

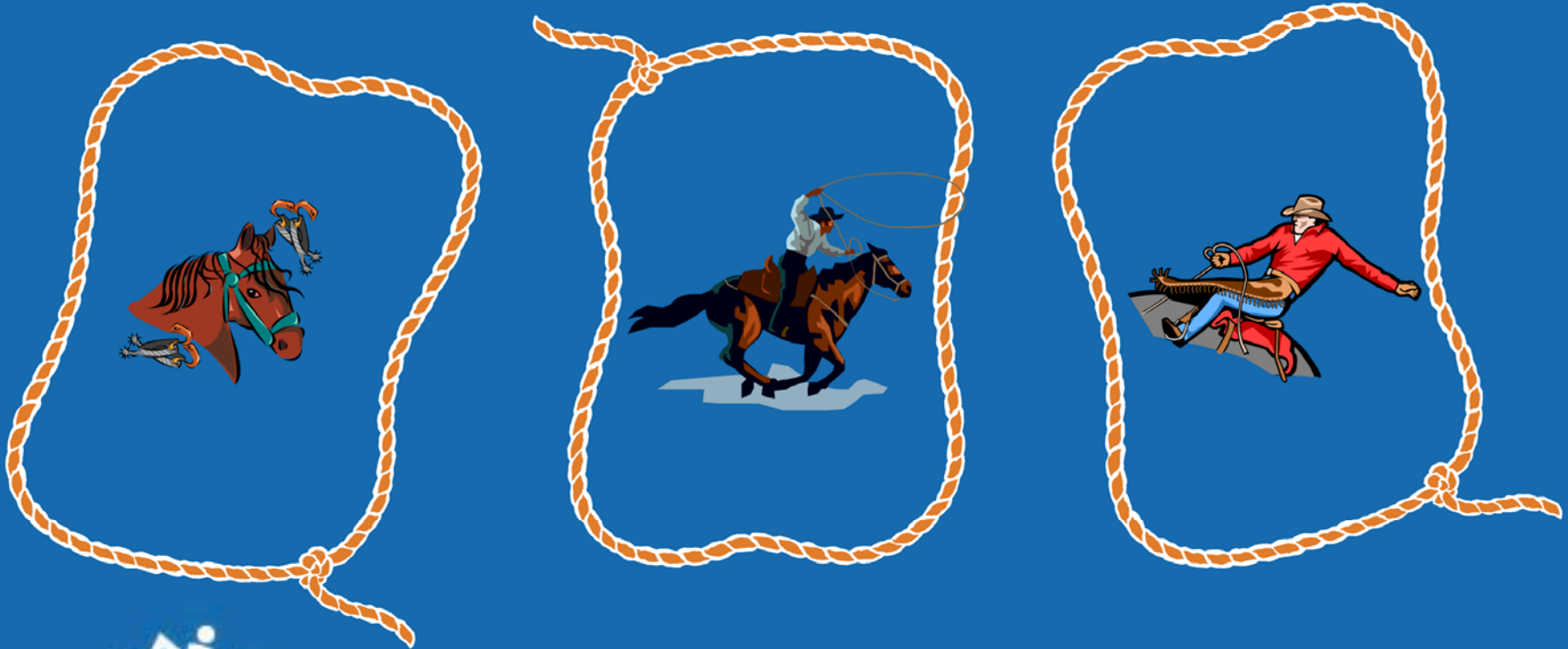
Welcome!

**Washington State Chapter
COMMUNITY
ASSOCIATIONS
INSTITUTE**

*The leading professional organization providing
education, resources, and advocacy
for community association living.*



Budgeting is a 3 Event Rodeo: Let's Round Up Your Budget Information!



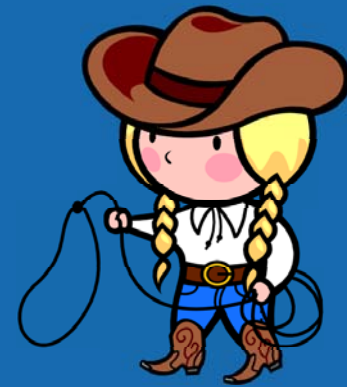
Who we are

- Evelyn Dufford, CPA, CMCA, AMS, PCAM is a Principal of Association Services AAMC, a full-service management company located in Puyallup. Evelyn volunteers as a speaker for WSCAI and has testified for the Legislative Action Committee.



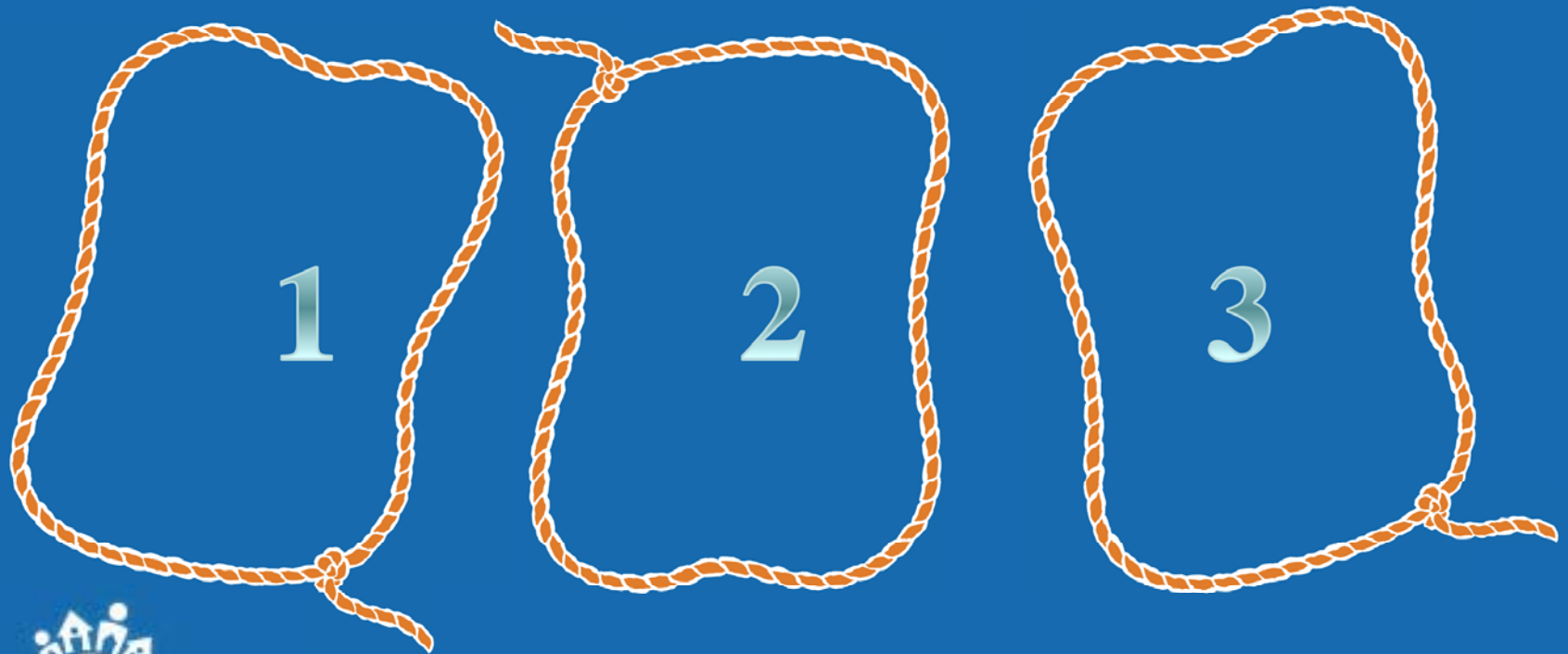
Who we are

- Catherine Kuhn, CPA, manages the Bellevue office of Cagianut & Company, CPA, which is devoted exclusively to serving the financial needs of over 500 Community Associations in Washington. C&C has over 20 years of experience in serving Community Associations.



