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THE COMMUNITY CHRONICLE

WORKING CAPITAL: A New Twist to an Old Procedure.

SCOTT MEARDON, CMCA®, PCAM®, PRESIDENT & CEO, COMMUNITY GROUP, INC., RICHMOND, VA

Many associations' legal documents contain a provision requiring initial homeowners to pay a one-time non-refundable working capital or capital contribution. The typical amount is either two times the monthly assessment or a fixed price. Usually, the working capital contribution applies to new homes only so once the community has sold all the homes, the working capital contributions end.

The practical reason for the working capital is to help fund the association in the early stages of development, when the association incurs fixed costs regardless of size. Examples of initial fixed costs are insurance, registered agent fees, pool management and clubhouse maintenance. The working capital collected from the first time buyers helps defray the amount of funds needed so the association can remain solvent.

In recent years, we have seen a trend for associations to charge the working capital contribution for all resales, not just the first time buyer. Continuing working capital contributions help to reduce homeowner association fees.

Although the assessment reduction may be considered small, it moves the association in the right direction.

You may be asking, "It sounds great, but how can I implement the above scenario at my community?" Typically, we have the association members approve an amendment to the association documents (after it is drafted by the association's legal counsel). I recommend either two or three times the

EXAMPLE 1:

- An association has 200 homes
- The monthly assessment is \$200
- The annual turnover is 8%, (16 homes)
- The working capital contribution is \$400 per home, or \$6,400 for 16 homes
- The \$6,400 received reduces the assessment by \$2.67 per unit per month

EXAMPLE 2:

- An association has 1,500 homes
- The monthly assessment is \$63
- The annual turnover is 7%, (105 homes)
- The working capital contribution is \$400 per home, or \$42,000 for 105 homes
- The \$42,000 received reduces the assessment by \$2.33 per unit per month, a 3.7% reduction

monthly assessment so the amount increases in future years. There has been little opposition from the association members since this fee is paid by the incoming homeowner, and the existence of a working capital fee has not been a deterrent to purchasing a home within the community.

Featured Team Member

TOM BICE - CONTROLLER

Mr. Bice

joined the staff of Canyon Gate after spending nine years as an accountant in the local land development business. He came to New Mexico from the Midwest where he had accumulated 20 years of accounting experience in manufacturing and local government. His experience covers many facets of accounting from cost control in a manufacturing environment to non-profit. His commitment to providing a timely and accurate financial service is enhanced by his desire to help support the greater Albuquerque area that he has developed an appreciation for.



SURVIVING A JOB LOSS

ARTICLE PROVIDED BY CAI AT WWW.CAIONLINE.ORG

It's
never a good
time to lose
your job.
However,

the current economic environment has resulted in business closures, downsizing and layoffs for many in our community. The National Foundation for Credit Counseling offers the following tips for surviving a layoff:

- Allow yourself to be upset or even afraid. These are natural reactions. However, if they become intense, seek professional help. Talking things through and hearing another person's perspective can bring relief and restore your positive outlook.
- Resist the urge to tell your boss what you truly think of him or her. Remember, you may need him or her as a reference for a future job.
- Take advantage of any assistance your workplace offers. Many companies provide placement assistance, job retraining and severance packages. Make sure you are aware of all benefits offered.
- Apply for any applicable government benefits. Your HR representative at work will be a good resource.
- Resist the urge to solve your problems by spending recklessly. It may feel good for the moment, but the high of spending won't equal the low of dealing with additional debt when there is no income.

- Don't be tempted to live off of your credit cards. Someone with a good line of credit could actually support the family at the current standard of living by using credit, but there's no guarantee a new position will materialize any time soon. Expect one month of job search for each \$10,000 of annual income you hope to replace. In other words, if you seek a \$50,000 salary, it may take you five months to land that job.
- Take a personal inventory. Consider all assets, income and expenses. No one wants to liquidate assets to survive, but it is good to know what you have to fall back on.
- Drastic times call for drastic measures. Nothing is off-limits. Consider selling the second car or recreational vehicle, real estate holdings, rental properties or jewelry.
- After you review your income versus debt obligations, if you don't have enough money to make ends meet, calculate how much you'll need for basic household expenses. Your goal is to pay everyone, but if you must make a choice, keep food on the table and your home life stable by paying your rent or mortgage, association assessments, utilities, childcare, insurance premiums and health care.
- Have a family meeting that includes the children. You don't want family members pulling in different directions, and a joint effort yields a better result.
- Make cutbacks wherever possible, knowing that your austere lifestyle will only be temporary. Resolve to stop all non-essential spending immediately.
- Tracking your spending is always a good idea, but when money is tight, it's essential. Write down every cent you spend. After 30 days, review where the money went and decide where to cut back. You'll be amazed how much you can save without feeling the pinch.
- Contact your creditors to arrange lower payments. Most major credit card issuers have help programs. Explain your situation and what you're doing to resolve it. The creditor may be able to temporarily lower your monthly payment and reduce interest.
- Inform your mortgage lender of your situation. Be prepared to provide documentation of your setback, and have a resolution plan in mind. Since the average consumer doesn't know all the loan modifications available, sit down with a certified housing counselor and map out a plan best suited to your situation.

