

WHAT BOARDS NEED TO KNOW ABOUT HOA FINANCES

Presented by

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Community Associations Count On Us

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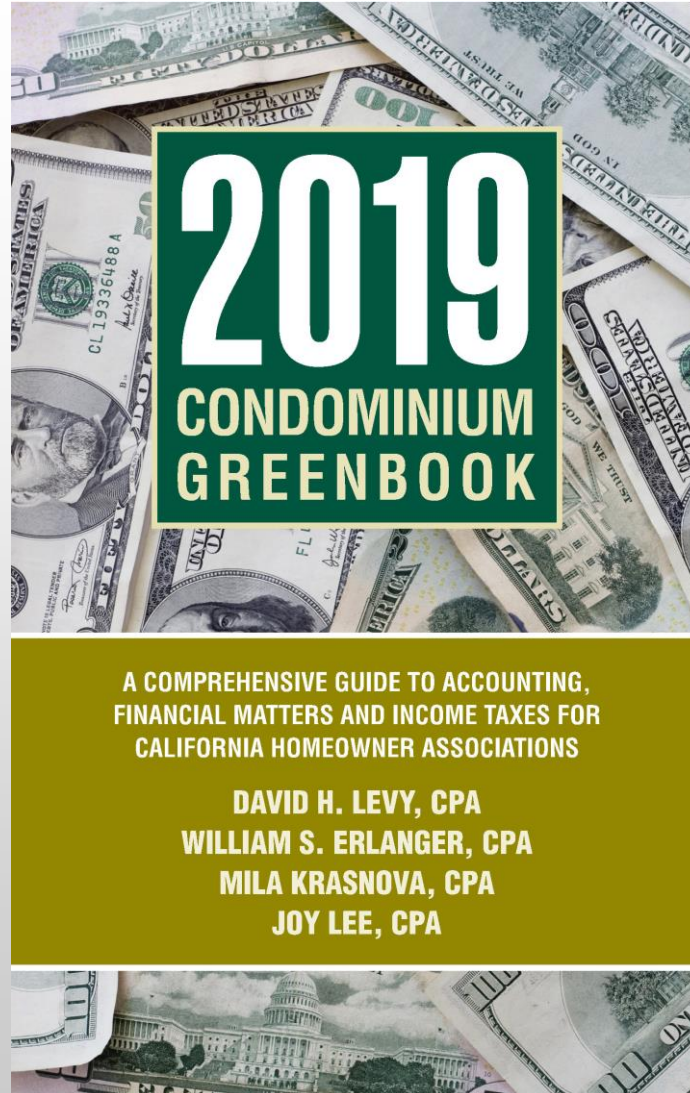
- I. Statistics And Finances**
- II. Reserve Study**
- III. Annual Budget Report**
- IV. 2019 Financial Legislation**
- V. Financial Accounting**
- VI. White Collar Crime**
- VII. Income Taxes**

SECTION I

STATISTICS AND FINANCES

9 BAY AREA COUNTIES - STATISTICS

Number	12,097 assns	100%
Under 25 units	6,206 assns	50%
21+ years old	7,193 assns	60%
Budget < \$100,000	6,222 assns	50%
Condos/conversions		2/3
Single family homes (SFH)		1/3



