



Homeowner Perceptions: Cruise Ship or Rowing Boat

Speakers

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Moderator

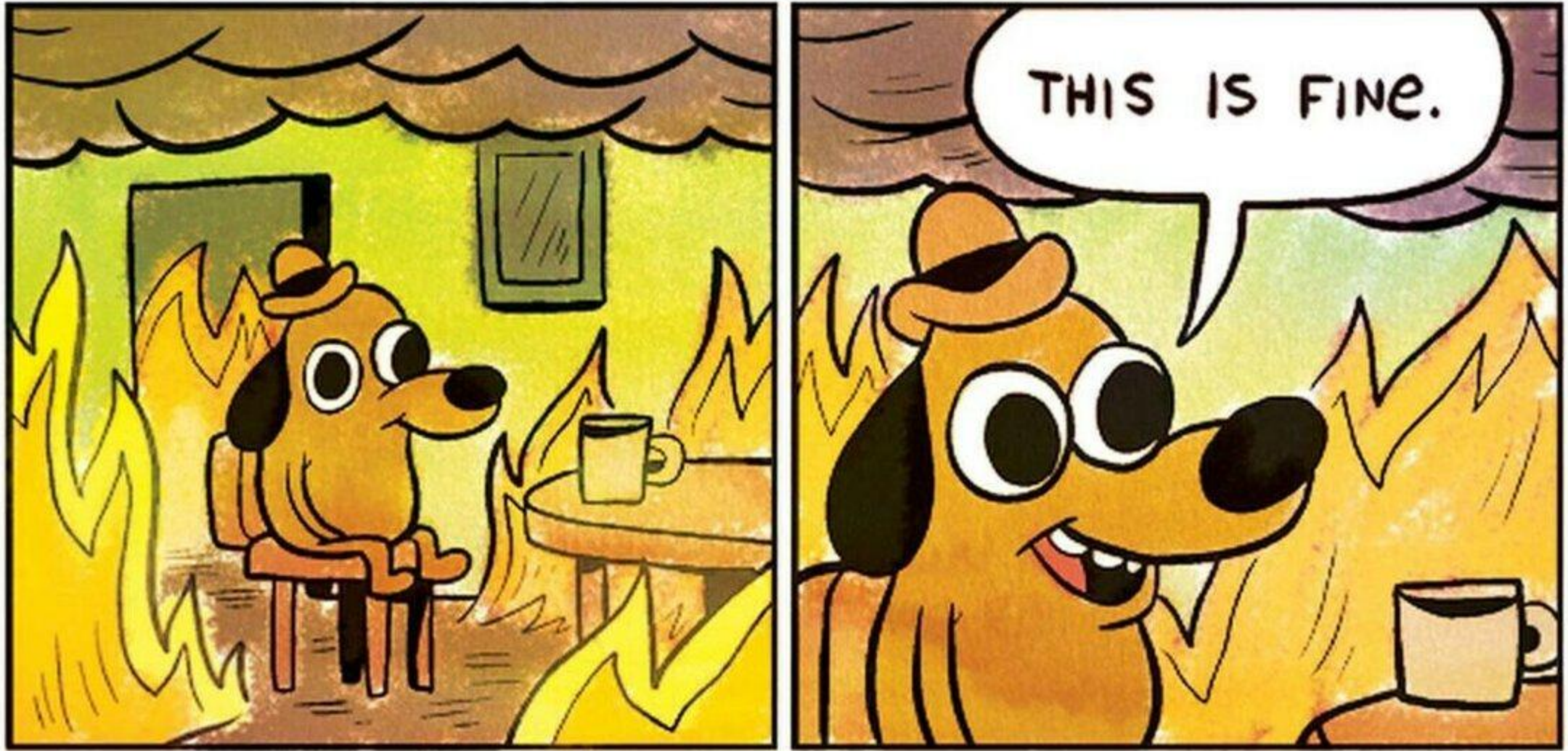
Erin Kremser – First Citizens
Bank



Agenda

- The Accounting Case for Common Charges
- Navigating the Legal Issues
- Charting the Best Course
- Questions

The Accounting Case for Common Charges



The Accounting Case for Common Charges

- Why Deal with the Elephant in the Room?
 - General Working Capital
 - Streamline Operations
 - Time Value of Money



General Working Capital

- General liquidity to pay operating costs
- Defined as Current Assets – Current Liabilities
- Shortages in working capital can lead to:
 - Need to borrow from reserves
 - Delayed payments to vendors
 - Deferred maintenance



Streamline Operations

- The right common fee today:
 - Allows for timely paying of bills
 - Reduces the need for unnecessary transactions
 - Makes management of the property easier
 - Easier absorption of unanticipated costs
- The right common fee for tomorrow:
 - Builds value in the community into the future
 - Avoids and smooths common fee increases over time vs. large increases or assessments



Time Value of Money

- The concept of dollars earned today are worth more than a dollar in the future
- Adequate fees lead to adequate reserves that can build value for the future
- This growth allows for:
 - Reduce need for future common fee increases for reserve funding
 - Ease future budgets constraints
 - Capital projects to be done timely avoiding costly deferred maintenance

Time Value of Money

Happy Hills Association Inc.