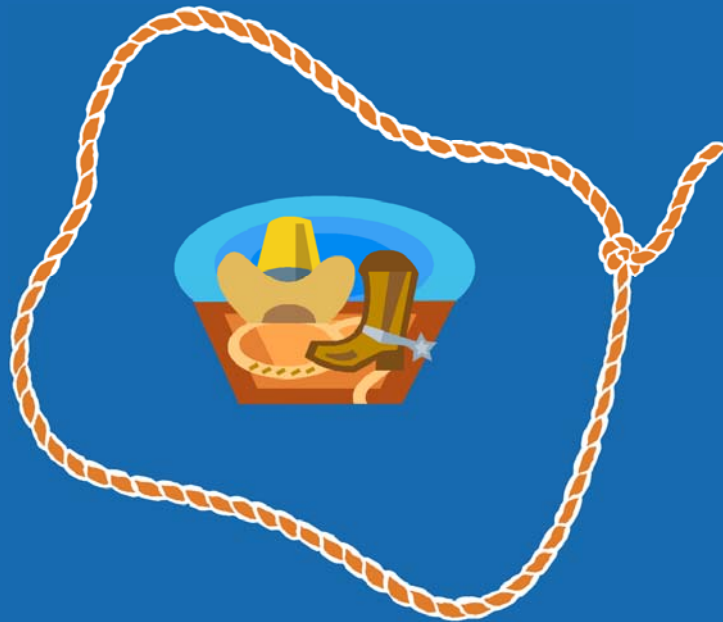
The 3 Events:

1. Budget Process
2. Budget Development
3. Financial Controls/Budget Follow up



In the Main Event:

Budget Presentation & Reserve Study



Format Today:

- General Presentation – 7 sections and brief Q&A after each
- Break 10 minutes
- Questions also at the end
- Cell Phones!



Presentation materials:

- PPT Deck available on Cagianut & Association Services Websites
- Cathy & Evelyn available via email
(See end of this PPT for contact info)
- Articles at your table:
 - July/August WSCAI Journal- Budget & New Reserve Law articles
 - Budget FAQs- more on Cagianut website

Outline:

1. Who You Are? (Cathy)
2. Accounting Basics – Definitions & Concepts (Cathy)
3. Budget Basics - Definitions, Concepts & Responsibility (Evelyn)
4. Budget Process – Timing & Requirements (Evelyn)
5. Budget Development, including use of Reserve Study (Evelyn)
6. Budget Considerations AKA things not “according to plan” (Cathy)
7. Budget Mailing, Presentation, Ratification
(NEW 2012 requirements) (Evelyn)
8. Financial Controls & Budget Follow Up (Cathy)
9. Questions/Discussion



(Section 1) Who you are:

- Old Act Condominiums (created <1990)
- New Act Condominiums (created >1990)
- Mixed Use Condominiums
- Homeowner's Associations
- Planned Unit Development
- Association Managers
- Others (just looking for some fun...)



You: By Total Budget Size:

- \$100K or less
- \$100 to \$250
- \$250 to \$500
- \$500 to \$1MM
- \$1MM to \$2MM
- Over \$2MM



You:

- Have a Sufficient Operating Budget?
- Have Adequate Reserves?
- Have a Positive Cash Position?
- Have Accrual Financial Statements?
(Are confident what these issues are?)
- Have a Management Company?
- Have An Annual Audit?
- Have a current Reserve Study ?



(Section 2)

Accounting Basics

Definitions and Concepts



Accounting Basics

Definitions & Concepts

Just what do “Cash”,
“Accrual”, and
“Fund” mean, anyway?



Definitions & Concepts: Assessments vs. “Dues”

- There are two types of assessments:
 - Periodic assessments
 - Special Assessments
- “Dues” are optional, as in a Country Club, Health Club, etc.
- Membership in a community association is not optional



Definitions & Concepts: Cash Accounting

- Transaction is recorded when cash is affected, either on the revenue or expense side
- Revenues (assessments) are recorded when they are received, expenses are recorded when they are paid
- Balance Sheet reports cash balances.





Definitions & Concepts: Accrual Accounting

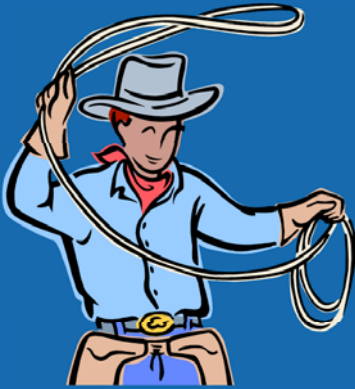
- Transaction is recorded when event occurs, regardless of cash activity.
- Revenues (assessments) are recorded when they are charged, whether they are received or not
- Expenses are recorded when they are incurred, whether they are paid or not
- Balance Sheet reports cash balances, as well as receivables (unpaid assessments) and payables (unpaid obligations).



Definitions & Concepts: Modified Accrual Accounting

- Revenues (assessments) are recorded when they are charged, whether they are received or not
- Expenses are recorded when they are paid
- Balance Sheet reports cash balances, receivables (unpaid assessments) and may indicate larger payables (such as major contracts).





Definitions & Concepts: Fund Accounting

- Records financial activity by fund (operating fund, construction fund, reserve fund, insurance fund, special assessment fund)
- Specific dollars earmarked for specific projects



Definitions & Concepts: Balance Sheet

- Reflects the Association's financial position ***as of a given moment in time*** (usually the last day of the month)
- Reflects "Assets" (actual cash, receivables, and pre-paid expenses)
- Reflects "Liabilities" (pre-paid assessments, cash deposits, and unpaid expenses)
- Shows the year to date and prior year's equity
- Comparable to a "Net Worth" statement for personal records.





Sample Balance Sheet

	Operating	Reserve	Total
Assets			
Total: Cash - Operating	\$34,301.09	\$0.00	\$34,301.09
Total: Cash - Replacement Fund	\$0.00	\$91,830.88	\$91,830.88
Accounts Receivable	\$267.00	\$0.00	\$267.00
Prepaid Insurance	\$4,839.00	\$0.00	\$4,839.00
Prepaid Taxes	\$24.00	\$0.00	\$24.00
Due To/From OP Fund, Loan	\$0.00	\$57,682.51	\$57,682.51
Total: Other Current Assets	\$5,130.00	\$57,682.51	\$62,812.51
	\$39,431.09	\$149,513.39	\$188,944.48
Accounts Payable, Operating	\$13,860.56	\$0.00	\$13,860.56
Prepaid, Assessments	\$2,563.00	\$0.00	\$2,563.00
Due To/From RR Fund, Loan	\$57,682.51	\$0.00	\$57,682.51
Total: Current Liabilities	\$74,106.07	\$0.00	\$74,106.07
Retained Earnings, Operating	\$1,574.05	\$0.00	\$1,574.05
Retained Earnings, Reserves	\$0.00	\$122,643.08	\$122,643.08
Total: Equity	\$1,574.05	\$122,643.08	\$124,217.13
Net Income Gain/Loss	\$0.00	\$26,870.31	\$26,870.31
Net Income Gain/Loss	(\$36,249.03)	\$0.00	(\$36,249.03)
Total: Liabilities & Equity	\$39,431.09	\$149,513.39	\$188,944.48

Definitions & Concepts: Revenue & Expense Statement

- Reflects financial activity over a given period of time, usually a month
- Shows different Revenue & Expense categories
- Expenses typically broken down into several **categories** (utilities & maintenance) and **line items** (water, sewer, landscaping, window washing).