SECTION II

RESERVE STUDY

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COMPONENT
STUDY

FUNDING
PLAN

OPERATING
BUDGET

RESERVE STUDY

BOARD

ANNUAL BUDGET REPORT

PRO FORMA OPERATING BUDGET

ASSESSMENT AND RESERVE FUNDING DISCLOSURES
SUMMARY

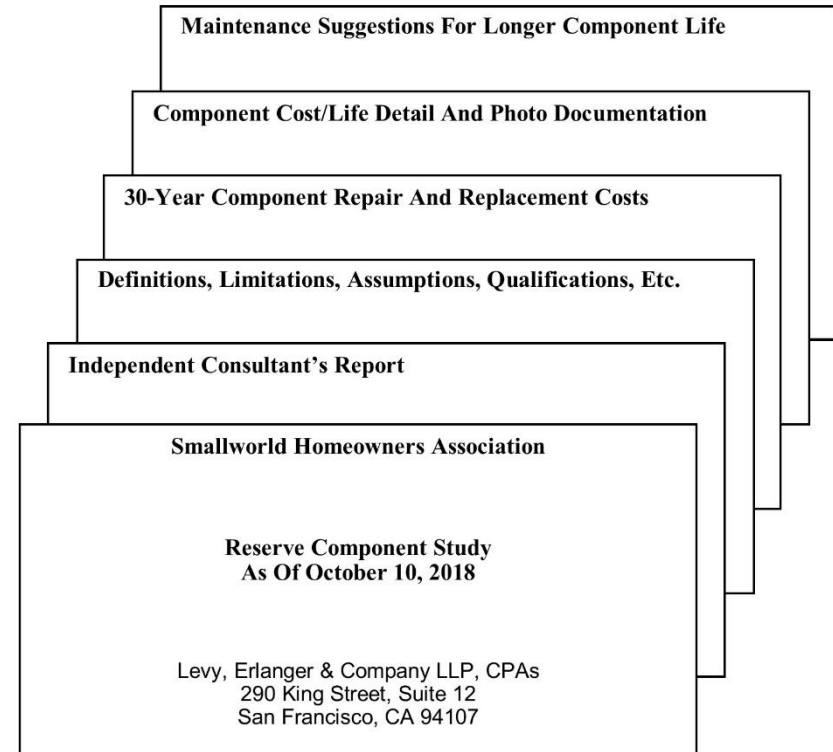
CPA REVIEW OR AUDIT

UNAUDITED SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS

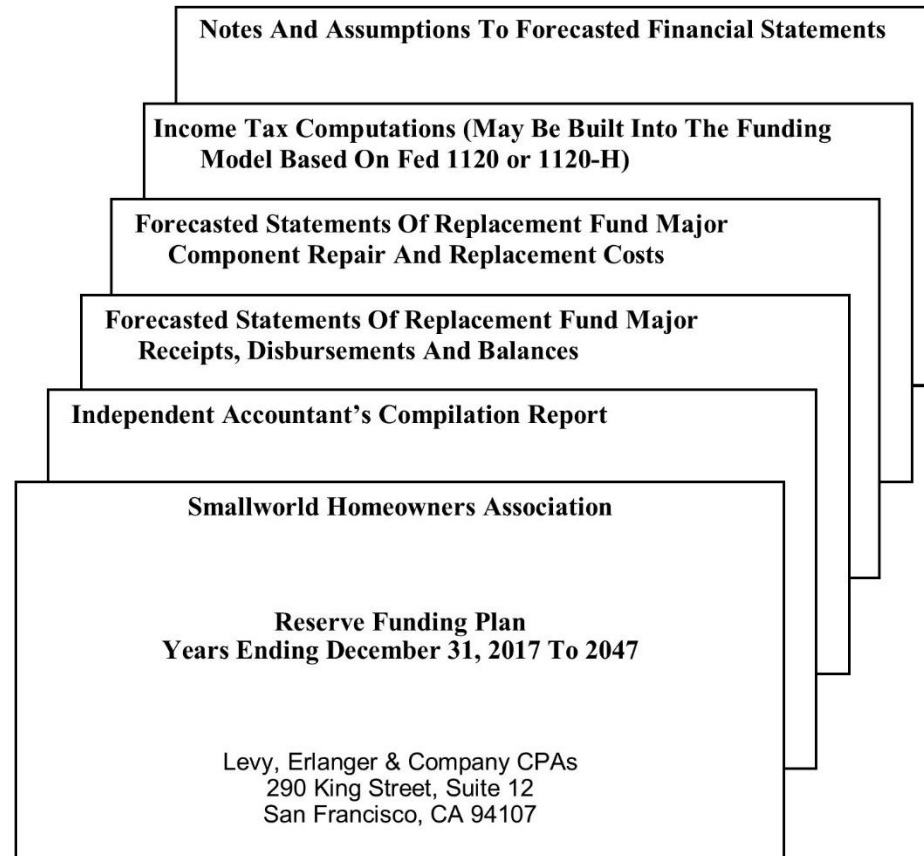
RESERVE (COMPONENT) STUDY

LONG TERM (30 YEAR) ESTIMATE

- Major components source is CC&Rs
- Components are repaired or replaced infrequently (more than 1 year)
- The repair or replacement is a significant cost (more than \$X)



