

REPORT TO THE BOARD

Budget Presentation

You and Your Manager - What You Should Expect

By Lance Govang, CMCA, AMS, PCAM

Question: What is the ultimate responsibility of the Board of Directors?

Answer: To maintain and/or enhance the Market Value for each unit within the community.

The community's market value is maintained and/or enhanced through:

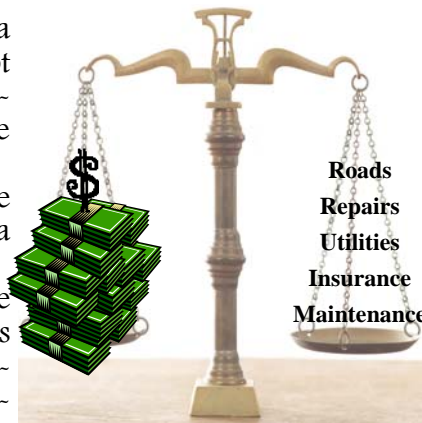
1. Properly maintaining the buildings, roads, sidewalks, etc.
2. Addressing the community's landscaping in a manner that keeps it not only attractive, but controlled throughout the years.
3. Appropriately insuring the Association's assets from a natural or other disaster.
4. Accurately foreseeing the future replacement needs of the community's infrastructure and funding reserves accordingly.
5. Establish the means to successfully administer the above with the appropriate management and supervisory levels.

Knowing this, the budget is the first and most valuable tool available to the Board of Directors in successfully performing these functions. The draft budget that your manager presents to you should be detailed, but it should also be a simple and non-complicated reflection of the community's needs and expectations. It should be historically accurate and echo the Association's current contractual obligations. The draft budget should also highlight any changes in

the previous year's budget that failed to meet the community's needs, as well as its successes that should continue to be mirrored. This will allow you to stay focused on making only those changes that are needed without having to question each line item presented to you.

Most managers and their Boards have a very good sense of the community's fiscal needs and can on most occasions predetermine what the coming year will bring to their monthly Association Fee. Nevertheless, it is important that your draft budget encompass ALL of the possible expectation scenarios that were presented over the previous fiscal year. As a member of the Board, it is your duty to determine which expectation level is best for the Community. Your manager's duty is to give you this opportunity; not to determine it for you.

Your manager's preparation for the coming year's draft budget began on the first day of the current fiscal year. He/she will have made note of all anomalies that occurred outside of the scope of the current budget and will present alternatives to address each of them for each succeeding draft budget. For your manager, this is the one time of year that he/she can demonstrate their intimate familiarity with all aspects of the Association. Undoubtedly there are many times throughout the year that your manager's knowledge and familiarity of the



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community is tested, but as a Board Member the budget process allows you to evaluate these characteristics in a single instance.

Coming together as a team, Manager and Board of Directors, to ensure that the new budget meets the community's expectations is the ultimate goal. Utilization of each individual's own perception of the past events, while observing the community's expression of their expectations will bring out those intangible assets that are not so easily deter-

mined by just using a calculator. Thus making the budget process a group effort, one without bias or inclusion of personal agendas will ultimately prove successful for the betterment of every Community Association.

Question: What is the single most important decision a Board Member has to routinely make each year?

Answer: The approval the Association's fiscal budget.



Operating Reserve

By: Ronald Duprey, CMCA, AMS, PCAM



You have a Replacement Reserve...now how about an Operating Reserve?

It happens to most associations in one form or another every year. That new larger insurance deductible of \$5,000 has kicked in for a fire loss claim for the association. More small snowfalls or really cold weather requires many more ice melt applications than anticipated and resulted in additional expense of \$7,000. More rotten wood to replace in the painting cycle than was planned costs over \$4,000. More landscape died as a result of a very hard winter or some foreign insect pests costing an additional \$10,000 in landscape removal and replacement. A co-owner was foreclosed by their mortgage company while owing \$6,000 in past due assessments and collection costs, thereby eliminating any hope of collecting that money. Since most associations budget by balancing their assessments and expenses to zero, there is often no extra money available to pay for these "surprises."

Usually when this occurs it places tremendous pressure on cash flow often creating problems for the board treasurer, the community manager, and the payables clerks who are not able to provide checks to bellying contractors who call daily so they can meet their payroll at the end of the week. Ultimately this could result in losing good contractors or getting priced higher in anticipation of slow payment.

Problem: No \$

Where does the association get the funds to pay these unanticipated costs?

Unfortunately, often it is "borrowed" from the replacement reserve account which really is a "no-no." In fact, in some states, it is simply not permitted by statute. Even in states where it may not be addressed by the law, since extra money is not budgeted, there is no repayment plan or interest, to repay it to the replacement reserve account even with possibly the best intentions of doing so. Then, of course, the replacement reserve remains under-funded when those physical components need to be replaced. Since the necessary funds are not available, we end up in an "additional assessment" for replacement situations which is most costly to everyone.