Sample Income Statement

Description	Current Period				Year-to-date				Annual Budget
	Operating	Reserve	Budget	Variance	Operating	Reserve	Budget	Variance	
INCOME									
Total Regular Income	\$ 14,145.00	-	\$ 14,126.60	\$ 18.40	\$99,615.00	-	\$ 98,886.20	\$728.80	\$169,519.20
Total Other Income	\$ 7.94	\$ 84.89	-	\$ 92.83	\$48.62	\$ 716.91	-	\$765.53	-
Total Replacement Fund	-	\$ 3,736.20	\$ 3,736.20	-	\$0.00	\$ 26,153.40	\$ 26,153.40	\$0.00	\$ 44,834.40
TOTAL INCOME	\$ 14,177.94	\$ 3,821.09	\$ 17,862.80	\$ 136.23	\$ 99,838.62	\$ 26,870.31	\$125,039.60	\$ 1,669.33	\$214,353.60
EXPENSE									
Total Administrative	\$ 52.14	-	\$ 17.75	(\$ 34.39)	\$583.61	-	\$ 604.75	\$21.14	\$ 1,101.00
Total Professional Services	\$ 10,908.75	-	\$ 1,000.00	(\$ 9,908.75)	\$46,447.39	-	\$ 9,100.00	(\$37,347.39)	\$ 14,800.00
Total Operations	\$ 2,373.50	-	\$ 2,491.50	\$ 118.00	\$16,614.50	-	\$ 18,640.50	\$2,026.00	\$ 31,098.00
Total Utilities	\$ 3,249.04	-	\$ 4,030.63	\$ 781.59	\$29,332.07	-	\$ 29,101.89	(\$230.18)	\$ 53,657.80
Total Building Maintenance	-	-	-	-	\$5,687.44	-	\$ 1,100.00	(\$4,587.44)	\$ 1,900.00
Total Site / Amenities	-	-	-	-	(\$0.00)	-	\$ 200.00	\$200.00	\$ 200.00
Total Grounds Maintenance	\$ 1,573.38	-	\$ 1,574.00	\$ 0.62	\$11,095.24	-	\$ 11,268.00	\$172.76	\$ 19,188.00
Total Transfers	\$ 3,736.20	-	\$ 3,736.20	-	\$26,153.40	-	\$ 26,153.40	\$0.00	\$ 44,834.40
TOTAL EXPENSE	\$ 21,893.01	-	\$ 12,850.08	(\$ 9,042.93)	\$136,087.65	-	\$ 97,538.54	(\$38,549.11)	\$169,519.20
Revenues in Excess	(\$ 7,715.07)	\$ 3,821.09	\$ 5,012.72	(\$ 8,906.70)	(\$36,249.03)	\$ 26,870.31	\$ 27,501.06	(\$36,879.78)	\$ 44,834.40

This is Budgeting – Why Do We Care About Accruals & Assets?

- The annual budget should be compared to the MONTHLY financial statements
- The MONTHLY financial statements must reflect the budget accurately to be meaningful
- An accurate budget is a great internal control
- An accurate budget is a primary audit tool by the CPA

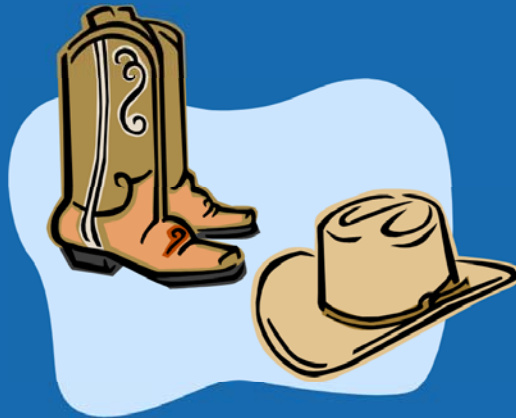


Accounting Basics Definitions & Concepts:

Questions?



(Section 3) : Budget Basics & Responsibilities



What is (and is not) Budgeting?

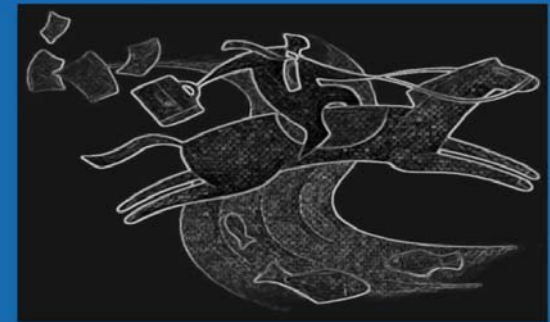
Budgeting:

- IS a system of financial controls
- IS a philosophy of financial management
- IS simple in concept, complicated in execution
- IS worthy of work and attention



What is a budget?

- A budget is a financial plan for an organization— in this case a community association.
- A budget provides an estimate of a community's revenue and expenses for a specified period of time.
- A ratified budget is permission from the membership.





How is a budget used?

- To plan community activities
- For determining owner assessments
- To help Control the community's financial operations
- To help the community maintain it's desired quality of life
- To help minimize the unexpected



Zero-Based Budgets

- Assumes \$0.00 as a starting point for all line items
- Justifies each line item as important to the operation of the Association
- Obtains information from other associations, municipalities, or others in absence of historical data
- Adjusts for inflation, published increases, or contract amounts



Historical Trend Budgets

- Uses the prior expenses of the Association to predict the expenses for the future
- Older Associations have more history, resulting in increasingly accurate budgets
- Takes into account seasonal, annual, and multi-annual variations in expenses
- Adjusts for inflation, published increases, or contract amounts



Annual vs. Monthly budgets

- Annual - With this distribution method you enter an annual total and it is distributed evenly throughout the months.
- Monthly – With this distribution method you enter budget amounts into each individual month and the New Budget total is calculated from these amounts.



Who's Responsible for the Budget?

- The Board of Directors is responsible for the development and approval of the budget.
- The Board has the ability to delegate its responsibility to a Budget Committee, a site manager, or the management company.
- Get people involved – the more eyes the better.
- Develop a broad base of experience.



What is the Manager's Responsibility?



Managers:

- Provide a draft for discussion purposes
- Provide historical data in support of board's efforts
- Provide future projections in support of their efforts
- Provide industry perspective of relative costs
- Support the board in the development of their budget

Board Members:

- Are the primary drivers of the budget process
- Must stay in compliance with the governing documents (timelines, ratification, approvals, etc.)
- Review the draft budget, and consider the information contained within the draft budget
- Honestly look at the future, and evaluate projects, expenses, and reasonable timelines

