



LOAR

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FINANCIAL DISCLOSURES FOR COMMON INTEREST DEVELOPMENT ASSOCIATIONS FOR 2006

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- Basic Financial Disclosure Law is in Civil Code 1365
- Requires Annual Preparation of Pro Forma Operating Budget
 - Budget must include the estimated revenue and expenses for the year
 - Disclose the current estimated replacement cost, estimated remaining life, and estimated useful life of each major component for which the HOA is responsible
 - Must include disclosure of the current estimate of cash reserves needed to repair, replace, restore or maintain components for which HOA is responsible
 - Disclose actual amount of cash reserves set aside to repair, replace, restore or maintain major components
 - If applicable, disclose the amount of money recovered from a lawsuit for damages, either by judgment or by settlement
 - Disclose the percent of needed reserves that is actually funded
- Also disclose whether the Board has determined or anticipates that the levy of one or more special assessments will be needed to repair, replace, restore or maintain any major component; if so, disclose the estimated amount, due date and duration of the special assessment.

- Disclose how the Association will fund reserves: assessments, borrowing, use of other assets, deferral of maintenance, etc.
- Disclose how reserves were calculated; use the formula in CC 1365.2.5; calculation may not assume a rate of return on reserves that is more than 2% higher than the discount rate published by the Federal Reserve Bank of San Francisco at the time the calculation was made. Copy of CC 1365.2 is included in this summary.
- Regardless of what the governing documents say, the pro forma operating budget must be distributed no less than 30 and no more than 90 days prior to the beginning of the Association's fiscal year.
- A review of the Association's financial statement shall be prepared by a licensee of the California Board of Accountancy for any fiscal year in which the Association's gross income exceeds \$75,000. The review of the financial statement shall be distributed within 120 days of the close of each fiscal year.
- CC 1365.5: Reserve Study Requirement
 - Must get a Reserve Study at least once every three years; prepared in connection with a reasonably competent visual study of the accessible areas that the HOA has to maintain, repair, replace or maintain if the current replacement value of the major components is equal to or greater than one-half of the HOA's budget, excluding the association's reserve account for that year.
 - The Board shall review the study annually, or cause it to be reviewed, and shall make needed adjustments.
 - Doesn't apply to an association that has no common area.
- Instead of delivering the pro forma operating budget, the Association may deliver a summary and provide a notice that any Member wanting the entire budget may receive it upon request at the expense of the HOA; it must be delivered within 5 days of request.
- A collection policy describing the Association's policies and practices in enforcing lien rights or other legal remedies for default in the covenant to pay assessments must be delivered to the Members not less than 30 nor more than 90 days prior to the beginning of the fiscal year; policies must comply with changes in the Civil Code related to non-judicial foreclosures.

Assessment and Reserve Funding Disclosure Summary

(1) The current assessment per unit is \$ _____ per _____.

Note: If assessments vary by the size or type of unit, the assessment applicable to this unit may be found on page _____ of the attached report.

(2) Additional assessments that have already been scheduled to be imposed or charged, regardless of the purpose, if they have been approved by the board and/or members:

| Date assessment is due: | Amount per unit per month: (If assessments are variable, see note immediately below) | Purpose of the assessment: |
|-------------------------|--|----------------------------|
| | | |
| | | |
| | | |
| Total: | | |

Note: If assessments vary by the size or type of unit, the assessment applicable to this unit may be found on page _____ of the attached report.

(3) Based upon the most recent reserve study and other information available to the board of directors, will currently projected reserve account balances 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 30 years?

Yes _____ No _____

(4) If the answer to #3 is no, what additional assessments or other contributions to reserves would be necessary to ensure that sufficient reserve funds will be available each year during the next 30 years?

| Approximate date assessment will be due: | Amount per unit per month: |
|--|----------------------------|
| | |
| | |
| Total: | |

- (5) The following major components, which are included in the reserve study, are NOT included in the existing reserve funding:

| Major component | Useful remaining : life in years: | Reason this major component was not included: |
|-----------------|--------------------------------------|---|
| | | |
| | | |
| | | |
| | Total | |

- (6) As of the last reserve study or update, the current balance in the reserve fund is \$_____. Based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365 .2.5, the required amount in the reserve fund is \$_____, and if an alternate, but generally accepted, method of calculation is also used, the required amount is \$_____. (See attached explanation)

NOTE: The financial representations set forth in this summary are based on the best estimates of the preparer at that time . The estimates are subject to change.

(b) For the purposes of preparing a summary pursuant to this section:

(1) "Estimated remaining useful life" means the time reasonably calculated to remain before a major component will require replacement.

(2) "Major component" has the meaning used in Section 1365.5. Components with an estimated remaining useful life of more than 30 years may be included in a study as a capital asset or disregarded from the reserve calculation, so long as the decision is revealed in the reserve study report and reported in the Assessment and Reserve Funding Disclosure Summary.

(3) The form set out in subdivision (a) shall accompany each pro forma operating budget or summary thereof that is delivered pursuant to this article. The form may be supplemented or modified to clarify the information delivered, so long as the minimum information set out in subdivision (a) is provided.

(4) For the purpose of the report and summary, the amount of reserves needed to be accumulated for a component at a given time shall be computed as the current cost of replacement or repair multiplied by the number of years the component has been in service divided by the useful life of the component. This shall not be construed to require the board to fund reserves in accordance with this calculation.