

UNDERSTANDING YOUR COMMUNITY'S FINANCIAL POSITION IN A TOUGH ECONOMY

While it is always important to know where your community stands financially, it is especially important to understand the community's financial status in an economy riddled with increasing expenses, higher delinquencies, and more bad debt write-offs. Following are several recommendations and standards for analyzing a community's financial health:

RECOMMENDATION A: 2-3 months of expenses in your operating account(s) (liquid funds) at all times.

For example, if your community has a budget of \$20,000 per month for operating expenses, we would recommend that you have between \$40,000 and \$60,000 in an operating fund savings account. Doing so helps to ensure that the association can cover monthly expenses plus any unbudgeted expense that may arise, even factoring in assessments that are delinquent and not received. Boards should keep this in mind when considering investment opportunities. Only funds in excess of two — three months of operating expenses should be considered for longer-term investments that commit the funds for months or years.



RECOMMENDATION B: Investments reflect the reserve fund balance.

Industry standard (and in some cases state law) encourages (or requires) communities to set aside part of the maintenance fees in reserve funds, and further recommends (requires) that a community segregate operating funds and reserve funds. Reserve funds should be invested in safe monetary vehicles like CDs and insured money market accounts. The total amount in those accounts should be the same amount that's listed on the balance sheet for the reserve fund.

RECOMMENDATION C: Reserves funded in accordance with the reserve study.

Not only is it important to support the reserve fund balance with actual cash in the reserve investment account(s), it is also

important to review the reserve balance as it compares to the amount recommended by the association's reserve study. Special attention should be paid to this during budget preparation time. Rather than simply plugging in the recommended annual contribution number, an analysis should be done to determine the current projected year-end reserve balance and whether an adjustment to next year's reserve contribution is warranted. For example, if the reserve study recommends a balance of \$400,000 in the reserve funds at the end of fiscal year 2010 and it is determined that the actual balance at the end of FY 2010 is projected to be \$300,000, a multi-year plan needs to be established to increase the reserve contribution to make up the \$100,000 deficit. In some states, an annual or regular reserve study update is required; a comparison between actual and forecasted balances would be completed during that review. Similarly, if there are more funds in the reserve account than the reserve study recommends and all the recommended capital replacement projects have been performed, the reserve contribution could be decreased.

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RECOMMENDATION D: 10-20% of the total annual assessment amount is reflected in Prior Year Equity (this is a recommendation that auditors make so that the association has a “cushion” in the event of a major unanticipated event).

Prior Year Equity, which auditors frequently refer to as Unappropriated Members Equity or just Members Equity, is the accumulated operating deficit or surplus from the association's inception. While the developer is funding the operating deficit, the Prior Year Equity balance is usually \$0. Once the developer is no longer funding the deficit and the association is self-sustaining, the association should work to achieve the 10-20% Prior Year Equity level. For example, if your community has budgeted \$300,000 for the total annual assessment income, auditors recommend that the amount accumulated in Prior Year Equity be between \$30,000 and \$60,000. Any amount lower than \$30,000 would be noted by auditors as insufficient and any amount over \$60,000 would be noted as excessive. The auditors feel that this gives the association excess funds to cover a major unanticipated event not covered by insurance, such as plumbing lines that develop pinhole leaks, that would lead to a substantial operating deficit. The result could be not having adequate funds to replace or coat the plumbing lines. So, what happens if you aren't adequately funded in Prior Year Equity? In future years' budgets, the association should consider budgeting for an Operating Contingency (funds not earmarked for any specific expense) or should consider creating a line item specifically to fund Prior Year Equity in order to bring the balance into the 10-20% range.

RECOMMENDATION E: Delinquency rate does not exceed 3-5% of the total annual assessment income.

Using the example above with a community that has budgeted \$300,000 for the total annual assessment income, the total delinquent assessment amount should be less than \$15,000 to be financially healthy. It is important that associations do everything possible to aggressively pursue collection of delinquent accounts, in accordance with applicable federal and state law, the association's governing documents, and established collection policy. It is also important that the association, in accordance with the collections attorney, periodically review delinquent accounts and decide to write off accounts that are not collectible or where further collection effort is not cost-effective for the association, after the mortgage company foreclosed on the home. Many boards hesitate to write off uncollectible accounts, but often it is the wisest decision for the board to make.

RECOMMENDATION F: Establishment of an Allowance for Doubtful Accounts line item in the financial statements and budget. The Allowance for Doubtful Accounts line item is what is referred to as a “contra-asset” and appears in the asset section of the balance sheet as a negative number (to counter the accounts receivable asset). The purpose of the Allowance for Doubtful Accounts is to more accurately reflect the association's financial position. Without the Allowance, the association's balance sheet would show the entire delinquent amount as a collectible asset. The Allowance for Doubtful Accounts posts as a negative number to “decrease” the accounts receivable number to more accurately

reflect the association's assets. Prior to each fiscal year end, associations should review their delinquencies and determine the amount to enter in the Allowance category. There are many different ways to calculate the amount, so talk with your managing agent and association auditor to determine the right number for your association.