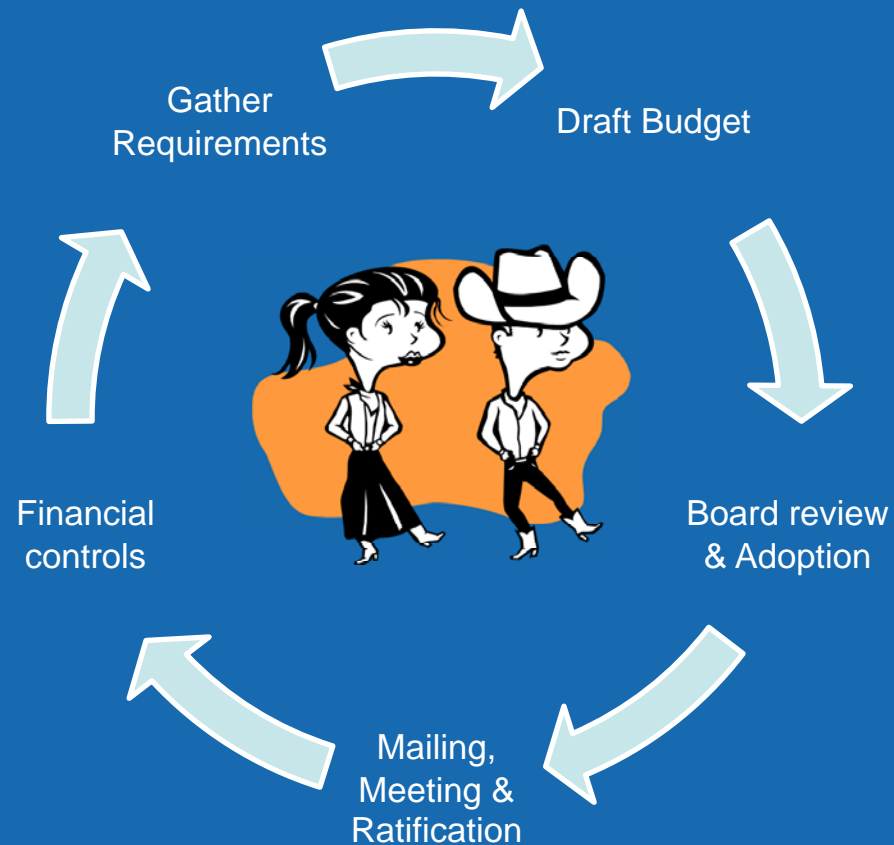


Budget Basics

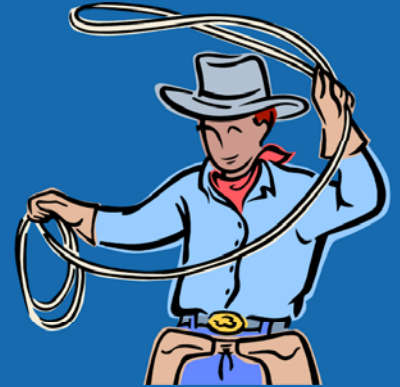
Questions?



(Section 4) : Budget Process



When should we start?



- Start early
- Be mindful of your declaration requirements
- Fiscal year ends may vary
- New act condominiums call for the ratification of the budget, with specific timelines
- Count backwards from the date the budget needs to be approved according to declaration requirements (60 days prior to end of the year)
- Provide owners with sufficient time to adjust their payments.

Sources of Budget Requirements

- Federal laws and regulations
- State statutes, regulations & court decisions
- Local laws and regulations
- The community's governing documents



Lender's Requirements

The review must determine that the budget is adequate:

- Includes allocations/line items to ensure sufficient funding for upkeep of amenities and features unique to the project.
- Provides for the funding of replacement reserves for capital expenditures and deferred maintenance amounting to at least 10 percent of the budget.
- Provides adequate funding for insurance coverage and deductibles.



Association's Governing Documents

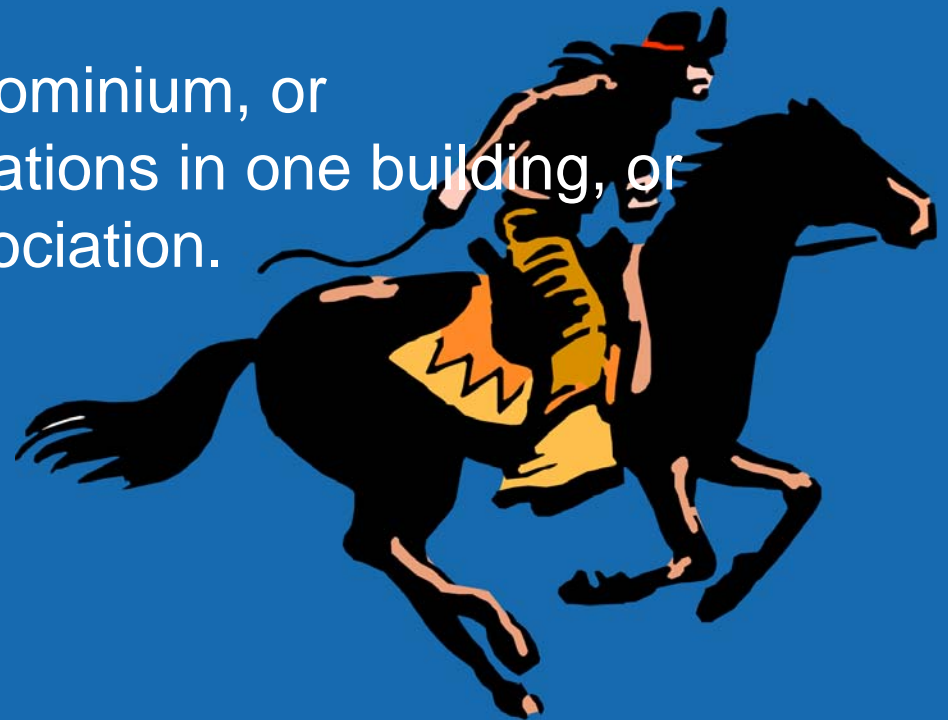
- New Act example - " Not less than 30 days before the end of the fiscal year the Board shall prepare a budget for the Association for the coming year."
- New Act example - "Within sixty (60) days prior to the beginning of each fiscal year, the Board (or Declarant, prior to the appointment or election of the Board) shall estimate the Common Expenses which it anticipates will be incurred during the forthcoming fiscal year, and determine the monthly Assessments and any Special Assessments to be paid during such year."
- Old Act example - "Within thirty (30) days prior to the beginning of each calendar year, the Board of Directors shall estimate the net expenses to be paid during such year."



Mixed Use Associations

Mixed use means a mix of unit types:

- Residential Units
- Commercial Units
- Parking Unit(s)
- All units under one condominium, or
- One or more sub-associations in one building, or
- A master (umbrella) association.



Budget Process & Requirements:

Questions?



(Section 5): Budget Development

	August	Resp	Target	Comments
<input type="checkbox"/>	Preparation of preliminary budget	M		
<input type="checkbox"/>	Solicit bid estimates for projects, contract increases, utility increases, etc.	M		
<input type="checkbox"/>	Send preliminary budget to Board/committee	M		1 week prior to meeting
<input type="checkbox"/>	Review & discussion of preliminary budget	B/C		Board meeting/special meeting
<input type="checkbox"/>	Submit budget revisions to Manager	B		



What are the primary drivers of budget development?

