Certified Public Accountant

Get Ready… It's Budget Time!

By Gayle Cagianut

It's budget time…get out the calculators, put on your "money" hat, and get ready for hours of frustrating number crunching. Right? Is that how your Association approaches the budget process each year? It is a necessary, but tiresome task and the most important rules are 1) that the budget balance and 2) that the assessments not be raised (or raised very minimally). Is this your concept of the budget process?

Stop! Before even entering into the numbers portion of the budget process, some overall budget goals need to be discussed. The budget is an important financial tool, but it is also a way to communicate with the members of the Association. It is a way to look forward while reviewing the past. It is a means to evaluate the obligations, needs and expectations of the Association to its members. It is much more than just columns of numbers!

This article will explore four basic budgeting goals:

1. To protect, maintain and enhance the value of the Association.
2. To determine and maintain a particular standard of living and/or lifestyle
3. To encourage a sense of community.
4. To use the least amount of resources to obtain maximum benefits.

Protect, Maintain, and Enhance the Value of the Association
For many unit owners in community associations, their ownership interest is one of their largest, if not THE largest, investment they have. Thus, it should be important for those owners to protect, maintain and even enhance the value of their unit. But, this applies whether it is a primary or secondary residence, a rental unit, or a vacation home. It applies regardless of their income status.

The budget process needs to start with this consideration. Look around the complex. What needs to be done to protect, maintain, and, possibly, enhance the value? It may be necessary repairs or replacements, other times it may be enhanced services such as longer guardhouse hours or lifeguards in the pool area, or it may be eliminating outdated and outmoded decorations or equipment. With this is mind, the budget process also must look to future owners as well as current owners, and to potential owners. It may seem reasonable to spend as little money possible today to patch a roof, but in the long run if the expense will end up costing more, if it affects the overall value of the property, and may cause damage to units in the future, then the budget needs to consider the future, as well as current, costs.

Once a decision is made based upon this consideration, then communicate to the members why an expense has been authorized in the upcoming year. Explain the fact that the budget will protect, maintain and , possibly, enhance, their property values. Possibly, an explanation of the justification may make an assessment increase easier to accept if there is a corresponding value offset to the unit owner.

Determine and Maintain a Particular Standard of Living and/or Lifestyle
Every Association has its own personality. There are reasons that unit owners chose to purchase in that particular community. And within a community people purchase units in a community association for a variety of reasons. There is no one reason or one personality in an Association. But, overall, a general sense of lifestyle or standard of living for the majority of the unit owners generally makes itself apparent. Those involved in the budget process need to strive to understand that. It is also important that the "few" does not dominate the community as a whole.

An example of two Associations follows. Association 1 was built and sold as "close to golf courses". A putting green was included in the common areas and the streets were even named with golfing terms. The majority of the unit owners were golfers, so monies were expended in various means to promote this form of recreation. It would seem reasonable that the budget would be drawn up considering these items. Association 2 was not built as a "golfing community". However, four of the five board members were avid golfers. They decided that the tot lot should be torn out to put in a putting green. They were not looking after the lifestyle of the majority of the unit owners.

Standards of living and lifestyles directly affect the budget process. The budget preparer needs to be acutely aware of what is expected from the unit owners. A high rise luxury condominium building in a large city has vastly different lifestyle expectations than a low-income housing development in that same city. Other associations may attract more young families, working partners, retired individuals, etc.

Take time before the budget process begins to ensure that there is an understanding of the expectations of the members. This may require surveys, townhall meetings, one on one discussions, or posted web-site inquiries. Lack of understanding of the needs and expectations of the members with regards to their perceived standards of living or lifestyles may result in budget choices which are not in agreement with the community. Once again, everyone cannot be pleased at all times, but the overall sense can be obtained.

Encourage a Sense of Community
CAI has found that associations are finally realizing that they have a responsibility to promote community within their associations. In the budget process, this becomes important in two ways.

1. If particular interest groups, especially those in the minority, have control over the budget process and are able to have their personal agenda items funded by the members assessments, this may cause divisiveness and destroy a sense of community. The community at large needs to feel that their overall best interests are being met in the budget process.
2. The Association should consider budget line items which specifically promote a sense of community. Depending on the community, this may be as simple as a newsletter or a community bulletin board, or may be an annual barbecue or similar social event. It also could be budgeting for "welcome packets" for new owners, or front yard signs announcing new babies or special events. The possibilities are endless.

