

# Your Community. Your Business.

By Howard Goldklang, CPA

**Community associations must recognize that they are businesses and, in many cases, very big businesses. They must recognize this basic fact and adapt themselves wholeheartedly to this concept.**

Rodney Dangerfield coined the phrase “I get no respect.” That could also be said of advisors to community associations. Community associations have access to an array of business advisors (managers, attorneys, bankers, insurance brokers, investment brokers, reserve specialists, CPAs), yet their advice is often skipped over, shelved, or buried by the community’s desire to keep fees low. In too many cases, the community association adopts a course of political expedience by fee targeting to set fees rather than a fee based on a logically and carefully analyzed set of data to arrive at a reasonable and workable budget.

Community associations must recognize that they are businesses and, in many cases, very big businesses. They must recognize this basic fact and adapt themselves wholeheartedly to this concept.

How do they do this? As mentioned, they, for the most part, already have the business advisors in place. They must use and listen to these advisors.

## Framework of Business Advisors

### Management Company

The management company is the organizer and coordinates all activities. A good management company will provide advice in all areas of the business operations of the community. The management company will provide monthly financial statements that are needed for evaluation of the association’s financial position. An important responsibility of the management company is preparation of the annual operating budget. The budget should be prepared and accepted by the board based on reasonable estimates. There should be no fee targeting

or rationalization or political decision-making. As part of the budget, the association should include contributions to fund an operating reserve. Associations, like all businesses, need excess operating funds for unplanned contingencies, emergencies, unexpected heavy snowfalls, legal issues, or utility excesses. An operating reserve or excess operating fund may be established to meet these contingencies should they arise. The association should plan to have 10 to 20 percent of its annual assessments in excess operating funds.

### Attorneys

Attorneys provide a wide range of services. From a business standpoint, a major function is the pursuit of unit owner delinquencies. This is extremely important. Associations budget to zero. This means that all assessments must be collected and collected on time. The association needs to take aggressive actions to make sure that delinquencies are under control. The following is a good rule of thumb in determining the effectiveness of the association’s collection policy:

#### As a Percentage of Annual Assessments

0 to 3 percent:	Excellent
4 to 5 percent:	Good
5 to 10 percent:	Danger Zone
Over 10 percent:	Serious Actions Must be Taken

Associations should have a bad debt line item in the annual budget to effectively make up any potential shortfall caused by unit owner delinquency.

### Insurance

Associations should meet with their insurance agents annually to discuss coverage

and make sure that coverage provides the necessary and appropriate protections. The association must get a clear understanding of the process necessary for prompt payment should an event occur and a claim become necessary. Both Maryland and Virginia have enacted legislation that impacts association insurance coverage.

### Investment Advisors

Associations should have a relationship with an investment advisor. The investment advisor can help streamline your reserve funds and make sure there are no gaps in the investments. The association must develop an investment policy. The investment policy should be built around three major cornerstones:

- Safety
- Liquidity
- Yield

But remember, safety first. Consequently, association reserve funds should be limited to instruments of the federal government that are fully backed by the federal government and money funds and certificates of deposits of federally insured institutions that are no greater than the amount of coverage per institution, presently \$250,000.

### Bankers

Associations should develop relationships with banks knowledgeable in working with common interest communities. Because costs are rising and because major expenditures may occur sooner than expected, associations may need to enter into a borrowing arrangement.


### Reserve Specialists

A major component of an association's budget is contributing to a replacement reserve. The replacement reserve is for major capital expenditures. It is not for minor expenditures. The reserve specialist prepares the study that the association needs to follow. It lists the reserve components, the useful lives, the remaining useful lives, and the costs to replace. In order to avoid a major increase in fees or special assessments resulting from major capital expenditures, the association must carefully follow the replacement reserve study. To make sure the study remains current, it should be updated at least every five years.

### CPAs

The final professional is the CPA. The primary roles of the CPA are to perform the

annual audit and to prepare all tax filings. The CPA generally knows a significant amount about the financial activities, needs, and operations of the association.

To function effectively, the association must recognize that it is a business. To function effectively as a business, the association must take advantage of the expertise that all of its professionals offer and listen to their advice. 



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