- The Reserve Study
- Current cash position
- Last year's budget performance
- Next year's increases
- Trends from prior year's budget performance



Reserve Study



- Required for Condominiums
- New for 2012: required for HOA's with "significant assets"
- In 2011 the Legislature clarified and expanded the reserve study legislation and changes take effect on January 1, 2012. Which includes new:
 - Reporting and disclosure standards
 - Component requirements
 - Definitions
 - Clarifications on borrowing from Reserves

Reserve Study sample

Table 1: Executive Summary

9999 2010S

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
104 Elevated Decks - Repair/Replace(a)	N/A	0	\$66,300	\$0
104 Elevated Decks - Repair/Replace(b)	N/A	3	\$86,700	\$94,739
105 Elevated Decks - Seal/Repair (a)	5	5	\$13,300	\$15,418
105 Elevated Decks - Seal/Repair (b)	5	8	\$13,300	\$16,848
119 Dock "T" Section - Repair/Replace	25	11	\$82,000	\$113,507
201 Asphalt - Resurface	30	15	\$50,665	\$78,934
202 Asphalt - Seal/Repair	5	0	\$7,240	\$8,393
321 Pole Lights - Replace	30	25	\$5,500	\$11,516
324 Exterior Building Lights - Replace	20	7	\$4,000	\$4,919
325 Interior Lights - Replace	24	16	\$4,320	\$6,932
403 Mailboxes - Replace	24	16	\$4,770	\$7,654
505 Wood Fence (South) - Replace (a)	15	14	\$6,325	\$9,567





Reserve Study

- Key financial planning tool for communities
- Make sure you have a current reserve study for budget development.
- Annual reserve contributions for the operating budget come directly from the reserve study.
- The reserve budget items come directly from the reserve study.





Budget Development

Start with the current year

- Begin by pulling your YTD actual expenses for the current year.
- Review planned projects for the remainder of the year.
- Estimate the remaining income and expenses for the current year.



Budget Development

Start with the current year

- YTD actual + remaining expenses = projected actual balance for the current year and a basis for your next budget.

ABC Condominium Association						
Account	Description	2011 Budget	2011 Actual	2011 Remaining	2011 Projected	2012 Budget
Operating Accounts						
Income Accounts						
Regular Income						
40-4000-00	Assessments, Member	\$169,519.20	\$99,015.00	\$70,633.00	\$169,648.00	\$195,760.98
Income Accounts Total		\$169,519.20	\$99,838.62	\$71,083.00	\$170,921.62	\$196,360.98
Expense Accounts						
Administrative						
50-5030-00	Postage & Mail	\$241.00	\$125.11	\$107.25	\$232.36	\$241.00
50-5035-00	Printing & Reproduction	\$205.00	\$107.70	\$86.00	\$193.70	\$205.00
50-5040-00	Office Supplies & Expenses	\$33.00	\$17.80	\$13.00	\$30.80	\$33.00
50-5060-00	Licenses & Permits	\$10.00	\$12.00	\$0.00	\$12.00	\$10.00
50-5065-00	Dues & Subscriptions	\$280.00	\$279.00	\$0.00	\$279.00	\$280.00
50-5085-00	Education, Board	\$160.00	\$0.00	\$160.00	\$160.00	\$160.00
50-5095-00	Administrative, Other	\$100.00	\$0.00	\$100.00	\$100.00	\$100.00
Professional Services						
52-5200-00	Management Fees	\$13,300.00	\$7,946.00	\$5,354.00	\$13,300.00	\$13,300.00
52-5210-00	Accounting, Audit & Tax Fees	\$200.00	\$200.00	\$0.00	\$200.00	\$2,250.00
52-5215-00	Attorney/Legal Fees	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
52-5220-00	Replacement Study Fees	\$1,300.00	\$1,130.00	\$0.00	\$1,130.00	\$1,130.00

Budget Development

- Start with enough time and the materials and information you need: current financial statements with YTD actuals, cash balances, cash position, paid invoices, projected year end projects, bids & proposals, etc.
- Refer to your budget requirements throughout the development of the draft budget and board review.



Budget Development Category History

- Track enough categories to be meaningful, but not so many that it is confusing.
- Combine similar and small dollar line items.
- Separate base contracts from extras.
- Record actual costs for reserve projects for inclusion in future reserve study updates.
- Consistently book similar expenses to the same GL account each year to create meaningful history by category.

Budget Development

Use of Financial Statements

Refine the Categories

- Revenue
- Administration
- Operations
- Utilities
- Maintenance
- Professional services
- Reserve transfers
- Contingency



Budget Development

Start with history

- Start a draft with the income & expense history
- Update the reserve allocation from the current study
- Request and incorporate planned utility increases
- Understand contractual increases in existing service contracts
- Inquire and include any proposed increases from current vendors for next year



Supplement with Current Info



- Research costs, allocate dollars for any new budget requirements
- Solicit bid estimates for planned projects identified by the board
- Include committee budget requests received
- Estimate collection expenses & bad debt
- Incorporate any prior year surplus / deficit
- Include contingency dollars for the unexpected

The Draft is Complete

What's next?

- Off it goes to the board to review and make the decisions and finalize a proposed budget.



What's next?

- Now the board must reconcile the estimated expenses with your community's anticipated revenue.
- If estimated expenses exceed revenue, the board should weigh discretionary expenses against the impact of any increase in assessments.
- The board needs to decide whether a reduction in expenses is appropriate, increase in user fees or an increase in assessments.



Getting to Zero !

- Increase Assessment
 - Are there increase limits in the documents?
 - 5%, 10%, CPI
- What's the Board's responsibility?
 - By Law description of duty
 - Declaration description of the budget
 - Fiduciary?
- What's the risk?
 - Good Business Judgment Rule – Rely on experts.



Budget Development:

Questions?



(Section 6): Budget Considerations

AKA: Things not “According to Plan”



“In This Economy”



Very over-used, but still very TRUE



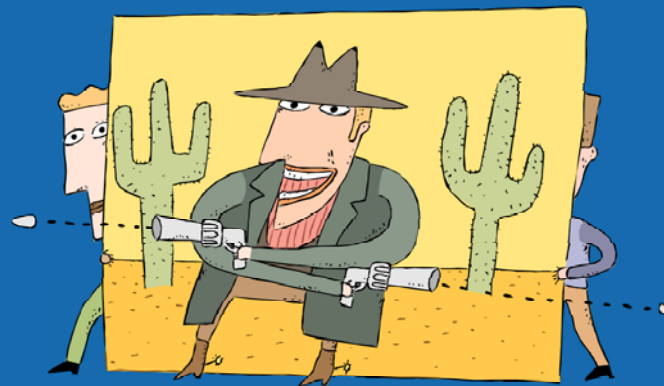
How many of you keep a **PERSONAL** budget?

- Does the personal budget work?
- Some have trouble paying assessments
- Some don't take assessments seriously (ie "dues")



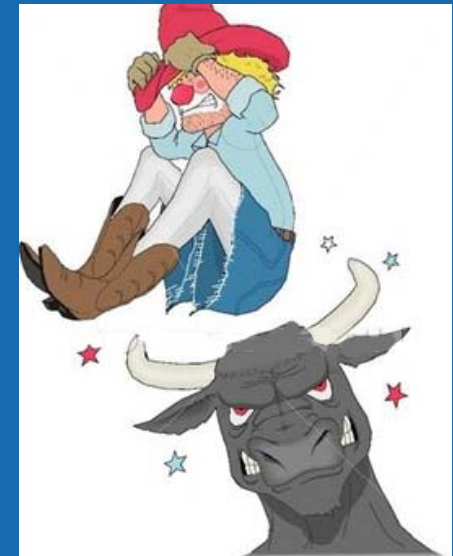
BAD DEBTS!

- Budget for bad debts
- You MAY ultimately collect some/all, but you can't plan on it
- Assume the worst, then be pleasantly surprised



Bad Debt Estimation Methods?

- Percent of Assessments?
- Specific Identification of troubled accounts (% of total)
- Include ALL related costs, even if this can be billed to owner
- Rent the unit? Be careful legally. Budget for it?



Special Assessment?

