at

BANK	TYPE	INT. RATE.	BALANCE	DATE OF STATEMENT
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
2. Current year's actual reserve income and expenses compared to the current year's budget. (See financial report.)
3. Income and expense statements. (See financial report.)

The Board of Directors reviewed the financial information enclosed at their Board meeting on _____.

Date _____ Association _____

By: _____, President _____ or Secretary _____

PENDING CALIFORNIA LEGISLATION

Do you know why the California Legislature hasn't passed a budget, yet? (At press time). There are a number of bills that are pending in this legislative session which is due to conclude at the end of August. Here is a brief summary of some of the bills that would impact HOAs if passed by the Legislature and signed by the Governor.

AB 567 – Common Interest Development Bureau – This bill would authorize the establishment of a state CID Bureau to provide educational opportunities, a website and toll-free number to field questions. The bureau would be funded from fees levied upon homeowners associations. This bill was inactive for months and has been revived just weeks before the end of the session.

AB 1921 – Complete Revision of the Davis-Stirling Common Development Act. This bill would have made many changes to the Davis-Stirling Act, some major, some not. It would have changed all the code numbers in the Act. The bill was withdrawn after much consideration in committee. It will be worked over some more and should be re-introduced in 2009. This body of work has been undertaken by the California Law Revision Commission over several years with many hearings and written comments received.

AB 2259 – Rental Restrictions – Would not allow rental restrictions enacted by HOA members after January 1, 2009 to apply to any owner who owned their separate interest prior to the date the rental restriction passed. No “no” votes recorded on this bill so far. Would also require owner to provide name and contact information to the HOA about his tenants.

AB 2806 – Board Member Education – Would require that all board members and candidates for the board disclose to the HOA members whether they have taken a course in Community Association law and when they took the course. It would be effective in 2010, if passed. The bill passed the Assembly with substantial opposition. It is now awaiting action in the State Senate. Opposition has suggested that taxpayer dollars have been spent to develop course materials (I haven't seen them), that associations can already require board members be trained and that it would be used to weed out “undesirables” running for the board.

AB 2846 – Small Claims Court Disputes – Would expand the options available to an owner in a monetary dispute with the Association to pay under protest and seek relief via Small Claims Court. No opposition noted. It has passed the Assembly and is now in the State Senate.

SB 1511 – Defaults/Foreclosures – Would require lenders and trustees inform the association of new owners who have taken a separate interest as a result of foreclosure or other transfer of title.

There are some other bills pending as well dealing with solar installations, disclosures during a sale and assessments on below market rate units. Further information on these bills can be found at www.leginfo.ca.gov. We will probably be discussing some of these bills at our annual law and legislative update meeting early next year.

SOUTH COAST NEWSLETTER SPONSORS

ACCOUNTANTS

Cagianut and Company, CPAs
Gayle Cagianut, CPA
4587 Telephone Rd #209
Ventura, CA 93003
805-642-4658

Michael J. Gartzke, CPA
5669 Calle Real #A
Goleta, CA 93117
805-964-7806

James L. Hayes, CPA
2771 Santa Maria Way #A
Santa Maria, CA 93455
805-937-5637

BOOKKEEPING SERVICES

The Bottom Line
Nancy Gomez
P. O. Box 91809
Santa Barbara, CA 93190
805-683-3186

Laura McFarland, CPA
McFarland Financial
720 Vereda del Ciervo
Goleta, CA 93117
805-562-8482
www.mcfarlandfinancial.com

ATTORNEYS

Beth A. Grimm
www.californiacondoguru.com
3478 Buskirk #1000
Pleasant Hill, CA 94523
925-746-7177

James H. Smith
Grokenberger & Smith
1004 Santa Barbara St.
Santa Barbara, CA 93101
805-965-7746

David A. Loewenthal
Loewenthal, Hillshafer & Rosen
15260 Ventura Blvd #1400
Sherman Oaks, CA 91403
866-474-5529

Attorneys (Cont)

Steven McGuire
Price, Postel & Parma
200 East Carrillo, Suite 400
Santa Barbara, CA 93101
805-962-0011

FINANCIAL SERVICES

First Bank Association Services
Judy Remley/Linda White
2797 Agoura Rd
Westlake Village, CA 91361
888-539-9616

ASSOCIATION MANAGEMENT

Sandra G. Foehl, CCAM
P. O. Box 8152
Goleta, CA 93116
805-968-3435

Brenda D. Wilson CCAM
P. O. Box 6882
Santa Barbara, CA 93160
805-692-4901

St. John & Associates
Kristin St. John
P. O. Box 6656
Santa Barbara, CA 93160
805-683-1793

McFarland Financial
Geoff McFarland, Realtor
720 Vereda del Ciervo
Goleta, CA 93117
805-562-8482

RESERVE STUDIES

Stone Mountain Corporation
Chris Andrews
P. O. Box 1369
Goleta, CA 93116
805-681-1575 www.stonemountaincorp.com

The Helsing Group, Inc.
Roy Helsing
2000 Crow Canyon Place, Suite 380
San Ramon, CA 94583
800-443-5746
www.helsing.com

Reserve Studies, Inc.
Les Weinberg
9420 Topanga Canyon Blvd #201
Chatsworth, CA 91311
800-485-8056
www.reservestudiesinc.com

INSURANCE

State Farm Insurance
Buzz Faull
1236-G Coast Village Circle
Santa Barbara, CA 93108
805-969-5838

State Farm Insurance
Ed Attlesey
160 N. Fairview #3
Goleta, CA 93117

805-964-9988

Baxter Insurance Services
Dan Baxter
225 East Carrillo, Suite 201
Santa Barbara, CA 93101
805-963-4048

Insurance (Cont)

Timothy Cline Insurance Agency
Tim Cline, CIRMS
725 Arizona Ave #200
Santa Monica, CA 90401
800-966-9566

CONSTRUCTION MANAGEMENT

Stonemark Construction Management
Bart Mendel
290 Maple Court, Suite 120
Ventura, CA 93003
800-844-9240

GENERAL CONTRACTOR/REPAIR

Raymond Arias Construction
Raymond Arias
1 N. Calle Cesar Chavez #230-B
Santa Barbara, CA 93103
805-965-4158

PAINTING CONTRACTOR

Blake Fuentes Painting, Inc.
79 S. Kellogg Avenue
Goleta, CA 93117
805-962-6101

ORGANIZATIONS

Community Associations Institute –
Channel Islands Chapter
P. O. Box 3575
Ventura, CA 93006
805-658-1438
www.cai-channelislands.org

Executive Council of Homeowners
ECHO
1602 The Alameda #101
San Jose, CA 95126
408-297-3246
www.echo-ca.org