			Contribution	Earnings	Balance
Annual Funding Requirement:	10,000	12/31/XX	10,000	1,500	61,500
Interest Rates:	2.50%	12/31/X1	10,000	1,788	73,288
Starting Reserve Balance:	50,000	12/31/X2	10,000	2,082	85,370
		12/31/X3	10,000	2,384	97,754
		12/31X/4	10,000	2,694	110,448
			<u>50,000</u>	<u>10,448</u>	

Poor Planners Association, Inc.

			Contribution	Earnings	Balance
Annual Funding Requirement:	10,000	12/31/XX	5,000	1,375	56,375
Interest Rates:	2.50%	12/31/X1	(10,000)	1,159	47,534
Starting Reserve Balance:	50,000	12/31/X2	-	1,188	48,723
		12/31/X3	10,000	1,468	60,191
		12/31X/4	10,000	1,755	71,946
			<u>15,000</u>	<u>6,946</u>	

Difference: 3,502 38,502

NAVIGATING THE LEGAL ISSUES

BILL WARD, CCAL

NAVIGATING THE LEGAL ISSUES

- RESERVES ARE FOR CAPITAL EXPENDITURES – NOT A BUDGET SURPLUS OR RAINY-DAY FUND
- COMMON INTEREST OWNERSHIP ACT:
 - COMMON EXPENSE DEFINED TO INCLUDE “ALLOCATION TO RESERVES”
 - 47-261E(a)(2) – ANNUAL BUDGET MUST INCLUDE AMOUNT IN RESERVES AND THE BASIS ON WHICH RESERVES ARE CALCULATED AND FUNDED
- CONNECTICUT LAW – RESERVES ARE NOT MANDATORY – REMEMBER SURFSIDE IN FLORIDA

NAVIGATING THE LEGAL ISSUES

- DETERMINING THE AMOUNT TO CONTRIBUTE ANNUALLY TO RESERVES:
 - RESERVE STUDY – THE PLAN FOR REPLACING AND ENHANCING COMMUNITY
 - 10% OF ANNUAL BUDGET – FANNIE MAE/FREDDIE MAC, VA, FHA
- BENEFITS OF RESERVE STUDY
 - EXPERT OPINION UTILIZED FOR LONG-TERM PLANNING
 - JUSTIFIES ANNUAL INCREASES IN COMMON CHARGES
 - TIMELY REPAIR OF CAPITAL ASSETS
 - IMPROVES HOME VALUES
 - ENHANCES THE COMMUNITY
 - PROTECTS BOARD MEMBERS FROM POTENTIAL LIABILITY

NAVIGATING THE LEGAL ISSUES

- FAILURE TO MAINTAIN ADEQUATE RESERVES
 - SPECIAL ASSESSMENT – AVOID CRIMINAL LIABILITY – 47-253(e)
 - LOAN
 - DEFERRED MAINTENANCE AND REPAIRS RESULTS IN BANKS REFUSING TO LEND TO BUYERS
- DO NOT USE RESERVE FUND FOR OPERATING SHORTFALLS
 - IF USE RESERVE FUNDS FOR OPERATING EXPENSES, IN NEXT YEAR'S BUDGET REPLACE AMOUNT USED AND ADD YOUR ANNUAL CONTRIBUTION
 - CONSIDER TWO RESERVE FUNDS:
 - CAPITAL
 - OPERATING

NAVIGATING THE LEGAL ISSUES

- EDUCATE – COMMUNICATE
 - INCREASE ANNUALLY
 - ADVANCE WARNING – BOARD MINUTES – POST ON WEBSITE
 - SEE EXAMPLE OF SPECIAL ASSESSMENT PRESENTATION
- SUMMARY – DO YOUR JOB

Charting the Best Course



You need a great crew

- Community
- Board
- Management
- Accountant
- Attorney
- Other professional advisors

Navigating Together

- Unified crew leads to effective navigation.
- Transparency fosters clear communication and builds trust between crew members.
- Setting expectations is crucial for teamwork.
- When everyone is informed, we can avoid misunderstandings.
- Collaboration ensures smooth operations and shared goals.

Equipping the Crew

- Right tools are vital for effective operations.
- Adequate fees ensure coverage of operating costs.
- Planning for reserve expenses prevents future issues.
- Proper budgeting enhances financial stability.
- Investing in resources leads to long-term success.

Sailing into the Future

- Responsibility in planning leads to successful outcomes.
- Budgeting allows for a sustainable navigation process and builds value
- Setting long-term goals ensures a clear vision.
- Happy crews lead to happy voyages.
- Financial foresight is key to a stable journey.



Communication Strategies

- Regular updates keep everyone informed.
- Utilizing technology can streamline communication.
- Encouraging open dialogue builds trust.
- Effective meetings lead to actionable insights.



Planning for Success

- Strategic planning ensures preparedness.
- Anticipating challenges leads to better solutions.
- Continuous review helps adjust strategies.
- Involving the crew in planning fosters ownership.
- Celebrating successes enhances morale.



Questions & Comments