When drafting the annual budget in years when assessment delinquencies are high, creating a line item for Allowance for Doubtful Accounts (also known as Bad Debt Write-off) will provide a better understanding of what the maintenance fees should be. For example, if the budget indicates that the association must collect \$100,000 to pay all expenses and transfer the appropriate amount to a reserve account but it's estimated that 20% of the owners will not pay, create a separate Allowance for Doubtful Accounts expense line item reflecting a \$20,000 uncollectable amount. By creating this line item, calculating total income and expenses will show that the association must collect \$120,000 in order to ensure that they have the \$100,000 necessary to pay the budgeted expenses. Maintenance fees calculation would be based on \$120,000.

Christine E. Evans, CMCA[®], PCAM[®]
Regional Vice President
Associa



Mid-Atlantic **LEND** A HAND

Did you get a holiday card from Mid-Atlantic Management this year? No? That's because we did not send them! In lieu of sending holiday cards this year, Mid-Atlantic donated the funds that would have been spent on cards to two very worthy charities.

We made a donation to Associa Cares in the hopes that we can bring some relief to a family in need. Our other donation went to the following project: Mid-Atlantic Management supported a troop of 70 men and women stationed in Iraq. We found out about the soldiers through Kim Moran, who works at our sister company ATG. Once the idea was approved, Jeanne Entenman, our fearless fundraising leader, was off and running. And shopping. And schlepping! All boxes were assembled at our office with military precision - including the customs forms. Through donations made by our staff, family and friends, we sent 22 boxes filled with essentials and treats to brighten the holiday for our heroes. We wish them all love, peace and happiness in the New Year!



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STAFF SPOTLIGHTS

GARY VAN NIEKERK, CMCA® started work at Mid-Atlantic Management in Newtown Square, PA last year right after Thanksgiving. He has a wonderful warm personality, his clients and coworkers love him, and he is a dedicated and enthusiastic manager. He came to us with community association experience and some interesting experience as well. Gary was a golf pro in his native country of South Africa! He is doing very well at Mid-Atlantic and on Friday, September 24, 2010 Gary became a US citizen and came back to work to a newly decorated office!



MICHELLE HELMS, Director of Corporate Operations at Mid-Atlantic, just finished running a giant pet food drive for Philadelphia's homeless and hungry dogs and cats. This opportunity arose while volunteering at Philadelphia's animal control shelter. A friend who works at 93.3 WMMR said the DJs Preston and Steve mentioned adding pet food to their annual people food drive, Camp Out For Hunger. Michelle volunteered to handle the collection.

The pet food drive was a success - over 7,500 lbs. of food was donated. "Making a difference in your community does not have to be something huge. Look for volunteer opportunities in senior centers, churches, with people or with animals," said Michelle. "It starts by just doing something - one thing."



CLIENT SPOTLIGHT

BYERS STATION is situated in one of Pennsylvania's historic districts in the Village of Eagle in Chester County. The rolling landscape is a colorful and textured tapestry dotted with pastures, hills and magnificent vistas. This community was architecturally rendered to complement and connect with nature. The Byers Station community affords convenient shopping, fine dining and nearby recreation. At Byers Station you will enjoy miles of scenic walking and biking trails, an abundance of social activities at the community clubhouse and healthy respites at the community fitness center and pool. As part of the Byers Station community, The Mews at Byers Station features 188 condominiums. Also located within the Byers Station Community is The Courts at Byers Station, which will consist of 272 carriage homes. Homes in the Courts are currently being built by Toll Brothers and Orleans Builders.



BYERS STATION



THE MEWS



THE COURTS

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MID-ATLANTIC MANAGEMENT CORPORATION IS NOW ON FACEBOOK!



Mid-Atlantic Management Corporation is continuing to grow its on-line presence. We now have a Facebook page as part of our continuing efforts to further engage and communicate with our neighbors and homeowners.

The social media site works in conjunction with www.mamc.com as traditional communications such as press releases, seminar information and board member announcements will be available on both sites. Facebook will provide access to exclusive multimedia content not offered on the official website.

By "liking" Mid-Atlantic Management Corporation on Facebook, you will have the opportunity to receive news updates; get information on board seminars, open houses, trade shows, monthly/quarterly/annual meetings, social events and fundraisers; view video features and photos; receive special announcements; and have exclusive access to special promotions and giveaways.

New "likes" will also entitle you to a FREE copy of Association Times Volume 2, the best resource for community association information.

On-line social networking utilities, growing increasingly popular worldwide, allow users to connect and communicate information with others like friends, family, co-workers, immediately and unobtrusively. Facebook, with more than 500 million users worldwide, enables Mid-Atlantic Management Corporation to post updates and achievements to all of its homeowners in a timely fashion.

Facebook also provides you with an additional communications channel with which to learn more about and connect with Mid-Atlantic Management Corporation, while providing a dialogue on topics that are current and relevant.

To "like" Mid-Atlantic Management Corporation on Facebook, please visit www.Facebook.com/Associa and search for Mid-Atlantic Management Corporation.

Join our network today!

