



Financial Impact of Hurricane Irene

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As we slowly start to recover from the effects of Hurricane Irene we would like to offer some guidance on how to deal with the costs related to repairs that may be needed. For an individual homeowner the decision is a simple but painful one of digging into one's own pocket for needed repairs. For Community Associations, the source of funds may not be as clear.

The first step should of course be to try and file an insurance claim for the damages. We recommend you contact your insurance agent to discuss the extent of your coverage. Some Associations may have damages due to flooding, wind or causes that may not be covered by their insurance. For example, if your Association has a drainage problem the insurance company may deny your claim. In such a situation the Association has to utilize its own funds to rectify the issue.

This leads to the question as to where should the funds come from? If your reserve study includes the item that needs to be replaced then that is where you should charge the expense. However the study may not include the item to be replaced because its useful life has not yet fallen into the engineer's "window." It is also possible that the cost of replacing the item may be much higher than anticipated by the study. In situations where the common element(s) need to be replaced, we suggest that you could use your replacement funds while following these recommendations:

1. Meet with your engineer to discuss the matter and the fact that you are going to utilize funds either not earmarked for these items or in excess of the anticipated cost;
2. Have your study updated to reflect the anticipated adjusted fund balance after completion of the project;
3. Consider the need to include these items in the updated study and adjust the useful lives as appropriate; and
4. Formulate a plan to replenish the funds utilized by passing a special assessment, increasing your maintenance allocations to the replacement fund or a combination of the two. Unfortunately, increased allocations to the replacement fund usually means increased maintenance assessments.

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We do not recommend that the Association use the replacement fund for repairs or replacement of items that are not capital in nature. For example we do not believe that the use of reserves are appropriate for the removal and or replacement of trees or bushes that have fallen down or need to be removed as they are no longer safe. These items do not belong in the replacement fund and the Association should use its operating or possibly deferred maintenance funds to pay for such costs. These additional costs should be considered when preparing the subsequent budgets.

Lastly we recommend a detailed inspection of the property. There may be damage to the common elements of the Association that are not clearly visible. For example the roof may be damaged due to the high winds or the roads may have developed cracks due to excessive rain water. Repairs to these common elements now may prevent the Association from facing major financial constraints in the future.

If you have any questions or concerns or need further guidance please do not hesitate to contact us.

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