


Finances

in the
Common Interest Community

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Agenda


- 50 min Budgets & Reserves
- 10 min Break
- 40 min Financial Reporting
- 10 min Operations
- 10 min Break
- 30 min How to Review Financials
- 10 min Q&A



Budgets

Overview

- One of the most important documents and tasks within an Association
- Basis for assessments
- Creates the foundation for an association's fiscal health
- Association cannot function without it



Budgets

Requirements

- Statutory
 - Nevada Revised Statutes NRS 116.31151
 - Nevada Administrative Code NAC 116.415
- Governing documents – CC&Rs



Budget Mailing

1. Operating Budget
2. Reserve Contribution – Adequate Funding
3. Each Component that association maintains, repairs replaces or restores:
 - Replacement cost
 - Remaining Life
 - Useful Life



Budget Mailing

4. Estimate of amount of reserves necessary
5. Current amount of reserves
6. Statement whether board anticipates a special assessment
7. Description of the procedures used to estimate reserve amount
 - Qualifications of reserve preparer
8. If there is a difference between Reserve Study and Budget:
 - Why there is a difference
 - How difference is to be resolved



Budget Mailing

- 9. May distribute summary of budget
 - If actual budget is available within 60 miles
 - Copy of budget to be provided upon request
- 10. Collection & Compliance policies



Budget Ratification Meeting

- 14 to 30 days after budget mailing
- Unless a majority of owners reject proposed budget, it is deemed ratified
- No quorum requirements
- If budget is rejected, then prior budget is continued until another budget is ratified



Timeline

1. Board adopts budget
2. Within 60 days, must be mailed to owners
3. Mailing must be between 30 and 60 days prior to beginning of fiscal year
4. Budget Ratification Meeting between 14 & 30 days of mailing



Determining Monies Needed

- Classification of expenditures
- Use professionals
- Budget for doubtful accounts
- Contingency
- Budget based on expenses divided by number of units/lots
- Must contain adequate reserve allocation
– NAC 116.425



Budgets (Cont'd)

Methodology

- Zero based
- Historical trend
- Year-to-date, adjusted



Zero Based Budgeting

How much should your water bill be for your pool? See page 31 in the Supplementary Materials.

20' x 30' 15,000 gallon pool, 1" Meter

To fill the pool once a year:
15,000 x \$2.08/1,000 gallons = \$31.20



Zero Based Budgeting

How much should your water bill be for your pool?

20' x 30' 15,000 gallon pool, 1" Meter

Evaporation = 60 gallons/sq. ft/year
20' x 30' x 60 gal = 36,000 gallons/year
(3,000 gallons per month)
3,000 gal x \$1.16/1,000 gal = \$3.48/month
or \$41.78/year



Zero Based Budgeting

How much should your water bill be for your pool?

20' x 30' 15,000 gallon pool, 1" Meter

\$31.20 to fill it once + \$41.78 evaporation =
\$72.98 per year

(this does not include the cost of showers and restrooms)



Historical Trend Budgeting


Cost of Water – Pool Meter

Year 1	\$ 68.47
Year 2	\$ 78.90
Year 3	\$ 93.22
Year 4's Budget	\$ 107.00




Determining Income

- Assessments
- Special Assessments
- Reserve Assessments
- Late Fees/Interest
- Fines
- Interest
- Other Income




Determining Income

- Total Income should equal
 - Total Expenses
 - Plus Reserve Allocation
 - Divided by number of units



Unbudgeted Expenses

- Should have a line in the budget for contingency
- Special Assessment
 - Governing Documents
- Borrow funds from bank



Reserves

Reserves and Reserve Studies

- Definition of Reserves – NRS 116.31152
 - ...the major components of the common elements and any other portion of the common-interest community that the association is obligated to maintain, repair, replace or restore;
- Portion of the budget must be set aside for capital expenses and deferred maintenance



Specific Use for Reserves

- Expenditures that do not occur on a routine basis
 - Less than annually
- Major capital repairs
- Provides for these repairs without the need for a special assessment



Reserve Authority

- Governing Documents
- Nevada Revised Statutes – NRS 116.31152
 - Reserve Study at least once every 5 years
 - Review annually & make adjustments
 - Reserve Study must be conducted by person who holds a permit
 - If fewer than 20 units in a county with a population of less than 55,000 may be conducted by person the board deems qualified



Requirements of Reserve Study

NRS 116.31152 Reserve Study Must Include:

- Summary of an inspection;
- Identification of the major components;
- Estimate of the remaining useful life of each;
- Estimate of the cost to maintain, repair, replace or restore each;
- Estimate of total annual assessment necessary to cover the cost;
- Funding plan.



Requirements of Reserve Study

NAC 116.425

- Copy of the component inventory from previous reserve study
- 30-year schedule which shows:
 - Projected increase in assessments required for adequate funding
 - Projected inflation and estimated interest income
 - Projected ending balance of reserve fund



Requirements of Reserve Study

NAC 116.425

- Names & credentials of assisting experts
- Written reports prepared by experts
- Written explanation of conflicting recommendations
- Number of units in association
- Status of reserve fund
- Objectives & methods used in reserve study



Requirements of Reserve Study

NAC 116.425

- Beginning and end of fiscal year of reserve study
- Projected initial balance of reserves
- How initial reserve balance was calculated
- Statement of remaining useful life
- Funding plan
- Sources of costs



Requirements of Reserve Study

NAC 116.425

- Type of reserve study
 - Full
 - Update with site visit
 - Update without site visit
- Disclosures
- Statement



What is Adequate Funding?

