

A SPECIAL LETTER TO ALL HOMEOWNERS

from the

INGLEWOOD BOARD OF DIRECTORS

December 1, 2015

In an effort to keep all Inglewood homeowners fully informed and up-to-date regarding the status of Inglewood's declining financial health, and its impact on the development of the 2015 operating budget which is attached, there are seven realities the Board of Directors had to contend with that every homeowner needs to know:

1. Inglewood was one of the first condominium developments in Greenville –going on the market 40 years ago. That makes us among the oldest condominiums on the market today, competing with newer units built with newly developed and longer lasting materials. In addition we have not had the money in our budget to keep Inglewood looking fresh and inviting; our grounds are unattractive with dead shrubs and many bare spots; our tennis courts (which are a part of the common element) are in a state of disrepair; trees are in dire need of major trimming to protect our roofs and allow the sun to reach our shrubs, grass and flowers. As a result of this neglect the value of everybody's condominium is going down.
2. 82% of your regime fee every month is consumed in fixed expenses. The same kind of bills we all pay that can't be put aside – Utilities, Insurance, Repairs & Maintenance, etc. Last year's budgeted income was \$231,000.

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So, after paying all fixed bills, Inglewood had about \$39,600.00 left to take care of unexpected bills, which are increasing every year, and everything else.

3. Inglewood homeowners have been faced with a substantial and unanticipated insurance rate increase. With a healthy reserve fund, that increase would have presented no problem to anyone. Without sufficient reserve funds, homeowners had to borrow and pay off with interest \$16,333.00.
4. There has not been a regime increase since 2008.
5. A prudent person would consider a Reserve Fund for both expected and unexpected future expenses essential to financial health and would include a well-considered amount each month as a line item with other fixed expenses. The same is true of a prudent condominium development including Inglewood.
6. The Inglewood Master Deed addresses this responsibility (Section XXII, D)

"The Board of Directors in establishing an annual budget shall include therein a sum to be collected and maintained as a reserve fund for replacement of General Common Elements and Limited Common Elements as well. The amount to be allocated to such reserve fund for replacements shall be established by said Board of Directors so as to accrue and maintain at all times a sum reasonably necessary to anticipate the need for replacement of General Common Elements and Limited Common Elements. The Association may not apply any monies in such Reserve Fund for Replacement to meet other needs or requirement of association in operation or managing the project."

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7. Going back to 1989 this requirement of the Master Deed has not been met sufficiently, requiring assessments, most recently, of approximately One million, two hundred, thirty eight thousand, five hundred dollars, (\$1,238,500.00).

It is therefore the unanimous opinion of this board that accruing and maintaining a well-conceived reserve fund based on Inglewood experience and sound financial principles has become mandatory.

Master Deed Section XXII, D is adhered to in the 2015 budget.

In support of this position please find the following articles attached and included on the Inglewood web site:

- "Why You Can't Afford To Not Have an HOA Reserve Fund"
- "What Exactly is Percent Funded?"
- "How to X-Ray HOA Reserve Funds"

The figures used to calculate the projected amount of Inglewood's reserve for replacement are based on recent actual costs plus the U.S. Government's Consumer Price Index Inflation factor of 2.0%.

The goal of the 2015 budget is to put Inglewood on a healthy financial path that will enable the Home Owners Association to:

1. meet its normal monthly obligations and
2. establish a reserve amount, as required by the Master Deed, that will make future assessments unnecessary or at worst most unlikely.

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The 2015 budget and regime fees by unit are attached and become effective January 1, 2015.

The Board will have a informal informational meeting Thursday December 18, 2014; at 7:00 PM in the cabana. A reminder flier will be issued prior to the meeting. The Annual Meeting is scheduled for Monday January 26 2015. a formal announcement will be issued later.

While we recognize that this budget may impose somewhat of a financial hardship on several homeowners, including members of the board, it would be irresponsible of this board to do otherwise, and considered a failure to perform our fiduciary responsibilities as required by the Master Deed

Sincerely,

Your Inglewood Board of Directors

INGLEWOOD REPLACEMENT RESERVE ANALYSIS

2014 - 2038

"The Board of Directors of [the] Association, in establishing [the] Annual Budget for operation, management and maintenance of [Inglewood], shall include therein a sum to be collected and maintained as a reserve fund for replacement of General Common Elements and Limited Common Elements..."

