



Board Best Practices:
Budgeting and Assessments

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GOVERNING DOCUMENTS



Deed of Restrictions

Statutes –

Non-Stock, Non-Profit Corp.;
Horizontal Property Law;
Kentucky Condominium Law

Articles of Incorporation

By-Laws

**Rules, Regulations, Policies
and Procedures**



HOMEOWNERS' ASSOCIATION

$$\text{(Expenses)} / \text{(Lots)} = \text{Assessment}$$

CONDO OWNERS' ASSOCIATION

$$\text{(Expenses)} \times (\% \text{ Interest}) = \text{Assessment}$$



ANNUAL v. SPECIAL ASSESSMENT

■ ANNUAL ASSESSMENTS

- Routine Process
- Board Approval
- Routine Expenses
- Remain the Same by Default

■ SPECIAL ASSESSMENTS

- Special Process
 - Notice
 - Special Meeting
- Member Approval
- Unexpected or Catch-Up Expenses
- Circuit Breaker



EXPENSES

Association's Duties are Defined in the Governing Documents

- **Operating Expenses**

- Common Area Maintenance
 - Mowing
 - Snow Removal
 - Condos
- Insurance (Property, CGL, D&O)
- Utilities
- Property Taxes
- Professional Fees

- **Reserves**

- Capital Expenditures
 - Deferred Maintenance
 - Contingency
-
- **Reserve Study**
 - **HOA/TH/Condo**



INCOME



- Member Assessments
- Outside Income
 - Clubhouse Rental
 - Investment/Interest
- Delinquency Rate



BEST PRACTICES



1. **Compare and Adjust**
2. **Annual Bidding of Services**
3. **Tax Returns**
 - Section 528/Form 1120H
4. **Cash Controls**
5. **Accounting**
 - Ongoing
 - Summary Financials
 - Duty to Disclose to Members?
 - Condos – KRS 381.9197
6. **Understand Reserves**
7. **Reduce Property Taxes**



The 5 Commandments of a Collection Policy



1. **In Writing**
2. **Notices**
 1. Initial Notice
 1. Amount
 2. Due Date
 3. Where to Send
 2. Late Notices
3. **Consequences**
 1. Interest/Late Fees
 2. Liens
 3. Costs
4. **Consistency**
5. **Communicate**



**UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF
[ASSOCIATION]
APPROVING COLLECTIONS POLICY**

Effective [INSERT DATE]

Pursuant to KRS Chapter 273, the [DECLARATION OF RESTRICTIONS] (the “Master Deed”), the Association’s Articles of Incorporation, and the Association’s Bylaws (collectively the “Governing Documents”), we, BOARD MEMBERS, being the ## members of the Board of Directors of the ASSOCIATION a Kentucky non-profit, non-stock corporation (hereinafter referred to as “Association”), unanimously consent to the following Preamble and Resolutions and the actions authorized pursuant to these Preamble and Resolutions:

WHEREAS, the Governing Documents provide for making and collection of assessments against Unit Owners for common expenses of COMMUNITY, including but not limited to, maintenance and repair of, and insurance charges and utility expenses related to, the Common Elements;

WHEREAS, the Board of Directors of the Association, after consideration of the relevant facts, finds that it is in the best interest of the Association to adopt a formal Collection Policy for the collection of assessments from Owners.

NOW THEREFORE, BE IT RESOLVED, THAT, the Board of Directors adopts the following Collections Policy:

Assessments

Assessments are payable on the first day of each month.

At least thirty (30) days prior to the initial assessment in a year, the Board will cause notice to be distributed to each Owner, which notice shall include the amount of the monthly assessment and applicable due dates.

The Board’s failure to provide said notice shall not release an Owner from their obligation to pay any assessment.

Late Fees and Interest

If the Assessment is not paid by the 10th day of the month, a late fee of \$25.00 shall be charged and added to the outstanding balance and the outstanding balance shall begin accruing interest at annual rate of 12%, compounded monthly.

An additional late fee in the amount of \$25.00 and interest will accrue on the 10th day of each subsequent month until the delinquent balance is paid in full.



The purpose of the late fee is to compensate the Association for the costs and administrative burden of collections and the interest charge is intended to compensate the Association for the time-value of money.

Notices

As a courtesy, the Association will cause a notice of delinquency to be sent to delinquent Owners on or about the 10th and 40th days after an assessment becomes due. The Notice will state that the unpaid amount is a lien on the property and that the Owner is responsible for all costs of collections. The Association's failure to do so shall not relieve the Unit owner from the payment of any Assessment, late charges, interest, or costs and expenses of collections, including its attorneys' fees.

Legal Action

If an account is not fully paid by the 70th day after the an Assessment initially becomes due, including all late fees and interest, the Association will turn the account over to its attorneys' and the Owner will be responsible for all legal fees associated with the collections process.

Application of Payments

The Association shall apply all payments received first to the costs of collections, including its attorneys' fees, then to interest and late charges, and finally to outstanding Assessments.

WITNESS THE SIGNATURES of NAMES, being all of the members of the Board of Directors of ASSOCIATION a Kentucky non-profit, non-stock corporation.