NAC 116.425 (2)

As used in this section, “adequately funded reserve” means the funds sufficient to maintain the common elements:

- (a) At the level described in the governing documents and in a reserve study; and
- (b) Without using the funds from the operating budget or without special assessments, except for occurrences that are a result of unforeseen catastrophic events.



How are Reserves Calculated?

- 1. Cost of Component
 Minus
- 2. Amount already allocated for that component
 Divided by
- 3. Estimated number of usable years left
 Equals
- 4. Annual allocation



How are Reserves Calculated?

- 1. Slurry Seal - \$20,000
 Minus
- 2. \$16,000 already allocated to Slurry Seal
 Divided by
- 3. Needs to be done in about 2 more years
 Equals
- 4. Annual allocation - \$2,000



Reserve Terminology

- Full Funding – All components funded at 100% (at time of repair/replacement)
- Baseline Funding – Goal is to keep reserves above \$0
- Threshold Funding – Somewhere between Full and Baseline



Specific Use for Reserves

- Reserve Assessments - NRS 116.3115 (2)(b)
- Disbursements – NRS 116.31153 (1)
 - Only for their intended purpose
 - Signatures of two board members required
 - Cannot transfer from reserves to operating



Reserve Study Dissemination

- NRS 116.31152 (4) & NAC 116.435
- To Division no later than 45 days after adoption by board



Break


Please return to your seat
In 10 minutes



Financial Reporting

Types


- Monthly
- Annual



Financial Reporting (Cont'd)

Financial reporting concepts


- Accrual accounting
- Fund accounting



Financial Reporting (Cont'd)

Requirements

- Statutory – NRS and NAC
- Governing documents



Financial Reporting (Cont'd)

Requirements

- NRS 116.31083
 - Review once a quarter, and not less than every 100 days
 - Current year-to-date financial statement
 - Current year-to-date schedule of revenue and expenses compared to the budget
 - Current reconciliations of operating and reserve accounts
 - Latest bank statements
 - Status of civil action or claim



Financial Reporting (Cont'd)

Requirements

- NAC 116.451
 - Balance Sheet (inc. Operating & Reserve, Liabilities and Fund Balances/Members' equity)
 - Statement of Revenues and Expenses
 - Budget comparison
 - Changes in fund balances
 - Footnote that reserve funds were not used for daily maintenance



Financial Reporting (Cont'd)

Requirements

- NAC 116.451
 - Prepared on a full accrual basis
 - Be prepared by someone with accounting knowledge and experience
 - Be distributed monthly to the treasurer, manager and board



Financial Reporting (Annual)

NRS 116.31144

- Annual budget \$45,000 to \$75,000
 - Review the year immediately preceding the reserve study
- More than \$75,000 but less than \$150,000
 - Review every year
- Annual budget \$150,000 or more
 - Audit every year
- If 15% of owners request an audit



Financial Reporting (Annual)

NAC 116.457

- GAAP
- Balance Sheet
- Statement of Revenues & Expenses
- Changes in Fund Balances
- Statement of Cash Flows
- Disclosures
- Details of actual vs. budgeted amounts



Financial Reporting (Annual)

NAC 116.457


- Completed no later than 210 days after end of fiscal year
- Available to the Division not later than 30 days after requested by Division
- Registration form requirements



Financial Reporting (Cont'd)


Sample financial statements
See Pages 50 in Supplementary Materials

- Monthly
- Annual



Financial Reporting (Cont'd)


Income tax considerations
 Allocation of Surplus



Operations

Role of management

- Self-managed
- Management company



Operations (Cont'd)

Board responsibilities

- Fiduciary
- Establish Policies and Procedures
- Enforce Policies and Procedures
- Maintain an adequate system of internal controls (separation of duties)
- Manage and run the association
- Approve budget
- Adopt reserve study
- Approve contracts



Operations (Cont'd)

Collections

- Collection Policy
- Updates to new legislation
- When to foreclose



Operations (Cont'd)


Investments NAC 116.405

(f) Deposit all funds of the association for investment in government securities that are backed by the full faith and credit of the United States or in a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, the Securities Investor Protection Corporation, or a private insurer approved pursuant to NRS 678.755



Break


Please return to your seat
In 10 minutes



Financial Reporting (Cont'd)

Class participation

- Bad financial statement – Identify the errors
- Check list in Supplementary Materials, page 55



More Advanced Classes

- Budgets & Reserves for Common-Interest Communities in Nevada – Gary Lein
CE.0128000-General
- Advanced DCAL Class on Reserve Studies
- Advanced DCAL Class on Collections
- Advanced DCAL Class on Financial Management Coming Soon!
– Focus will be on investments, audits & taxes