



Homestead Owners Association Inc.

## 2018 Annual Assessment Distribution

### ANNUAL ASSESSMENTS 2013-2018 (Cash Basis)

The 2019 annual assessment is \$1260 per property, for the sixth year in a row. In 2014 we had a \$15 per month increase for the first time in seven years. Assessment contribution by fund is presented below.

Percentage of dues and monthly dollar amount contributed to reserve, capital fund and loan payment

- 2013 50% \$45.00 of \$90
- 2014 54% \$56.70 of \$105
- 2015 57% \$59.40 of \$105
- 2016 48% \$50.04 of \$105
- 2017 53% \$55.65 of \$105
- 2018 60% \$63.00 of \$105
- 2019 Budgeted **40%** \$42.54 of \$105

### Reserve and Capital Fund Balance EOY (Cash Basis)

- 2013 \$2,648,056 (Reserve \$2,469,388 Capital \$178,668)
- 2014 \$1,993,351 (Reserve \$1,993,351 Capital \$0)
- 2015 \$1,999,251 (Reserve \$1,999,351 Capital \$0)
- 2016 \$1,668,041 (Reserve \$1,668,041 Capital \$0) See note below.
- 2017 \$1,830,214 (Reserve \$1,830,214 Capital \$0) See note below.
- 2018 \$1,858,090 (Reserve \$1,830,214 Capital \$0) See note below.

### Replacement Reserve and Capital Fund Explanation

Due to the remodel and the \$1,380,000 loan with ANB Bank (see General Meeting Report for change explanation), the reserve fund balance at the end of 2018 is stated at \$1,217,439. Our review accounting firm offers the below explanation of this accounting methodology.

To put it as simple as possible, I would explain it to the board and the HOA as follows:

The HOA has \$1,858,090 in total cash. The reason the reserve is only at \$1,217,439 is because you have \$725,892 in debt outstanding at year end. The reserve is like your "equity" meaning all assets owned minus liabilities equals equity.

Total assets \$2,135,778 - Total liabilities \$918,339 = Total Equity \$1,217,439

If you didn't have the loan then you would have cash of only \$1,132,198 (\$1,858,090-\$725,892) because technically you would have just been spending all your cash on the club remodel and not have any loan proceeds going into the account to replenish the cash.

As the HOA collects the \$120,377 in 2017 and 2018 (\$131,004 in 2016) in capital assessments and starts to pay off the debt this will slowly start to increase your reserve accounts "equity". Since capital assessments are being collected and then being used to pay down the debt, cash is in essence a net \$0 change. Therefore as debt is decreased (paid off) the increase has to go to equity in order to keep the balance sheet in balance.

Thank You,

Cathie Myran, C.P.A.  
Novosad, Lyle & Associates, P.C.

### ASSOCIATION FUNDS

#### Operating Fund

The Operating Fund accounts for the revenue and expense activities of our amenities and Homeowner Association service functions. This fund is for expenses essential to our operation, including amenities. Capital improvements related and large maintenance expenditures are held in other funds. Operating Fund budgets for all departments were prepared with an emphasis on managing operating costs efficiently, while continuing to provide consistent levels of service. Detailed analyses of each department were prepared and evaluated by management before the budget was reviewed by the Board. Methods for optimizing revenue while maintaining favorable property-owner access and rates were also examined.

#### Replacement Reserve and Capital Fund

The Replacement Reserve Fund is used to account for the financial resources designated for the repair, restoration, replacement or maintenance of major common area components of the Association. In 2007 a 20-year reserve funding and expenditure plan was produced, for the purpose of scheduling and analyzing the Association's funding needs. An update of the study was performed in 2016 and is available on the website. Based upon the 2007 reserve study and other information available to the Board of Directors, Homestead budgeted in 2008 to increase the annual reserve allocation by over three times the 2007 amount. The currently projected reserve account balances will be sufficient at the end of each year to meet the Association's obligation for repair and/or replacement of major components during the next 20 years. The 2019 budget meets the 2016 study's requirements. A new Study will be prepared in 2019.

In 2007 the Board created a Capital Fund to save for community improvements and amenities. Any operating fund excess is placed in this reserve account once the study required reserve allocation is met. In future years all operating excess will be used to pay down the remodel loan. From 2011-2018, all legal expenditures related to the Allen Easement will be allocated out of the Capital Fund. The Board has used this fund in its entirety to help pay for the Court Club remodel and pay down the loan.

The following outlines notable 2018 budget year expenditure items including carry-over projects:

- HCC Pickle Ball Court
- HOA New Event Series
- HCC Professional Ball Machine
- HCC New Ice Machine
- HCC New Dryer