- Need to focus on the long term to avoid these
- Personal budgeting- SA's likely not in these budgets!
- Paying for past mistakes not popular with current owners – leads to Delinquent SAs



Robbing Peter to Pay Paul: Borrowing from Reserves

- If borrowing occurs, be sure to budget for payback (Condo Act: 2 yr period)
- If payback unrealistic – New Reserve Study that is realistic (then, stick with it!)
- Is NOT funding a BUDGETED reserve allocation the same as “borrowing”??



Operating Cash Position

- Determine the Association's cash position as of the end of the fiscal year
- Operating cash position = short term operating fund assets (cash + receivables) minus short term operating fund liabilities (prepaid assessments + unpaid bills)
- Short term = 90 days or less.
- Reserve cash is *not* included in cash position calculations



Budgeting for Operating Deficits:

- Shortfall in Year 1 does not go away in Year 2 – budget to repay the short fall or it compounds
- “Prior Year Operating Deficit Repayment” – line item



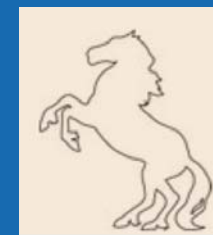
Excess Operating Funds? (carryover)

- Do NOT decrease/refund assessments (in MOST cases)
- Build Up Operating Cash Position (next slide) (Goal is ½ to 3 months of average expenses)
- Separate line item in Budget – “Prior Year CarryOver”
- Offset line item is “Contingencies” (see next topic)



Contingencies (AKA Murphy's Law):

- How many associations have perfect budgets?
- 3-5% of Overall Budget?
- 5- 10% of Variable Costs?
- Depends on Association!
- If unused, builds up the operating cash position to ½ to 3 months expenses



Evaluate Owner Expectations

- “Want” vs “Need”
- Look at the Budget Big Picture -
- 3 line items may account for 50% of the operating budget
- Quality of Life – small items in budget produce satisfaction/community
- Communication is important



“Creating” Income:



- Move In-Move Out – Proper controls needed to ensure all cash rec'd
- Transfer Fees, Late Fees
- Other User Fees?
- Capital Contributions – for other than new communities? (Declaration amendment)
- Involve community – more volunteers, and volunteer cost-savings suggestions



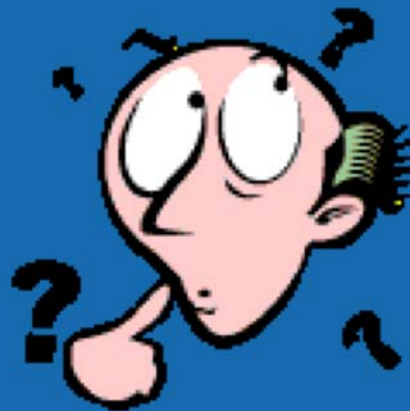
Increase Assessments Each Year!

- Be the BAD GUY (will eventually be the GOOD GUY)



Budget Considerations:

Questions?



(Section 7): Budget mailing, presentation & ratification meeting



Date:
To: ABC Association Owners
From: ABC Association Board of Directors and Trestle Community Management
Subject: Notice of 2012 Budget Confirmation Meeting

A Budget Confirmation Meeting for ABC Association will be held:

date
begin time - end time
Location
Address

The purpose of this meeting is for the Board of Directors to present the proposed budget adopted by the Board of Directors on date. This is the only agenda item for this meeting. Please review the enclosed materials carefully prior to this meeting.

A quorum is not necessary to conduct this meeting. **Budget confirmation is a reverse process.** You must be present in person or by proxy if you wish to vote on the proposed budget. The budget will be approved unless a majority of the votes in the association reject the budget.

RCW COA/HOA Budget Requirements

Within thirty days after adoption of any proposed budget, the board of directors shall provide a summary of the budget to all owners and shall set a date for a meeting of the owners to consider ratification of the budget





RCW COA/HOA Mailing Requirements

- Set a date for the unit owners to consider ratification of the budget not less than 14 nor more than 60 days after mailing.
- Ensure that the mailing is sent on time so that the budget and assessment are not challenged.



New requirements for 2012

- Current budgeted reserve contribution rate
- Recommended contribution from the RS and the funding plan upon which it is based.
- Any additional regular or special assessments scheduled, due date and purpose.
- If current projected reserve balances will be sufficient at the end of each year to meet the association's obligation for major maintenance, repair or replacement of reserve components during the next 30 years.



New requirements for 2012

- If reserve balances are not projected to be sufficient, what additional assessments may be necessary to ensure sufficient funds.
- Estimated amount recommended in reserves at the end of the current year, projected actual and percent funded.
- Estimated amount recommended in reserves at the end of the next five budget years, projected balance each year.
- If funding plan is implemented, the projected balance for the next five years and % funded each year.



Sample Reserve requirements

Recommended contribution

Association: Sample Condominium Association Assoc. #: 9999
2010S
Location: Your Town, USA
of Units: 50
Report Period: January 1, 2012 through December 31, 2012

Results

Projected Starting Reserve Balance:	\$50,000
Fully Funded Reserve Balance:	\$382,845
Average Reserve Deficit (Surplus) Per Unit:.....	\$6,657
Percent Funded:	13.1%
100% Full Funding 2012 Monthly Reserve Contribution:	\$5,850
70% Threshold Monthly Reserve Contribution.....	\$5,200
Baseline Contribution (min. to maintain reserves above zero)	\$4,940



Sample Reserve requirements 5 year funding plan

Table 4: 30-Year Reserve Plan Summary

**9999
2010S**

Fiscal Year Beginning: 01/01/12

Interest: 1.0%

Inflation: 3.0%

Year	Starting Reserve Balance	Fully Funded Balance	Percent Funded	Rating	Annual Reserve Contribs.	Loans or Special Assmts	Interest Income	Projected Reserve Expenses
2012	\$50,000	\$382,845	13.1%	Weak	\$70,200	\$0	\$361	\$98,415
2013	\$22,146	\$347,811	6.4%	Weak	\$72,306	\$0	\$572	\$2,627
2014	\$92,398	\$419,698	22.0%	Weak	\$74,475	\$0	\$1,302	\$0
2015	\$168,175	\$529,952	31.7%	Fair	\$76,709	\$0	\$1,585	\$97,471
2016	\$148,998	\$500,251	29.8%	Weak	\$79,011	\$0	\$1,465	\$85,398



Education Is The Key

- It's a primary responsibility of the Board
- Create a good cover letter
- Explain the process: who & how
- Don't focus too much on the numbers.



Presentation of the Budget

- What information will help owners understand and accept estimates of revenues & expenses?
- How can you present the information in an easy to understand format?
- Focus on something for everyone – numbers, pictures, graphs, words.



