THE CREIGHTON REPORT

TAX SEASON FOR HOAS
by Allie Aquilante
(844) 307-5113
aaquilante@creightonfinancial.com

Considering 2018, tax season is quickly approaching. This year, tax season begins on January 29th and ends April 17th. It is expected that 155 million tax returns will be processed this upcoming tax season and there are many changes, such as the new tax laws and end date, to anticipate this year. One reminder beforehand is that employers and businesses must provide employees and contractors with W-2’s by January 31st. Businesses who have hired independent contractors or those who are reporting rent paid to owner of over $600 must provide 1099-MISC by January 31st as well. All in all, anyone who was paid over $600 in the year is required to have a 1099-MISC.

All homeowner and condominium associations, whether they be residential or commercial, must file income-tax returns. Generally, there are two options for filing tax returns for an association: Form 1120 or Form 1120-H. In choosing Form 1120, income and expenses are allocated between either exempt function income and nonexempt function income. Exempt function income is not taxable and is made up of the amount of dues that were collected from homeowners, while nonexempt function income comes from other sources such as laundry, pool fees, clubhouse rental income, etc.
This is taxed at 30 percent. In order to use Form 1120-H, which is must less complicated and risky, the following conditions must apply:

- The HOA must be organized and operated to provide acquisition, construction, management, maintenance and care of association property
- 85%+ of the units are used for residential and auxiliary purposes
- 60%+ of gross income is from membership dues, fees, or assessments
- 90%+ of expenditures are used for acquisition, management, maintenance, and construction
- None of its net earnings benefit any individual, including owners or shareholders.

January is a very important time to reflect on the previous and future years’ financial stability.

THE IMPORTANCE OF AN AUDIT

by Allie Aquilante
(844) 307-5113
aaquilante@creightonfinancial.com

2017 has come and gone, and before we focus on 2018, it is vital to remember the importance of audits. Is it really necessary for your association to receive an audit? Well, it is recommended that communities with a large cash flow receive audits annually. These are done to ensure that the financials are in good health. Keep in mind that the degree of analysis that would be provided on your Balance Sheet, Income Statement, etc. depends on the type of audit you choose to be performed. Most communities consider getting a review done instead of an audit. The bylaws usually state which one necessary, but sometimes this comes down to the board deciding which is best for their community.

Can an HOA collect past due fees when a home is in foreclosure?

While the mortgage on the home will always be in the first position lien, junior liens (which include HOA fees) will be next in line to collect any funds that remain after the mortgage has been satisfied and the foreclosure expenses are paid. A lien must be on the property at the time the property goes into foreclosure.

No One Has Time to Volunteer for HOA Board - Can We Pay Them?

Most governing documents specify that board members are not to be paid. If your documents do not address this specifically the best course of action would be to seek a legal advice. One way to get volunteers is to have active committees, that way you can be grooming committee members to be future board members.
If Your Organization Doesn’t Embrace Change, Change Will Most Certainly Embrace Your Organization

by Steve Gothaard
(267) 571-9418
SGOTHARD@EASTHILLPROPERTYMANAGEMENT.COM

Although there isn’t any direct correlation between Henry Ford and this quote he is still credited with saying “If I had asked my customers what they wanted they would have said a faster horse”. Even if he didn’t say it, the analysis is spot on when it comes to change. Most people dislike change. They dislike having to learn new ways to complete a given task or activity. Back in 2012 our friends at the Harvard Business Review examined the many reasons people dislike change. In no particular order, the top ten reasons are:

loss of control
concerns about our personal competence
uncertainty
more work
surprise
loss of face
everything seems different
past resentments
ripple effects
change is painful

Benjamin Franklin is credited with the quote “When you’re finished changing, you’re finished”. Even the evolutionist Charles Darwin said “It is not the strongest or the most intelligent who will survive but those who can best manage change.” There is a developing pattern here that points to the simple fact that if we stop changing, we stop growing, and if we stop growing, we truly are finished. I say to counteract this, let’s run towards the light and not away from it. Let’s open our minds and embrace new concepts and technology.

