



## HOA Statute Update & Bank Account Safety

On June 19, 2007, Governor Crist signed a bill into law for homeowner's associations (Statute 720) to emulate Condominiums (Statute 718). The new homeowner's association amendments took effect on July 1, 2007. These changes made to Statute 720 include financial records, meetings, board of directors, etc. However, this article will focus on the financial reporting aspects of the changes to Statute 720.

### Reporting on the Financial Statements:

Statute 720 requires homeowner's associations to have a financial statement prepared by an independent CPA under the following criteria:

- 1) An association with total revenues over \$100,000.00 or under \$200,000.00 is required to have a compiled financial statement.
- 2) An association with total revenues over \$200,000.00 but under \$400,000.00 is required to have a reviewed financial statement.
- 3) An association with total revenues over \$400,000.00 is required to have an audited financial statement.
- 4) An association with under \$100,000.00 of revenues shall prepare a report of cash receipts and expenditures.
- 5) An association under 50 units regardless of revenues may prepare a report of cash receipts and expenditures unless governing documents provide otherwise.

The association has 90 days after fiscal year end, unless their documents state earlier, to prepare and complete a financial report of the preceding year.

### Budgets for Homeowner's Associations:

In Statute 720 the budget must clearly define the annual operating expenses. In their budget the Association may also include items for deferred maintenance or capital improvements. Homeowner's associations may maintain separate line items for reserves or use the pooling method. However, once a homeowner's association starts budgeting and providing for reserves it must maintain or waive the reserves annually. Also, they must provide a budget with reserves and without reserves. If a budget is approved without reserves there must be a disclaimer on the front of the budget as stated under Statute 720.303(6).

### Reserves:

In Statute 720 once a homeowner's association starts funding for reserves they must maintain or waive reserves annually. If a homeowner's association decides to use prior reserve money for the pooling reserves they must have a membership vote. If they decide to keep prior reserves as line items and use future reserves as the pooling method going forward there is no need for a membership vote. If the Association is moving toward the "pooling" method for reserves, I suggest that any prior reserves be transferred to "pooling" reserves by a vote of the unit owners.

### Turnover Reports for Homeowner's Associations:

Homeowner's associations under Statute 720 require developers to provide a turnover audit from the date of inception to the date of turnover. The developer may also choose to do an annual audit each year (before turnover) and then have a final turnover audit performed from the date of the last audit to turnover. This is recommended due to the fact that many associations take two to four years to turnover control of the association's records each year and often records are not adequately maintained. The turnover audit is to ensure that the developer accurately and correctly reports the Association's financial data.

As some financial institutions (banks) are closing their doors, we all are becoming concerned about the safety of our investments. Therefore, I am writing you this report to assist you in evaluating the safety and alternatives for your money in this market. I am addressing only cash investments such as checking, savings and CD accounts.

The first criteria is to determine that your checking and savings deposits are insured. The standard insurance is the Federal Deposit Insurance Corporation ("FDIC") which insures up to \$100,000 per depositor in commercial member banks. Accounts at different banks are insured separately (a branch of the same bank counts as one account). Also, accounts with different ownerships can be considered separately for the \$100,000 insurance limit.

FDIC insurance covers "deposit accounts" such as:

- 1) Checking accounts (demand deposit accounts)
- 2) NOW accounts (interest bearing negotiable order of withdrawal accounts)
- 3) Money market deposit accounts (MMDA's)
- 4) Savings accounts
- 5) Money market accounts (high interest savings accounts)  
Note: Money market funds are not insured.
- 6) Certificate of Deposits (CD's)
- 7) Outstanding cashier's checks, interest checks and negotiable instruments drawn on the accounts of the bank.

### **YOUR GOAL SHOULD BE TO STAY WITHIN THE \$100,000 FDIC INSURED LIMIT**

Ideally, if you have \$300,000, set up four separate bank accounts, for example:

Bank 1	\$75,000
Bank 2	75,000
Bank 3	75,000
Bank 4	75,000
Total:	\$ 300,000

If you establish three bank accounts at \$100,000 each, your accrued interest over the \$100,000 limit will be lost.

As many of our clients have considerable amounts of monies over \$100,000, I have researched some **NEW INSURED PROCEDURES** as follows:

- A) *Certificate of Deposit Account Registry Service ("CDARS")* CDARS can be accessed through financial institutions authorized to offer their services. This service is available for either individuals or businesses, and multi-millions can be deposited. CDARS is fully FDIC insured. How does CDARS work: For example, if an Association has \$500,000 to deposit, the Association goes to an authorized bank and opens an account. Normally, if an Association was to deposit \$500,000 into a bank only \$100,000 would be covered by the FDIC. With CDARS the entire amount is insured. The bank submits your \$500,000 into FDIC insured banks, within the CDARS network. The member banks then take your \$500,000 and split it up into 6 separate CD accounts (5 at \$90,000 and 1 at \$50,000), so no one CD is over the \$100,000 FDIC limit. Even though you have 6 different accounts, you still only work with the original bank you made the initial deposit with, so you have one statement coming each month. According to our research, the following institutions participating in the CDARS program in our area are listed at the end of the article.
- B) *Retail Fund Collateralization Agreements*. Some institutions offer this to their best customers. These agreements provide collateral safeguards for money over \$100,000. The institutions use government securities to back up the excess monies. As these are special agreements that some banks offer to their "better" customers, I suggest you contact your bank to see if they offer this service or a similar program.

If you have any questions about this information, please contact my office. Hafer Company is working with you to help safeguard your assets.

### **Charles S Hafer, CPA**

Charles Hafer is a Certified Public Account with Hafer Company, LLC. Our contact details are: 249 Royal Palm Way, Suite 300, Palm Beach, FL 33480. (561) 655-8700.





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### President's Message

I would like to thank Mr. Charles Hafer of Hafer Company, LLC for providing the article for this edition of the Banyan Newsleaf. I hope you find the information contained interesting and educational.

Please do not hesitate to contact me if you have any suggestions for future articles or if you have any questions about our complete line of property management services. My number is (561) 649-8585 Ext. 337 or alternatively my email contact is mark.quinn@banyanproperty.com.

Cordially,

Mark J. Quinn  
President

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