Presentation of the Budget Common Mistakes



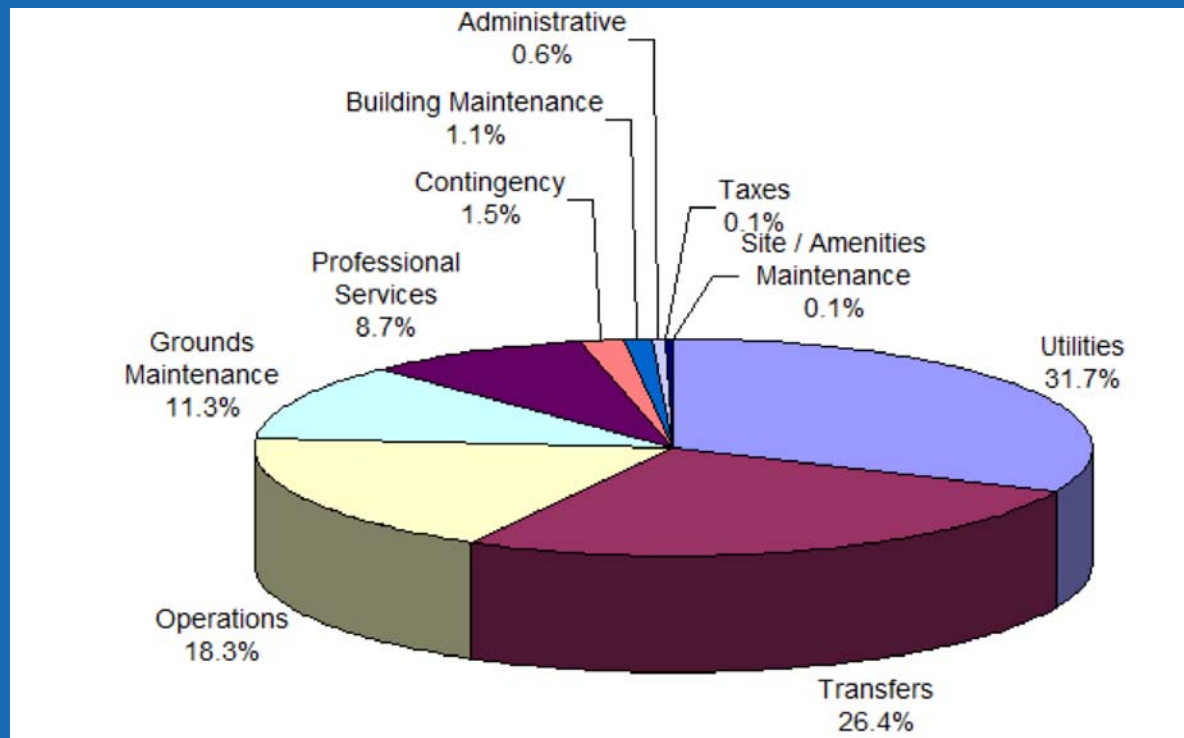
- Neglecting to present information on how estimates were developed.
- Presenting so much explanatory information that owners are overwhelmed and confused.
- Going through the entire budget by line item.

Presentation of the Budget

- Focus on the summary by category, call out changes from last year.
- Sort the summary in descending order, show % of total budget and unit allocation of expense.
- Identify line items owners will be interested in or question.
- Identify comparisons or trends that will help owners understand estimates.
- Tiered presentations – drill down for more details



Sample Budget Summary



Sample Budget Summary

Operating Expenses	Projected Actual	2012 Budget	% of Budget	Cumulative Total	Cumulative %	Monthly/unit (average)	Increase (Decrease)	Comments
Utilities	\$ 51,329	\$ 53,658	31.65%	\$53,658	31.65%	\$93.16	4.54%	based on estimated increases
Transfers	43,110	44,834	26.45%	98,492	58.10%	77.84	4.00%	per board reserve resolution
Operations	29,743	31,098	18.34%	129,590	76.45%	53.99	4.56%	increase in fidelity insurance coverage
Grounds Maintenance	21,030	19,188	11.32%	148,778	87.76%	33.31	-8.76%	decrease in landscape extras
Professional Services	50,626	14,800	8.73%	163,578	96.50%	25.69	-70.77%	no litigation expenses budgeted (loaned from reserves) 2011 expenses est. below
Contingency	0	2,500	1.47%	166,078	97.97%	4.34	#DIV/0!	contingency for additional unexpected expenses
Building Maintenance	1,700	1,900	1.12%	167,978	99.09%	3.30	11.76%	dryer vent cleaning in 2011
Administrative	1,314	1,101	0.65%	169,079	99.74%	1.91	-16.22%	
Taxes	262	240	0.14%	169,319	99.88%	0.42	-8.40%	less interest on reserves
Site / Amenities Maintenance	200	200	0.12%	169,519	100.00%	0.35	0.00%	
Total	\$199,314	\$169,519	100.00%			\$294.30	-15%	2% increase over LY budget \$166,375
Replacement Reserve Expenses	Projected Actual	2011 Budget	% of Budget	Cumulative Total	Cumulative %	Monthly/unit	Increase (Decrease)	Comments
Reserve Loan for litigation expenses	\$34,123	\$25,000	100.00%	\$25,000	100.00%	43.40	-26.74%	Loan from reserves for litigation expenses (est. only)
Total	\$34,123	\$25,000	0.00%			\$0.00		





Passing the Budget

- The Board is in charge
- Protecting the association and planning for the future is the goal
- Use facts and a professional opinion
- Understand and believe in the numbers
- Sell the final product
- Live within your budget.



Passing the Budget

- The Board has the authority and responsibility
- Most old-act condominiums (<1990) do not require a meeting or vote
- New-act condominiums (>1990) require a ratification, but not an affirmative vote



Budget Ratification /Confirmation

- Negative ratification process
- No quorum or proxy requirement for meeting
- Unless at that meeting the owners of units to which a majority of the votes are allocated or any larger percentage specified reject the budget the budget is ratified whether or not a quorum is present.



Budget mailing, presentation & ratification meeting :

Questions?



(Section 8): Financial Controls & Budget follow-up

- Budget comparison is a strong internal control
- Monthly budgets need to be meaningful



Financial Controls & Budget follow-up

- Don't change the budget mid year!
- Budget is only an estimate and a tool
- BOD may need to spend more in one category and less in another as situation warrants
- Exception – Supplemental Budget such as SA



Board Responsibility:

- Read the financial statements!
 - Balance Sheet
 - Income Statement with Budget Comparisons
- Bank statements and reconciliations – ENTIRE Board
- Check Register
- Accounts Receivable Delinquencies
- Ask Questions!



Compare the Reserve Study to the Budget

- Budgeted allocations being made?
- Borrowing from Reserves?
- Look for a “Due to/From” Reserves on the Balance Sheet – s/b disclosed if not apparent from the financials



Reserves – Financial Controls:

- Two Board members authorize all disbursements
- Bank Statements and Reconciliations – Board Review
- Various banking institutions - \$250K FDIC
- Low risk investments – protect principal



Minutes: A Financial Control

Minutes are reviewed in the audit process, and should record:

- All material, non-budgeted financial transactions
- Decisions concerning assessment increases, special assessments, and charges not included in op budget
- Decisions by Board to delay periodic transfers to the reserve account
- Borrowings from reserves
- Approval of all reserve expenses



Audits: What They Do Accomplish

- Provides compliance with the Condominium Act, 64.34 for condominiums, 64.38 for HOAs
- Provides an opinion on the financial statements as a whole
- Provides **reasonable** assurance that the statements are free of **material** misstatements
- Provide an overview and understanding of the association's financial controls
- Provide audit adjustments (if requested or necessary).



Audits:

What They Don't Accomplish

- Provide bookkeeping for the Association
- Provide a reconciliation of bank statements
- Provide for discovery of immaterial misstatements
- May not detect theft, fraud, or intentional acts unless specifically engaged for that purpose.





Audits: Do We Have To Have One?

HPR 64.32.170 (Old Act Condominiums):

“...All books and records shall be kept in accordance with good accounting procedures and be audited at least once a year by an auditor outside of the organization.

Audits: Do We Have To Have One?

WCA 64.31.372 (New Act Condominiums):

“...At least annually, the association shall prepare...a financial statement of the association in accordance with (GAAP). The financial statements of condominiums consisting of fifty or more units shall be audited at least annually... In the case of a condominium consisting of fewer than fifty units, an annual audit is also required but may be waived annually by unit owners to which sixty percent of the votes are allocated...”



Audits: Do We Have To Have One?