"The amount to be allocated to such Reserve Fund for Replacements shall be established by said Board of Directors so as to accrue and maintain at all times a sum reasonably necessary to anticipate the need for replacement of General Common Elements and Limited Common Elements."

"...the Association may not apply any monies in such Reserve Fund for Replacements to meet other needs or requirements of Association in operation or managing the Project."

INGLEWOOD MASTER DEED XXII-D

INGLEWOOD'S RESERVE FUND HISTORY

Prior Boards have noted that in many instances Inglewood has not followed sound Reserve Planning. As a result, many current Homeowners have experienced sizable assessments rather than the benefit of a Fully Funded Reserve. None of these assessments were for an emergency, they all were predicted. The term "deferred maintenance" has become all too familiar in the language of Community Associations. The path of deferred maintenance definitely leads to the slippery slope of unfunded Capital Reserves.

PRIOR INGLEWOOD ASSESSMENTS

- 2003 - \$64,500 Reserve Account
- 2004 - \$55,000 Insurance Reserve
- 2005 - \$125,000 Insurance Reserve & General Repairs
- 2005 - \$700,000 Roofing
- 1212 - \$294,000 Renovation Project

OTHER FINANCIAL FACTORS IMPACTING THE RESERVE FUND

Inglewood has borrowed and recently paid off a \$20,997 loan for Insurance; we also experience a few thousand dollar write offs each year due to homeowner non payment and foreclosures.

REGIME FEES

Inglewood's 2014 budget of \$231,000 is based on a 2% regime fee increase in 2008.

Using inflation figures from the Consumer Price Index, the 2015 budget reflects an increase of 10.5% from 2008 or \$255,192. The CBO inflation factor of 2% for the same period would reflect a 12.6% increase or an annual budget of \$260,143.

Reserve studies must be followed, along with responsible Budgets and updated Regime fees which are required for Inglewood's financial success. To that end the 2014 Board's objective was to evaluate the Reserve analysis and Regime fees, and develop a responsible 2015 Budget. That has been done. The 2015 Board has also implemented a plan for subsequent Boards to follow and provided a road map for Inglewood's continued success.

INGLEWOOD'S RESERVE FUND GOING FORWARD

In an effort to keep Inglewood homeowners fully informed about the efforts of the Board to manage Inglewood in full accordance with the Master Deed and By-Laws, the following pages break the Reserve Fund Analysis into 5 major sections:

1. A list of Inglewood's Major Elements
2. How much life they have left before requiring repair or replacement
3. How much they are likely to cost when they require replacement/repair.
4. The basis for determining costs.
5. How much money must be set aside each year to meet those costs.

ELEMENTS, ESTIMATED LIFE, PROJECTED REPAIR/REPLACEMENT COSTS

1. Painting-10 Years (\$152,000, in 2025, \$184,300 in 2033)
2. Roofing-19 years (\$540,000 in 2032)
3. Streets-5 years (\$13,250 in 2018, \$14,650 in 2024)
4. Pool-12 years (\$28,000 in 2025)
5. Tennis Cts.-5 years(\$11,000 in 2018, \$37,000 in 2038)

BASIS FOR ESTIMATED REPAIR/REPLACEMENT COSTS

In addition to a 2% inflation factor, the cost estimates were based on the following:

Paint/Siding

The cost was furnished by Wayne Reese Construction, low bidder for the major portion of the 2012-2014 Repair/Paint Renovation Project.

Roofing

A Roofing estimate was furnished by Wilson Roofing Company, Contractor for the 2005/2006 Roofing Project. For comparison, a Web-site roofing program was also utilized. The program results were within \$880 of the Wilson estimate.

Paving/Sealing

The streets were sealed as a part of the 2014 Renovation. That Sealing cost was used for this analysis. Future Boards may have to consider paving based on changing street conditions.

Tennis Courts

The Tennis Courts have not been used in years. The repair cost and schedule are based on a website estimate. Their future will require ongoing evaluation.

Pool

The Pool costs were furnished by Upstate Pool Management, Contractor for the 2014 Renovation Project.

