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Elite Management Professionals, Inc.

Contact Info

Phone Number

919-233-7660

Fax Number

919-233-7661

Emergency

Maintenance Number

919-634-4545

Office Hours

Mon.-Thurs. 8:30-5:30

Friday 8:30-1:00

Mailing Address

1401 Sunday Drive

Suite 116

Raleigh, NC 27607

Web Address

www.elite-mgmt.com

FUNDING RESERVES - The Story of Jack and Jill

Written by Douglas L. Greene

Jack and Jill bought a nice condo (on a hill). They are both retired, empty-nesters, and they chose to “downsize” from their large family home to a more affordable condominium for which they paid cash from the proceeds of the home’s sale. Their new condo is in a ten year old condominium community with a beautiful entrance gate, nice winding private streets, and a clubhouse with a pool and tennis courts.

Jack and Jill were also excited about the fact that the Association was responsible for taking care of the outside of their own house - the roof, siding and trim, the driveway and even the deck on the back. What a relief!!” said Jack as he walked up the hill to his new home. In his last house he had to take care of all these things.

While Jack and Jill thought of themselves as savvy buyers, who looked quite a while before they found the location, neighborhood, amenities, and price that was right for them, they were not experienced at buying in a condominium. Their last home was in a community with a Homeowner Association, but the community had few amenities. They paid a small quarterly assessment and otherwise, the Association left them pretty much alone.

It turned out that their new Association left them pretty much alone also. One of the nice things about the price of their new home was that the condo fees weren’t too high compared to other condominiums that they visited. So life was good. It continued to be good for about five years until one day a letter arrived in the mail from their Association. It seems that some homeowners were experiencing roof leaks in their units, others were complaining about the condition of the pool, and an engineer had told the Board that the fancy front gate had been improperly built and needed to be taken down and re-built with an adequate foundation.

Jack had to admit that he had noticed the gate had been sagging. But his roof wasn’t leaking and neither he nor Jill used the pool (except to occasionally fetch a pail of water). And then there were the roads. Jill had noticed the cracks and the dips. Jack did too when during a morning exercise run, he actually fell down the hill and broke his...well that’s another story. And what was that strange hole that had appeared in the ground next to the storm sewer? It seems that the roads needed re-surfacing and there were also some underground drainage problems that would require parts of the roads to be re-built.

The shock came at the end of the letter. The Association needed \$10,000 from Jack and Jill right away in order to fix these things. And they needed the same from every other homeowner. It was called a “Special Assessment”.

“But...” Jack protested. “The Association is supposed to fix these things, not me! That’s why I bought here in the first place.” It seems that the association did have some money socked away for repairs - about one hundred thousand dollars. But the repairs were going to be over a million dollars. It was time for Jack and Jill to learn more about their Association.

(continued on next page)

Elite Management Professionals strives to be an organization that gives back to the community. The Elite Diamond Squad participated in Walk MS. The National Multiple Sclerosis Society funds more MS research than any other private organization and supports studies which hope to reveal the cause and course of the disease and the healthcare professionals who work with them.

Elite Diamond Squad

Goal: \$1,200.00

Achieved:

\$2,196.00



THANK YOU TO OUR CONTRIBUTORS FOR THE MS WALK 2010!

Greg Blaser, William Bryant, Kelly Decker, Karen Earnhardt, Melissa Etheridge, David Fresquez, Karen George, Hammerhead Pool Services, Julia Hochschwender, Charlotte Huff, Shirley Huff, Cliff Jones, Dennis Loughran, Bill O’ Bryan, Brandon Parrott, Leroy Pierce, Hampton Pitts, David Polhemus, Professional Home Repair, Stephen Rafferty, Clark and Mary Swiers, Robert Troxler, Dan Wise, Joe Brizzoli, Ray Mays, Corbett Monica and the Elite Management Team members.

The first lesson came from Tom, the property manager, whom Jack had called to complain. After listening to Jack rant about what the Association was supposed to be doing about this, Tom said: "But you understand don't you, Jack, that you are the Association – you and your neighbors. Not me, and not anybody else. You have a board of directors that are also your neighbors, and they meet every month to do the Association's business. And you are invited to those meetings, Jack. And every year they tell you what the budget is going to be and they ask you to vote on it."