HOA Act 64.38.045 (Homeowner's Associations):

“...The financial statements of associations with annual assessments of fifty thousand dollars or more shall be audited at least annually by an independent certified public accountant, but the audit may be waived if sixty-seven percent of the votes cast by owners....vote each year to waive the audit.

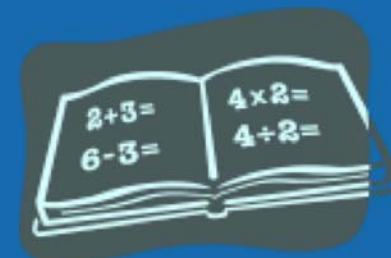


Financial controls & Budget follow-up:

Questions?

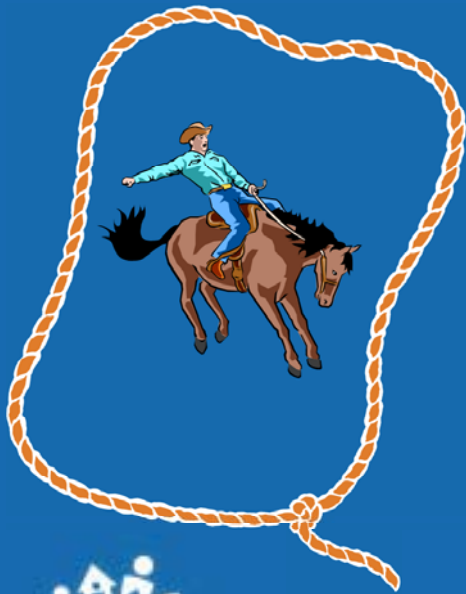


Summary



3 Events:

1. Budget Process
2. Budget Development
3. Financial Controls / Budget Follow up



MAIN Event:

Budget Presentation & Reserve Study



Summary

- Accounting Basics - Methods, Funds & Financials
- Budget Basics - Definitions, Concepts, and Responsibility
- Budget Process - Timing & Requirements
- Budget Development, including use of Reserve Study
- Budget Considerations AKA things not “according to plan”
- Budget Mailing, Presentation, & Ratification
- Financial Controls & Budget Follow Up

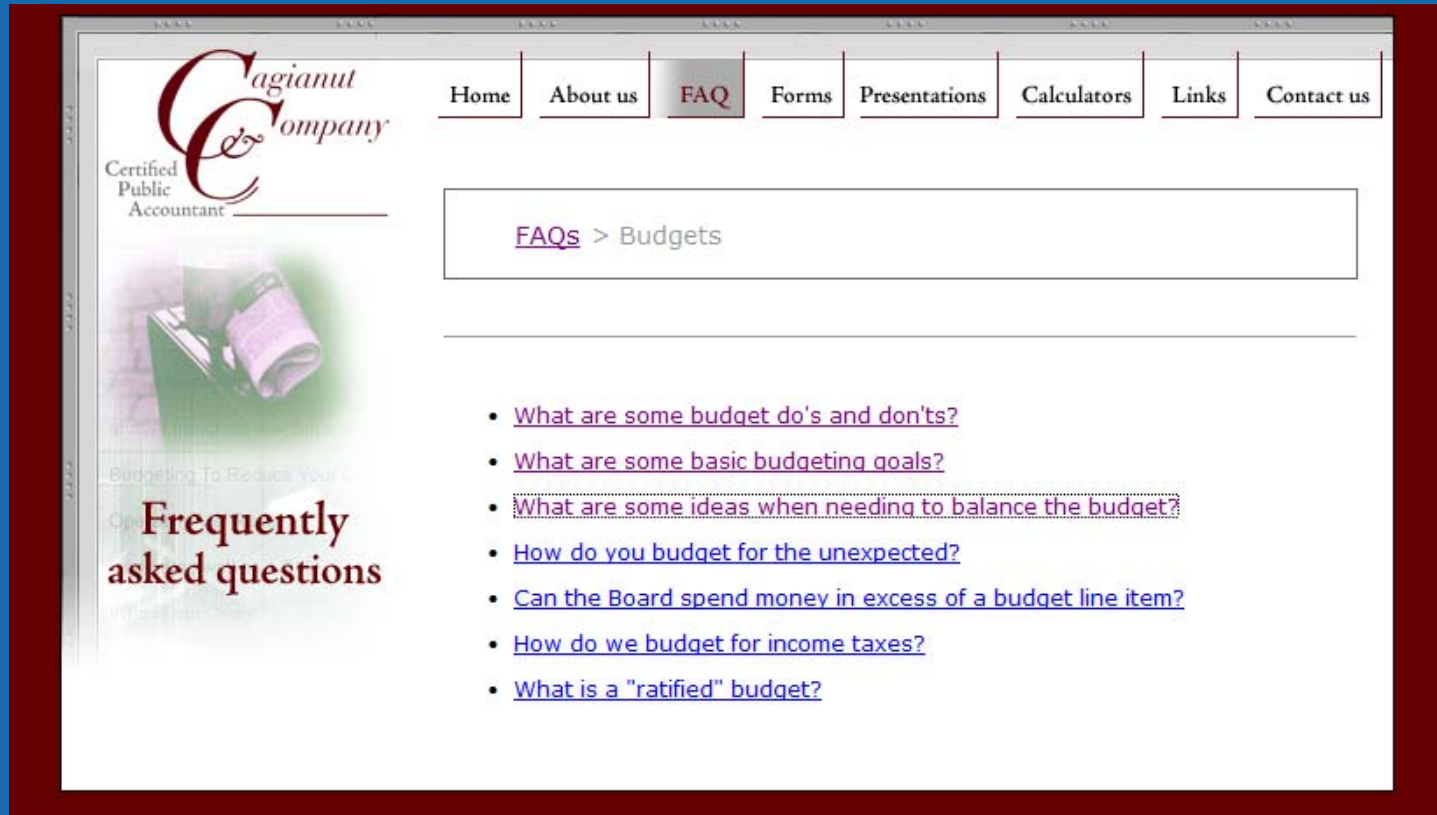


The Future is Now!

2012 requirements now in effect

HAPPY NEW YEAR

Cagianut & Company Budget FAQ's



The screenshot shows the Cagianut & Company website. The header includes the company logo (Cagianut & Company, Certified Public Accountant) and a navigation menu with links: Home, About us, **FAQ**, Forms, Presentations, Calculators, Links, and Contact us. Below the navigation menu, there is a breadcrumb trail: [FAQs](#) > Budgets. On the left side, there is a graphic with the text "Frequently asked questions" and "Budgeting To Reduce Your Costs". On the right side, there is a list of seven budget-related questions, each with a blue underlined link.

Cagianut & Company
Certified Public Accountant

[Home](#) [About us](#) [FAQ](#) [Forms](#) [Presentations](#) [Calculators](#) [Links](#) [Contact us](#)

[FAQs](#) > Budgets

- [What are some budget do's and don'ts?](#)
- [What are some basic budgeting goals?](#)
- [What are some ideas when needing to balance the budget?](#)
- [How do you budget for the unexpected?](#)
- [Can the Board spend money in excess of a budget line item?](#)
- [How do we budget for income taxes?](#)
- [What is a "ratified" budget?](#)

PPT Presentation:

- www.hoacpa.com



- www.AssociationServicesWA.com



Questions ?



Thank you!

- Cathy Kuhn – Cathy@hoacpa.com
- Evelyn Dufford – EvelynD@AssociationServicesWA.com

CAI and the Washington State Chapter of CAI

Working Together to Serve You

Locally and Nationally

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