RESERVE **FUNDING PLAN** OVERVIEW



SECTION III

ANNUAL BUDGET REPORT

ANNUAL BUDGET REPORT

- 1. Pro Forma Operating Budget**
- 2. Assessment And Reserve Funding Disclosures Summary**
- 3. Insurance Disclosure**
- 4. Bank Loan Disclosure**

PRO FORMA OPERATING BUDGET

- 1. Accrual basis revenues and expenses**
- 2. Reserve study data**
 - 2a. Major components
 - 2b. Remaining life
 - 2c. Useful life
 - 2d. Current replacement cost
 - 2e. Annual reserve contribution
 - 2f. Cash reserves
 - 2g. Reserve obligation
 - 2h. Percent reserves are funded
 - 2i. (Under-) over-funded reserves per ownership interest
- 3. Reserve funding plan summary**

METHODS OF ACCOUNTING

- | | |
|-------------------------------|--|
| 1. Cash Basis | Most Preferred By
Non-Accountants |
| 2. Modified Cash Basis | Good Compromise
For Monthly F/S –
Accrual For
Assessments, Cash
For Expenses |
| 3. Accrual Basis | Required By AICPA
And California State
Law |

CASH-BASIS VS. ACCRUAL-BASIS ACCOUNTING

Component: Roof
Replacement cost: \$180,000
Useful life: 18 years

Year	Accrual Expense
1	\$10,000
...	...
9	\$10,000
...	...
18	\$10,000

Year	Cash Expense
1	\$ -0-
...	...
9	\$ -0-
...	...
18	\$180,000

ANNUAL PROVISION AND ACCUMULATED LIABILITY

Component:	<u>Roofing</u>	<u>Painting</u>	<u>Paving</u>	<u>Total</u>
Useful Life (UL):	18 years	7 years	6 years	Various
Remaining Life (RL):	5 years	3 years	2 years	Various
Current Replacement Cost (CRC):	\$180,000	\$140,000	\$ 60,000	Various
Annual Provision (CRC/UL):	\$ 10,000	\$ 20,000	\$ 10,000	\$ 40,000
Accumulated Liability (CRC/UL)*(UL-RL):	\$130,000	\$ 80,000	\$ 40,000	\$250,000

Based on this example, if the Association's replacement fund cash reserves total \$150,000, the **percentage funded is 60%** (\$150,000 cash divided by \$250,000 liability).

PRO FORMA OPERATING BUDGET (CONT.)

- 4. Statement on whether or not the Board has determined to defer or not undertake major repair**
- 5. Special assessments**
- 6. Mechanism(s) for funding reserves**
- 7. General statement of the procedures used for calculating reserve funding**
- 8. Statement on whether or not the association has any outstanding loans**
- 9. Summary of insurance**
- 10. Distribution at 30 to 90 days before year-end**
- 11. Penalty for noncompliance**

ASSESSMENT AND RESERVE FUNDING DISCLOSURE SUMMARY

1. Current actual assessments
2. Budgeted assessments
3. **Adequacy of reserve funding for next 30 years?** (“yes” or “no”)
4. **What additional funding is required?** (if #3 is “no”)
5. All components are included statement (if true)
6. Reserve cash and reserve liability
7. **5-year reserve funding summary:**
 - 1) With no increases
 - 2) With assumed increases (per approved reserve funding plan)

COMPUTATION OF PER UNIT ASSESSMENTS

- Equal v. Variable Assessments
- Variable Assessment Formula
 - **No Increase Overall Does Not Mean No Change!**
 - Look At Governing Documents
 - Operating v. Reserve Line Items
 - Equal Portion – Number of Units
 - Variable Portion – Square Footage
- Consider Having Computation Reviewed By Your CPA

ASLEEP AT THE WHEEL

When: 1990s

Where: SF Bay Area

How: Ignored California legal disclosures

Loss: \$10,000+ each for 7 of 10 owners



: HOA Attorney, CPA



Penalty: 7 owners paid special assessment for 3 new owners

SECTION IV

2019 FINANCIAL LEGISLATION