Another scenario might include the board of directors levying a special or additional assessment to directly pay for the unbudgeted expense. This is usually an unpopular choice resulting in ill will, much administrative and bookkeeping work, payment timing problems and, in many cases, additional cost.

Solution: Planned Operating Reserve

It seems more business-like and prudent to accept that these surprises are going to occur and plan ahead to have operating funds available to cover them. An **Operating Reserve Account** or Contingency Reserve can be created and budgeted with money contributed monthly just as we fund the Replacement Reserve accounts. A set amount each month put into a money market account will gain some interest while being liquid and accessible when needed.

How Large an Operating Reserve?

How much should be targeted for the fund? Perhaps 10% of the operating budget on a non-cumulative basis with a \$10,000 minimum. Or perhaps set aside an amount equal to one month assessment income as a target. Once that is attained you could stop contributing until funds are required for one of the surprises then begin contributing again. Larger associations are prone to more surprises, and smaller ones seem to be impacted more by a surprise (a large and small association can have the same deductible on their respective insurance policies which would impact the smaller association by a larger

percentage than the large association) and may want to contribute and maintain a higher percentage level of reserve. \$10,000 can go quickly with an insurance claim, a hard winter, and a few delinquencies.

So, as you are creating your budget, now is the time to get started on funding an Operating Reserve. Any prudent business owner budgets contingency funds. We must remember that we are running a business generally with millions in assets. Your next budget year and subsequent years will be far less stressful with this planned solution to the inevitable surprises we face each year.



Kramer-Triad takes great pleasure in welcoming the following Associations that have joined our Management Company in the last 5 months and for the opportunity to work with them in the coming year:

- | | |
|-------------------------------|------------------------|
| Cumberland | Timbercrest |
| Fairways of Farmington Hills | Turnberry Village |
| Fox Creek Of Brownstown South | Walnut Woods |
| Knightsbridge Gate | Wellington Place Manor |
| Meadowbrook Villas | Wexford Parkhomes |
| Middlecreek Estates Sub | Whetherstone |
| Oakland Hunt Condo | Woodcreek Park |
| Rolan Meadows | Wynstone |

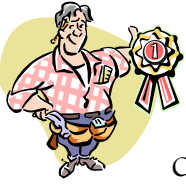
Kramer-Triad 2006 Bid Day

Kramer-Triad's office hosted their 11th Annual Fertilizer, Landscape and Snow Contractor Day. Contractors were invited to join the Ann Arbor managers on July 12th, the Farmington Hill's managers on August 9th, and the Troy's managers on August 11th for a continental breakfast and an opportunity to bid on any communities requesting bids for the upcoming seasons. The morning offered a great opportunity for managers and contractors to network.

Craig Koss (President) spoke with the contractors at the beginning of the event to explain the new changes to the program; this year, all of the communities' proposals were on a CD. We are proud to announce that this enables us to save our communities the printing and mailing costs of the proposals. The average savings for a community was around \$70.00 to \$100.00.



Kramer-Triad Management Group's "Step Above" Club



2006 2nd Quarter Maintenance Awards

Craig Koss and Jeff Gourlie honored the Ann Arbor, Farmington Hills and Troy maintenance technicians for their dedicated service to our communities at the 2006 2nd Quarter Maintenance Awards on Thursday, August 3, 2006. Awards are given for the number of response cards mailed in by residents for work orders performed by maintenance staff; also service pins were given to maintenance staff.

The program is split into two categories: Those technicians dedicated to one community and those who work at a number of communities (floating.)

The award winners of the April, May, June and 2nd quarter totals were as follows:



The 2nd Quarter Dedicated Staff winners were:

- April
1st – Darren Richards
- May
1st – Darren Richards
- June
1st – Rick Bailey
- 2nd Quarter
1st – Darren Richards

The 2nd Quarter Floating Staff winners were:

- April
1st – Bill Durrant
- May
1st – Ed Oland
- June
1st – Ed Oland
- 2nd Quarter
1st – Ed Oland

Service pins were given to all maintenance staff with 5 years or more service to the company.



There are 5 staff members who have been with Kramer-Triad Management for 20 years or more.

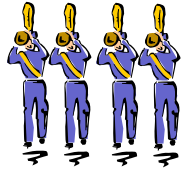
Dennis Slicker – 21 years, Bill Fortman – 25 years, David Casselman – 24 years, Robert Homrich – 20 years, and Colin Breed – 21 years. Hats off to them for their many years of dedicated service!



A special award was presented to David Walke from Associa for Individual Achievement. David is the first maintenance staff member to receive this award.



MOVING UP!



The following special KTMG employees have recognized the importance of seeking and obtaining professional designations to keep our company at the forefront for our industry and a continued leader in Michigan.

Congratulations for the efforts to the following:

**CMCA Designees:
Year 2006**

- Ray Balinski
- Lynn Millitello

**AMS Designees:
Year 2006**

- Arica Zelenak