The National Foundation for Credit Counseling is a national nonprofit credit counseling organization. For more information, visit www.DebtAdvice.org or call (800) 388-2227. En Español, dial (800) 682-9832.

VIEWS FROM ASSOCIA®

CAN WE GET A ROUND OF APPLAUSE PLEASE?

Board Members Dig In to Meet the Challenges of Today

CAROLYN CUMMINS, PCAM®, CMCA®, SENIOR VICE PRESIDENT, ASSOCIA

With delinquencies on the rise, foreclosures looming, vendors needing to be paid, owners wanting areas maintained and pools open, it can seem like a laborious task to be a Board member these days. So why do it? It might be the need to give back or a selfish need to make a change in the community. It could even be something as simple as a desire to help and improve the lives of your neighbors as well as your own.

Whatever the reason may be, Board members should be commended for their tireless efforts. Board members, and for that matter committee members, serve as volunteers; non paid workers who devote personal time to helping maintain common areas and ensuring the governing rules and regulations are adhered to. Along with this can come some unpleasant interactions

with unhappy owners, vendors or others who often find themselves in difficult situations and unable to meet their association obligations.

Today, though perhaps more challenging, is no different than any other day for a Board member of a homeowners association. Some situations may have been forced into the forefront like foreclosure and spiking delinquencies but the goals of the association and the Board of Directors are the same: maintain and improve property values in the community. Board members' fiduciary responsibilities obligate them to act in good faith and in the best interest of the owners/members while still exercising good judgment and acting within the legal guidelines of the association. Sometimes these responsibilities can be at odds with each other and create a challenging situation for Board members. It is these tough decision making

times that Board members do not like; it is not fun or easy to be the enforcer, in good or bad times.

Associa and Canyon Gate Real Estate Services understand the challenges Board members face and sincerely appreciate all the hard work, selfless time and energy dedicated to maintaining the integrity of the association. Thank you to all Board members, committee members and other association volunteers for lending a hand in improving the community.



CANYON GATE FINANCIAL PRACTICES AND PREPARATION

The Canyon Gate accounting department consists of a team of employees who work diligently everyday to ensure that all aspects of fiscal management for your community are done well. As Canyon Gate believes that proper and accurate accounting is one of the most important

aspects of community association management, the platform for the department begins with its use of generally accepted accounting principles or GAAP.

In the U.S., generally accepted accounting principles, commonly abbreviated as US GAAP or simply GAAP, are accounting rules used to prepare, present, and report financial statements



for a wide variety of entities, including publicly-traded and privately-held companies, non-profit organizations, and governments. Generally GAAP includes local applicable Accounting Framework, related accounting law, rules and Accounting Standard.

Canyon Gate understands that when it comes to your money,

being able to trust that it is managed well is key. For more information on the company policies and practices regarding fiscal management or for details on all checks and balances in place to protect your money, please contact Tom Bice, Controller for Canyon Gate at 505.342.2797.



GIVE US YOUR FEEDBACK

As a company who truly cares about how you feel, what you want and how we can better facilitate your needs, we would appreciate your feedback. Is there something we can do better? Are there questions we have not answered? Do you have suggestions for what you would like to read about in our next newsletter? Can we add anything to our website that you would find to be a valuable resource? Please email cgres@cgres.com or call 505.342.2797 with your requests so that we can serve you better!

ASK AN EXPERT



MARJORIE JEAN MEYER, CMCA®, PCAM®, VICE PRESIDENT AND NATIONAL DIRECTOR OF EDUCATION AND CERTIFICATION, ASSOCIA

Q. I'm the new Treasurer for a condo association and I have over 20 years experience working in the accounting field (with an Associate Degree in Acting). Legally you are required to send out 1099-Misc. forms to service company's that are not incorporated and that we paid over \$600/yr and this Association hasn't done this for over 20 years. A previous Treasurer told me that by law years ago, sending out 1099-Misc wasn't necessary under the above-mentioned circumstances. I thought this law was intact more than 20 years ago and that legally the 1099-Misc forms should have been done, am I right? This association has never had a CPA do an audit.

Thank you,
Brenda

A. You are correct. Your association must prepare 1099 forms for every unincorporated service provider to whom it paid more than \$600 during its fiscal year.

You might also check your association's governing documents and state statutes to determine if an annual audit or review is required.

Sincerely,
Margey

For more Association expert advice or to ask a question of your own, visit www.associationtimes.com/ask.html.

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