FUTURE RESERVE FUNDS TO BE INCLUDED IN THE BUDGET BY YEAR

	2016	2017	2018	2019	2020	2021	2022	2023
Paint/Siding	15,200	15,200	15,200	15,200	15,200	15,200	15,200	15,200
Roofing	28,425	28,425	28,425	28,425	28,425	28,425	28,425	28,425
Paving/Sealing	2,650	2,650	2,650	2,930	2,930	2,930	2,930	2,930
Tennis Court	2,200	2,200	2,200	1,350	1,350	1,350	1,350	1,350
Pool	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>	<u>2,325</u>
TOTAL	50,800	50,800	50,800	50,230	50,230	50,230	50,230	50,230

	2024	2025	2026	2027	2028	2029	2030	2031
Paint/Siding	15,200	15,200	15,200	15,200	15,200	15,200	15,200	15,200
Roofing	28,425	28,425	28,425	28,425	28,425	28,425	28,425	28,425
Paving/Sealing	2,930	3,200	3,200	3,200	3,200	3,560	3,560	3,560
Tennis Court	1,350	1,350	1,350	1,350	1,350	1,650	1,650	1,650
<u>Pool</u>	<u>2,325</u>	<u>2,325</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>
	53,730	53,730	54,505	54,505	54,505	55,165	55,165	55,165

	2032	2033	2034	2035	2036	2037	2038	
Paint/Siding	15,200	15,200	15,200	15,200	15,200	15,200	15,200	
Roofing	28,425	32,815	32,815	32,815	32,815	32,815	32,815	
Paving/Sealing	3,560	3,560	4,000	4,000	4,000	4,000	4,000	
Tennis Court	1,650	1,650	1,650	1,650	1,650	1,650	1,650	
<u>Pool</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	<u>3,100</u>	
	55,165	59,555	64,065	64,065	64,065	64,065	64,065	



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Why You Can't Afford To Not Have an HOA Reserve Fund

Posted on Mon, Feb 25, 2013 @ 10:53 AM

An HOA Reserve Fund is one of the most important things a Board can plan for its association, however, many Board members misunderstand what it is, why it's needed, or how to get it implemented. Knowing the basics about an HOA reserve fund and the reasons it's crucial you have one will help set your community up for success.

Ignorance is not bliss.

Just because you don't have a good understanding about HOA reserve funds, doesn't mean you have an excuse for not having one. A reserve fund should do just what it says: set aside (reserve) money (funds) for the future. It's like a homeowners association savings account. Every association is unique, but they all require a reserve fund to prepare for any surprise expenses along the way. It's important to note that an HOA reserve fund is part of the expenses in a homeowners association, not an extra expense. It's a completely separate account than your HOA operating account, and not something there to rely on when things get tough.

If you fail to plan, you plan to fail.

Board members have a responsibility to association members to make sure the reserve fund is being adequately funded. It's inevitable that major repairs will be needed in your association at some point. Having a well-established HOA reserve fund will help with the costs of these major repairs or other long term projects such as:

- Replacing roofs
- Refurbishing the pool
- Resurfacing the parking lot or sidewalks
- Common area landscaping projects and gardens
- Updates or repairs to the Clubhouse

If these repairs and replacements are ignored they can take the HOA into a downward spiral resulting in implementing a special assessment to members, borrowing, decreased property values, and low morale among the property owners in the association.

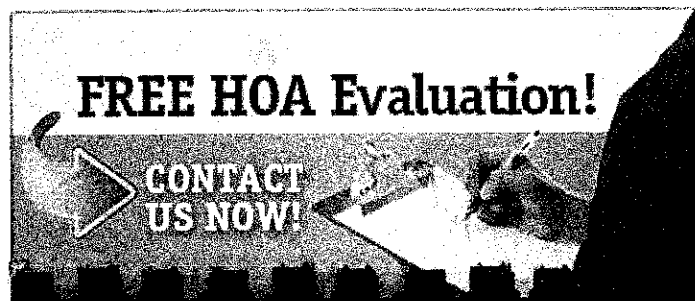
Money doesn't grow on trees.