I remember not so long ago when some new industry technology came out that would enable total transparency with our industry accounts payable systems. This technology was touted over hill and dale. Some embraced it and some (many) turned their back to it. I heard questions from industry management company executives who said, “why would we ever want to give a board member access to our payables system?” Fast forward 10 years later and the question is now, why would you not give them access to your payables system? Times change and we enable that change when
we embrace a willingness to listen to new possibilities. There is more than one way to build a mouse trap.

Leverage is almost always a good thing, right? It provides options and options are always good. I think we can all agree on that! For a moment, let’s suspend disbelief and reimagine a management company structure that leverages their available tools so their clients have more options. In this suspended euphoric state of bliss your management company has outsourced their accounting to a firm that specializes in residential property management accounting.

*A company that isn’t mobile, that isn’t seeking leverage at every turn, that doesn’t look to outsource certain aspects of their business, is a company that isn’t looking for growth.*

But this firm doesn’t just do it for 2 or 3 management companies, they do it for 30 or 40 management companies. Because they can leverage the use of the software licenses they use, they pass that savings onto you and you in turn create an opportunity to enhance your profit margin and all you did was allow someone else to handle your accounting.

This same scenario is applied throughout the new modern management company. Look around, the telephony experience is cloud based, there aren’t any file servers because that entire experience is cloud based, your managers work from anywhere because your organization is cloud based. The best part about this suspended euphoric scenario is that it’s not imaginary. In fact, if you are not moving your management company over to these kinds of platforms, please refer to my first paragraph, because you won’t be around for very long if you don’t embrace change. A company that isn’t mobile, that isn’t seeking leverage at every turn, that doesn’t look to outsource certain aspects of their business, is a company that isn’t looking for growth.

In 1967 the famed iconic Loretta Lynn released an album (remember those?) entitled “You’ve come a long way baby”. While it was also used in other advertisements, I believe the quote is applicable to our industry. If you look back 5, 10, even 15 years ago and compare those times to where we are now, it’s easy to spot many of our changes. We’re not even the same industry really. We’ve grown, our boards have grown, our communities have grown, the legislation has grown, and we have much to be proud of. In 2015 the Community Association Institute (CAI) released a paper entitled “Community Next: 20/20 and Beyond”. It has been written about often and if you haven’t read it, I would urge you to download a free copy and have everyone
in your organization read it. It's extremely well written and if you analyze the message, CAI is telling us, in fact urging us to embrace change. The residents moving into our communities today don’t know a world without the internet, a cell phone, or a wi-fi connection. If you’re not operating with that premise in mind, you’re simply not preparing for the future, which by the way is already here.

Change is an absolute constant in our world, so why fight it? We change diapers, light bulbs, tires, why not business strategies too? If you’re interested in learning more about growing your company for tomorrow, give us a call at Creighton Financial. We would welcome the opportunity to help with your technology, your growth strategies, and we can be your partner with outsourced accounting services and resources. I wish you nothing but Smooth Sailing.

SOcial Media Safety

by Steve Gothaard
(267) 571-9418
SGOTHARD@EASTHILLPROPERTYMANAGEMENT.COM

Social media has many benefits—it allows you to maintain connections with friends, make new contacts, build support networks, express yourself and share your interests. However, information should be shared with caution to protect yourself and your family. Here are seven top tips for social media safety:

1. Your personal information should be just that—personal. As hackers become more and more sophisticated, identity theft becomes a greater risk. And while it may be tempting to post pictures of your fabulous vacation, bear in mind that you’re also letting others know you’re away from home—making you vulnerable to a break in.

2. Use privacy and security settings to limit who can see what you share online. You wouldn’t give details of your private life to complete strangers in person, so don’t do it online either.

3. Remember that what you post online will stay online, so consider the long-term consequences. Could your social media presence prevent you from securing a job in the future? Would you want your coworkers to see this side of you?

4. Let your social network know your boundaries. For example, if you don’t want images of yourself or your children posted online, let your friends and family members know.

5. Know what to do if someone is making you feel unsafe online. Some steps you can take include blocking the offender, reporting the person to the site administrator and removing him or her from your friends list.

6. Social media doesn’t just spread information, it can also spread viruses and other risks to your computer. Defend your system by using the latest security software and web browser and installing updates regularly.

7. Protect your social media accounts by using password best practices. Long combinations of letters, numbers and symbols are the most secure, and separate passwords should be used for each account.