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2009 Operating Budget

December 10, 2008

Dear Fellow Homeowners,

We present to you the 2009 Operating Budget for your review, which was approved by the Board of Directors at the December 10, 2008 Open Board Meeting. The two most significant items to note are that the **monthly Maintenance Fees are increasing from 2008 to 2009 by 3.5%, resulting in a \$6.00 monthly increase for one-bedroom units and a \$7.00 monthly increase for two-bedroom units.** Additionally, it again **remains necessary to continue the Special Assessment in 2009 to build reserves to fund the Renovation Project.** Please see the enclosed letter regarding the 2009 Special Assessment for further information.

The monthly Association fee increase in 2009 is attributed to increased legal expenses in collecting past due accounts and income not realized due to allowance for bad debt. Additionally, we are anticipating less income from Capital Contributions from unit resales, which is explained in more detail below. Finally, our expense for the Community's water usage has increased substantially. The sum of these budget items is the main cause of the increase in fees for the 2009 budget year.

Accordingly, the fees are as follows:

One-bedroom Unit Homeowners will pay a monthly maintenance fee of \$177.00 and a monthly Special Assessment amount of \$103.00 for the first 3 months of 2009 (Jan – March), for a **total monthly payment of \$280.00** *

Two-bedroom Unit Homeowners will pay a monthly maintenance fee of \$202.00 and a monthly Special Assessment amount of \$118.00 for the first 3 months of 2009 (Jan – March), for a **total monthly payment of \$320.00** *

* Your new monthly payment amount starting in April 2009 will be calculated and sent to you after you choose your payment option for the final Renovation Project Special Assessment.

The percentage of Ownership in Common Elements specifies the share of fees each Unit Owner pays. One-bedroom Homeowners pay 0.1529% and two-bedroom Homeowners pay 0.1749% of the annual Operating Budget.

Review of 2008 Operating Budget Financial Performance

Despite the Board's and Management's fiscal restraints, we are estimating an operating loss for the 2008 year end of approximately \$50,000. This represents 2.2% of the total budget. While we have previously enjoyed operating surpluses for the past four years, our Community was not immune to the effects of the national credit and housing crisis. We experienced a significant increase in delinquencies, which includes homes that were foreclosed upon or in the foreclosure process by the lender. As a result, we have incurred a marked increase in legal expenses; \$80,000 more than budgeted was expensed, in an effort to collect these past due amounts as well as protect the Association's interests on future collections. As such, our allowance for bad debt increased from a budgeted amount of \$43,000 to an estimated amount of \$103,000 in 2008. In anticipation of future collections activity, we have increased our legal collections budget to \$100,000 and increased our bad debt provision to \$75,000 in 2009. Had it had not been for the delinquency issue, we would have had an operating surplus again this year.

(Continued)

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The number of units that were sold in 2008 was less than we anticipated. This affected our Initial Capital Contribution income line where we had budgeted 72 units to be sold in 2008. However, we are now estimating that only 34 units will be resold in 2008. With each resale, the Association receives a one-time contribution of \$750 from the buyer. With 38 less units being sold, this resulted in a shortfall of \$28,500.

The following are some positive highlights from the 2008 and 2009 budgets:

- The Board continued to upgrade the investment returns on our reserve money from low-paying money market accounts to higher yielding Certificates of Deposit and Treasury Notes. On average, our reserve accounts, which include the Long Term Reserve, Deferred Maintenance, and Litigation Reserve, earned approximately 4 to 5% interest. Thus, dramatically increasing the return on our investments, and we expect interest earned in the 2008 fiscal year to be over \$251,000, which is \$106,000 more than last year! Given our reserve balances will not be as high as they were in 2008, with our high point in 2008 being over \$5.2 million, our interest earned in 2009 will be far less.
- Snow removal expenses for 2008, including an estimated amount for December, is under budget by \$18,000 due to our fixed price snow removal contract and lack of snow in 2008.
- Our on-site maintenance staff budget amount in 2009 has been reduced by \$20,000 to more accurately reflect the actual expenses expected
- Our insurance premium is less in 2009 than in 2008, saving us approximately \$14,000 or 8.5%. The water heater and washing machine hose compliance program was a major factor in our insurance premium being reduced this year.

The **2009 Operating Budget** was developed to continue our current financial course for maintaining our Community and for funding the Renovation Project.

Before the end of December, in a separate mailing, you will be receiving your new coupons for your 2009 payments. Included in that mailing will be a Direct Debit form to complete at your option in order to have your monthly payments directly debited from your bank account. We encourage everyone to complete this form, as not only will it save you the time, hassle, and cost of mailing a monthly check, it will also help our Association to receive timely payments, with the anticipated result of further reducing our delinquencies and late payment fees for Homeowners. This method is preferred over online banking, since checks sent directly from your bank must be re-mailed to EPM's main office and hand-processed.

We look forward to our fellow Homeowners' continued cooperation in paying the monthly fees and Special Assessment in order to complete the Renovation Project in 2009. We recognize the financial sacrifices of our fellow Homeowners to protect and improve our Community.

In closing, the Board would like to remind our fellow members that the Association's financial well-being, quality of life, and maintaining or even increasing our property values are always in the forefront of our minds.

Best wishes for a happy, healthy, and peaceful holiday season!

Sincerely,

Board of Directors
Ravens Crest East at Princeton Meadows Condominium Association, Inc.