The best thing a Board can do for its members is build trust, and this is hard to do if you're enforcing special assessments when times are tough and can't make property repairs because you have a weak HOA reserve fund. Members want to feel like the investment they've made in their home is protected, and you'll give them peace of mind by having a financial safety net in place. The best way to accomplish this is to:

1. Establish a reserve fund if you don't have one
2. Conduct a reserve study to ensure proper funding. If you're concerned about the costs of hiring a professional company, do the research yourself online to help guide the Board through the process.
3. Implement the reserve rate determined by the study. Inform homeowners of why the reserve rate is being established, and expect some backlash at first. Be prepared to back up the reasons for the rate.
4. Open a separate banking account for the funds being collected by the reserve rate. Set up auto-transfer from the operating account so the funds are deposited each month.
5. Make repairs at the right time by following a repair schedule. This will help you avoid having to make large repairs or replacements all at once, as well as help maintain property value.

As a Board member, the homeowners in your association are trusting and relying on you to make financially sound decisions. You can't afford to not have an HOA reserve fund in place.

Have you taken the steps to establish a reserve fund in your association?



tags: [HOA Responsibilities](#), [Reserve Funds](#)



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What exactly is Percent Funded?

by Robert M. Nordlund, PE, RS

April 2011

CEO/Founder

Association Reserves, Inc.

www.reservestudy.com

Instinctively, we all know that large associations with many common area amenities in need of replacement should have a high Reserve Fund balance. Similarly, newly constructed small associations with only a few common area amenities have little need for much of a Reserve Fund balance. Every association has different Reserve requirements depending on the scope and timing of their Reserve projects. But is there any consistent way to measure the current “strength” of the Reserve Fund?

We all understand “absolute” monetary amounts. \$2,000,000 seems like a “lot” of money, and we know that \$100,000 is twice as much as \$50,000. But it is another matter entirely to ask. “How much is enough?” The answer to this question is “relative” because it requires a comparison of the size of the Reserve Fund to the size of the Reserve requirements.

Percent Funded Explained

A ratio known as “Percent Funded” provides the answer to this question. Percent Funded is computed by comparing (as of a particular date) how the current Reserve Fund balance matches up against the association’s reserve needs (also known as the Fully Funded balance).

% Funded = Reserve Fund Balance (actual)/Fully Funded Balance (computed)

% Funded = 100 (ideal) when the Reserve Fund Balance is equal to the Fully Funded Balance

The association's actual (or projected) Reserve Fund balance is simple to ascertain: one can simply tally the amounts indicated on bank or investment account statements. The Fully Funded Balance is the computed value of the deterioration of the association's common area assets. This figure is determined by multiplying the fractional age of each component by its current estimated Replacement Cost, then summing them all together.

Let's consider a simple example:

Imagine an association on the first day of the Fiscal Year, with a \$40,000 Reserve Fund and two components: roofing and painting. With seven years "used up" of a 20-year Useful life and with a current replacement cost of \$200,000, the roof's Fully Funded balance is 7/20ths of \$200,000, or \$70,000. Assuming the paint is three years old out of a 5-year Useful Life and a current estimated cost of \$50,000, the paint project's Fully Funded balance is 3/5ths of \$50,000, or \$30,000. The association's Fully Funded Balance is therefore \$70,000 + \$30,000 = \$100,000.

Now let's do the Percent Funded calculation:

% Funded = Reserve Fund Balance (actual) \$40,000 / Fully Funded Balance (computed) \$100,000

% Funded = 40%

Having \$40,000 available to meet a \$100,000 Fully Funded Balance means the Association is 40% Funded. You begin to see that the Association is "behind" in getting ready for their upcoming Reserve obligations.

These simple computations help Boards gauge the relative "strength" of their Reserve Balance at a particular point in time. As a general rule, Associations under 30% Funded have a high risk of special assessments and deferred maintenance and their Reserve Fund is considered "weak". At the "strong" end of the funding spectrum, special assessments and deferred maintenance are rare at Associations with Reserves that are at

70% funded or above, In-between represents a “fair” Reserve Fund status.

Percent Funded measures the strength of the Reserve Fund, typically at the beginning of each fiscal year. Percent Funded will change each year as the Reserve Balance and Fully Funded Balance fluctuate. The Percent Funded calculation is independent of Funding Plan objectives or calculation methods. Of course, the Funding Plan will influence if the Percent Funded increases, drops, or stays the same in future years.



