

Let's Talk Association Fees (from page 3)

Another scenario:

Let's assume that the 1990 "Actual Monthly Fees" were inadequate, assume they should have been \$96 for the A & F units and \$105 for the B,C,D,E units. Take a look at Worksheet 2 to see what effect this seemingly small change makes. As of 2001 the deficit is \$304,213 and it peaks in 2002 at \$311,319. If the correct fees should have been \$101 for A & F units and \$110 for B,C,D,E units in 1990, the deficit would have been \$429,356 in 2001 and peaked at \$448,811 in 2002.

Hanover Square Association Fees Analysis

<u>Year</u>	<u>Actual Monthly Fee</u> <u>A,F</u>	<u>Actual Monthly Fee</u> <u>B,C,D,E</u>	<u>CPI* Based Monthly Fee</u> <u>A,F</u>	<u>CPI* Based Monthly Fee</u> <u>B,C,D,E</u>	<u>Total Actual Fees</u>	<u>Total CPI* Based Fees</u>	<u>Variance</u>	<u>Avg CPI*</u>	<u>Accumulated Variance</u>
1990	\$ 91.00	\$100.00	\$ 96.00	\$105.00	\$167,616	\$176,256	-\$ 8,640	5.40%	-\$ 8,640
1991	\$ 91.00	\$100.00	\$101.18	\$110.67	\$167,616	\$185,774	-\$ 18,158	4.20%	-\$ 26,798
1992	\$ 91.00	\$100.00	\$105.43	\$115.32	\$167,616	\$193,576	-\$ 25,960	3.00%	-\$ 52,758
1993	\$ 91.00	\$100.00	\$108.60	\$118.78	\$167,616	\$199,384	-\$ 31,768	3.00%	-\$ 84,526
1994	\$100.00	\$110.00	\$111.85	\$122.34	\$184,320	\$205,365	-\$ 21,045	2.60%	-\$105,571
1995	\$100.00	\$110.00	\$114.76	\$125.52	\$184,320	\$210,705	-\$ 26,385	2.80%	-\$131,956
1996	\$100.00	\$110.00	\$117.98	\$129.04	\$184,320	\$216,604	-\$ 32,284	3.00%	-\$164,240
1997	\$100.00	\$110.00	\$121.52	\$132.91	\$184,320	\$223,102	-\$ 38,782	2.30%	-\$203,022
1998	\$110.00	\$120.00	\$124.31	\$135.96	\$201,600	\$228,234	-\$ 26,634	1.60%	-\$229,656
1999	\$110.00	\$120.00	\$126.30	\$138.14	\$201,600	\$231,886	-\$ 30,286	2.20%	-\$259,942
2000	\$115.00	\$125.00	\$129.08	\$141.18	\$210,240	\$236,987	-\$ 26,747	3.40%	-\$286,689
2001	\$125.00	\$135.00	\$133.47	\$145.98	\$227,520	\$245,045	-\$ 17,525	2.80%	-\$304,213
2002	\$135.00	\$145.00	\$137.20	\$150.07	\$244,800	\$251,906	-\$ 7,106	-----	-\$311,319
2003	\$155.00	\$165.00	\$141.35	\$154.61	\$279,360	\$259,526	\$ 19,834	-----	-\$291,485
<u>Net Variance:</u>							-\$291,485		

* CPI = Consumer Price Index ("Cost of Living")

Average CPI: 3.03%

Worksheet 2

What should be:

The fact is the fees were not adjusted as they should have been and so we have not had adequate working funds. As of December 2002, we are short anywhere from \$173,828 to \$448,811. No wonder we are scrambling to find the money to pay for repairs and services. It is important to understand the cause for this deficit so that we don't make this mistake again. We need to make sure we properly fund our budget by setting the correct level and adjusting it to keep up with the "cost of living". If we are diligent about formulating and adhering to our budget, we can nurse ourselves back to good health, with our properties in good physical condition and all reserve funds fully funded. While you may think about these fees as an expense, in reality they are an investment in your home.

Fully funded reserve funds allow you to do a lot more than just fix things when they break.

- You can earn investment income
- You can take advantage of discounts on services and materials
- You can deliver promised improvements and repairs when promised
- You can obtain favorable financing rates
- You can reduce your insurance cost by self-insuring a larger portion of the risk
- You can expect premium prices for your home when you sell
- You can take charge of your destiny
- You can

You probably know who Jack Welch is, the former General Electric CEO who turned the company into the respected powerhouse it is today. When he was ask about the 100,000+ employees he laid off accomplishing this goal, his reply was that he had no remorse and no apology, his responsibility was to the company. He pointed out that a weak company does not have the ability to do what has to be done. The same applies to an association, if it does not keep itself strong it will not have the ability to take care of itself and those that depend on it.

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