"Well, sure..." Jack said. "But I figured that they know a lot more about these things than I do." The Board of Directors did, in fact, know that they needed to save money for major capital expenditures, called Capital Reserves. They even commissioned a study from a Reserve Specialist, certified by the Community Associations Institute. And the study told them that they weren't saving enough money to take care of future expenses like these. But there was this problem. The original dues were set low when the community was built and first sold, and everybody assumed at that time that whoever set the dues rate knew what the costs of maintaining the community would be. Well, whether the future costs were known or not, the most important part of getting sales going was to make the dues structure low enough to not scare away potential buyers. So when the reserve study showed that dues would have to be raised to meet these future expenses, the Board balked. They knew that the owners would all get upset if they proposed an increase in the dues and they didn't want that. Besides, several Board members subscribed to that old adage "If it ain't broke, don't fix it". Everything looked fine to them and they decided to leave this "future" problem to somebody else.

Suddenly, it seems, when no one was looking - the "future" arrived. It brought with it a new adage: "If it breaks, fix it RIGHT NOW!" Jack and Jill's next door neighbor was trying to sell his condo, but the leaky roof was a real problem. So was the increasingly shoddy appearance and condition of the community, that the owners had sort of gotten used to, but which immediately turned off buyers.

Suddenly, Jack and Jill realized that the "asset" that they thought they had paid 100% for, actually included much more than just their own home; and increasingly, parts of it were turning into liabilities. Experienced property managers know that this story, unfortunately, is not a fairy tale. Some version of this story is happening to communities every year.

There is no law that requires communities to actually fund their reserves. That decision is up to the Board of Directors. If you are a Board member, you need to focus not only on your community's short term maintenance needs but on long term replacement needs as well. Some Boards, and many owners, take the view that long term replacement costs will not be their problem. It will be the next owners' problem. But homebuyers are learning from real life stories like the one above, and they are asking to see a community's reserve plan as well as the operating balance sheet. Lack of proper reserve funding can negatively impact present owners when they try to sell their homes.

Do you know whether your community's assets are slowly turning into liabilities? Peace of mind comes from knowing that your future problems as well as your present needs are essentially paid for. That's why communities have capital reserve accounts. Jack and Jill learned the hard way. You don't have to.

For the past two months, Elite Management Professionals has been diligently working on the New Bank Reconciliation Program provided by North State Bank and our Accounting software system. This program will automatically reconcile the North State Bank data and our monthly accounting data. The goal of this new program is to expedite the monthly reconciliation in more efficient manner. We are very excited about this program and appreciate your patience as we work through launching this new program.
Thank You, Leigh Jones Accounting Manager

City Council Makes Decision on Pinestraw

The Raleigh City Council has reached a decision regarding the hot debate over the use pinestraw around Apartment Buildings and Condo/Townhome Complexes. Property owners have until December 1, 2010 to move pinestraw 10 feet from buildings and replace it with alternative ground cover such as mulch.

The Ordinance does not apply to single family homes and duplexes because the fire department does not have authority to enforce regulations on them. Building Inspectors do have the authority to enforce tough pinestraw regulations and city officials said they may revisit the issue in the near future.



Future seminars will cover:

- New Industry Legislation and Conflicts of Interest (Special guest speaker, Roger Knight)
- Community Financial Planning, Contracting, and Budgeting

Time and Dates TBD

Calendar of Events

June 20, 2010

Father's Day

June 21, 2010

First Day of Summer

JULY 5, 2010

Independence Day Holiday (observed)
(Elite office will be closed)

AUGUST 3, 2010

Board Member Orientation

For additional info on events please contact our office.

The next **Board Member Orientation Seminar** is on August 3, 2010 at 6:30 at our office. This seminar covers roles and responsibilities of the Board, Management Company, and Homeowners along with other important information. To sign up contact Dawn Hatcher at dawnhatcher@elite-mgmt.com or 233-7660.