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How to X-ray an HOA #4 – HOA Reserve Funds

December 8, 2010 By [Rebecca Law](#)



Good HOA's, like all good businesses, plan ahead. Every HOA budget shows how much goes to the reserve fund which pays for capital expenditures as the need arises. **Whether the reserve fund balance will actually meet those needs has been a hot topic in recent years.**

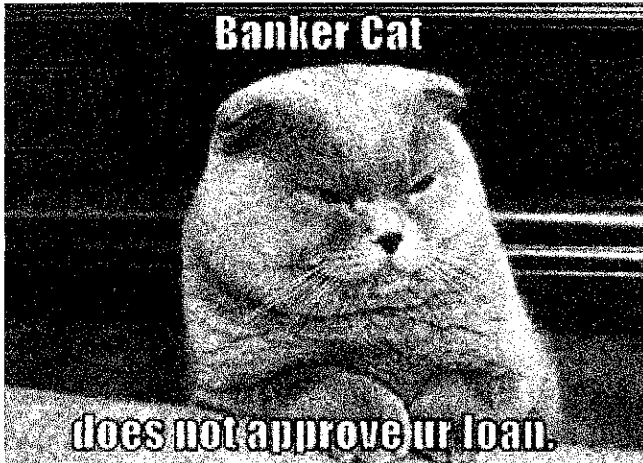
Reserve Studies. The adequacy of the reserve fund is inextricably tied to the conclusions from the HOA's Reserve Study. Reserve Studies have two parts – the physical analysis and the financial analysis. For the physical aspect, a specialist evaluates the condition of the HOA's common area components (elevators, pools, roads, etc) and estimates the remaining life expectancy of each major item. That specialist also calculates the repair/replacement cost for these elements. A financial analyst then examines the HOA's current reserve fund balance and recommends an assessment amount for each year to keep the fund healthy.

Review the latest Reserve Study. It's a red flag if the HOA has not had one done in the past 5 years. Verify if the current reserve balance is consistent with the study's recommendation. And check that a competent professional produced the study. Occasionally, an HOA will have only a one page summary created by the Board and whatever "experts" they could find for low or no cost. This is an unacceptable substitute for the real thing. Here is a sample [Reserve Study Report](#).

People often ask "What percentage of the HOA budget should be placed in the reserve fund?" This question defies any answer except "it depends". A new development presumably will not need to replace capital improvements for 15-20 years, giving time to accumulate enough cash. But a 20 year old community will typically face the need for large expenditures within the next 5 years and beyond. Therefore, the correct amount to set aside for the reserve fund is not a by-product of the operating budget. Instead, it is a function of the community's present financial and physical condition. But just as an example, 30-45% of the annual

assessment going into the reserve fund is not unusual when an HOA must “catch-up” after years of underfunding. And in the worst cases, special assessments may also be necessary to stabilize the association’s finances.

The best way to measure the health of a reserve account is to see how close it is to full funding. Generally, industry specialists say the reserve fund should contain at least 70% of the projected repair and replacements costs. A ratio of 50% funded is marginally acceptable. If the funded rate is 40% or less, hefty assessments lie in the owners’ futures. *Caveat emptor.*



It’s enlightening to examine **FHA’s 2008 proposal for HOA reserve funds**. FHA proposed to not finance condo mortgages unless the reserves were at least 60% funded. And if the developer still controlled the association, FHA’s proposal was 100% funded! Strong reactions to these proposed rules eliminated any minimum reserve funding requirement. The final ruling said only that the HOA budget must be viewed as “adequate” by a lender and at least 10% of the total budget must go to the reserve fund. Even though FHA’s original proposal was badly defeated, I think it’s just a matter of time before minimum reserve fund levels will be set by lending institutions or state laws.

There’s also a **cultural factor for reserve funds being anemic**. Americans have a poor track record of saving for the future. A common refrain when HOA assessment discussions happen is “*Let’s just pay for what is needed right now and let the future owners pay for whatever happens later.*” That’s a big reason why many otherwise desirable developments would flunk a 50% funding level test today. Under-funded communities where the buildings are 20+ years of age are particularly vulnerable. That’s because 30 years is generally the time when major building systems reach the end of their useful life and need replacement.

Minnesota currently requires only that the HOA reserve fund be “adequate” in the Board’s opinion, given the future replacement needs. But the 2010 Minnesota legislature passed stricter regulations for these reserve funds, to be effective January 1, 2012. Key parts of the amended statute are:

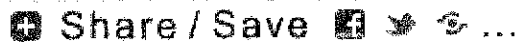



- HOA’s must reevaluate the adequacy of their reserve fund at least once every three years.
- The HOA cannot borrow from the reserve fund to pay operating expenses (but the replacement reserves can be pledged as security for a loan to the association.)
- Reserve fund allocations can be waived for components if the HOA decided to fund those costs through future special assessments. However, this waiver can last no longer than 4

years unless reaffirmed.

The Bottom Line. Underfunding reserves causes inadequate maintenance, declining property values and the dreaded special assessment. It also hurts the association's reputation and penalizes sellers because savvy buyers steer clear of developments with funding problems.

Combined, FHA, Fannie Mae and Freddie Mac account for roughly 90% of approved loans in 2010. If these entities someday decide to tighten reserve level criteria, many HOA communities will become ineligible for these mortgages. This will cause buyers to flock to complexes that wisely planned ahead, while sellers in the underfunded areas will be stuck indefinitely.

Don't forget to return for Part 5 of this series – Delinquencies, foreclosures and short sales.

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Call Up The Reserves Before Buying A Condo

By Broderick Perkins

Buying a condo is a lot like buying a share in a closely held, publicly-traded, non-profit real estate holding corporation, yet many buyers spend more time researching a used car purchase than they do before buying a condo.

Without scrutinizing a condo association's financial status, especially its reserves, you may not know until it's too late that your homeowner's association can't afford to take care of itself.

An estimated 30 percent of all homeowner's associations are considered "poor," unable to meet major repair and replacement obligations because of insufficient reserves, according to Association Reserves, Inc. a Calabasas, CA-based firm that studies home owner associations' reserves in 37 states.

"It is amazing that people don't spend much more time on a condo purchase, when they are becoming 'business partners' with strangers in a multi-million dollar real estate development partnership," said Robert M. Nordlund, president of Association Reserves.

While an association's reserves isn't the only factor to consider when buying a condo, it is a crucial and telling document revealing how well or how poorly the association is managing its budget to make ends meet.

"Because inspecting each building is not cost feasible, the only way buyers can currently determine the condition of the common area buildings and capital reserves is obtaining the association's reserve study," said Frederick L. Pilot, president of Sacramento-based Common Interest Consumer Project, a non-profit education and research group concerned about the risks of condo buying. Condominiums and townhomes typically are developed as what's called common interest developments (CIDs) -- you own everything in your unit, at least everything on your side of the walls. You are a shareholder in the remainder of the buildings, grounds and other facilities. As a shareholder you are a mandatory, dues-paying member of the CID's home owners association (HOA), the organization responsible for the upkeep and care of buildings and grounds.

Those responsibilities include managing an operating budget of hundreds of thousands of dollars with a crucial component called the capital reserves. The reserves is money set aside for repairing and replacing common area components -- the condo buildings and all of its common elements, other structures, landscaping, walkways, paving, swimming pools, decks, etc.

"About one-third of associations out there don't have enough money to take care of themselves. Pretty sad news, but not really surprising," said Nordlund.

The American Institute of Certified Public Accountants recommends associations conduct annual reserve studies to determine how financially fit they are. Only a few states, however, mandate the studies, but less frequently than CPA's recommendations. The reserve studies reveal how much cash is available for upcoming obligations, how much an association actually needs to meet those obligations and a financial plan to come up with the difference, if any.

Nordlund says depending upon the level of available reserve funding, you can use the information to help you determine the relative risk of being dinged for more cash after you buy into a given condo community.

- With a reserve that's zero to 30 percent funded there's a 26.6 to 53.5 percent chance that an assessment or other action (deferred maintenance, loan, higher dues) will be necessary to overcome the shortfall. The lower the funding the higher the risk.
- When a reserve is 30 to 70 percent funded, there's a 3.4 to 17.6 percent chance of an assessment or other action.
- When a reserve is more than 70 percent funded, special assessments or deferred maintenance are unlikely, with only a 0.5 to 2.4 percent chance.

Broderick Perkins, has been a consumer journalist for 20 years. Experienced in print, electronic, and consulting journalism, he is chief executive editor of San Jose, CA-based, DeadlineNews.Com, an editorial content and consulting firm.