   If a budget is approached in the manner of the lowest dollars to be expended, items promoting community or encouraging activities which benefit the most unit owners may seem to be unnecessary or even frivolous. But, if the budget preparers step back and see the bigger picture and consider the benefits as compared the costs, using the budget to encourage a sense of community is very worthwhile in most cases.

Use the Least Amount of Resources to Obtain Maximum Benefits

This is probably the best understood purpose of the budget, but it is still not fully utilized. Often this is interpreted as the “cheapest is the best”. This is not always the case. Consider the various “resources”. Not only is money a resource, but time is also a resource. It may be cheaper to hire an employee for minimum wage to paint the clubhouse. However, who is going to interview the person, ensure that the proper tax and insurance procedures are followed, supervise the job and control the expenses. If this is left to the volunteer board members, their time must be considered in the process. Also, future resources must be considered as well as current resources. If there is higher risk involved which could incur additional time or money in the future, then it may be better to use more of the Associations’ resources NOW to avoid potential problems later.

Then the benefits need to be seriously considered. In the paint example, if the surface is not properly prepared, if the correct paint is not purchased and if the application is not correctly done, then the resulting benefit may not be what the Association expects. This is also true of services. If you hire a professional, but do not receive quality results, useful information or cannot communicate with the person, the benefits are not maximized.

There must be value received in the transaction. That value may be in reduced time or effort on the board’s part, increased assurance as to quality and/or completeness, or compliance with regulatory or government regulations as well as viable warranties, visual satisfaction or usefulness of the product, just to name a few. So, do not be swayed just by the “numbers”.

So, do you still feel that the budget process is still just a mind-numbing, numbers crunching event? Hopefully, before you begin the next budget process your association will step back and look at the overall goal of the budget. Consider the importance of those budget decisions in the community as a whole and use the budget to define the future of the Association.

Why and how should we budget for bad debts?

By Gayle Cagianut

There needs to be an understanding for the reason to include bad debt expense in the budget. Assessment income in the annual budget assumes that all monies will be collected. Thus, if there are 100 units paying $250 per month for twelve months the assessment income on the budget will be $300,000 (100 x $250 x12). However, the reality is that not all unit owners will pay their assessments and all assessment income will not be collected.

Thus, budgeted assessment income needs to be reduced for the amount that potentially will not be collected. This is done through a budget expense line item titled "Bad Debt Expense".

How does a manager and/or Board determine how much to budget for bad debt expense? This is a very subjective process and varies from association to association and from year to year. Here are a few suggestions to consider:

- Look to the prior years. Is there an average amount that seems to be written off each year? While this is not typical for most associations in some cases you can use bad debt write-off history to base the current year's estimation.
- Look to local averages. Is there a percentage that seems reasonable based on other associations in the area? Again, this is not useful for most associations; however, it may give an estimate when other methods fail. Depending on the facts and circumstances in a particular association 3-5% of annual assessment income seems to be the suggested minimum.
- Look to the actual past due unit owner balances. What amounts appear to be reasonably collectable? This is the most accurate prediction to use. This takes more effort to research the current collection status of the most delinquent unit owners and to estimate the amount that can reasonably be collected by the association. List out the delinquent account balances. Then consider basing the bad debt estimate on one of these two methods:
  - Estimate actual dollar amounts to be written off by unit owner account.
  - Estimate percentages by unit owner account using the following:
    Fully collectible = 0% bad debt;
    potentially uncollectible 50% bad debt;
    very unlikely to be collected = 100% bad debt

  Reminder – for condominiums it may be possible that the association will collect six months of assessments. The bad debt estimate can be reduced by this amount.

During the upcoming year as unit owner accounts are either written off the books or an allowance for bad debts is set up once collection becomes questionable, the expense will be recorded to "bad debt expense". Like any other expense line item the Board can monitor throughout the year the accuracy of their estimation as they compare the budgeted bad debt expense with the actual bad debt expense shown on the financial statements.

Budgeting for bad debt expense can be difficult. However, without a budget line item for these monies that may not be collected, the association could find itself in a cash shortfall in the upcoming year. It is recommended that the estimate be conservative – that is, estimate more bad debt rather than less. If the association collects more money than expected this can be adjusted in the following year's budget or used for other budget line items that fall short.

Cagianut & Company
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How do you budget for the unexpected?

By Gayle Cagianut

There are generally two main ways that Associations budget for the unexpected.

Set Up a Contingency Account

The first way is to actually set up a category called contingency or some similar term. What the amount of that contingency is may depend on the circumstances of your Association. California Department of Real Estate sets the amount at 3 - 5% of the gross assessments. CAI - National recommends a minimum of 2 - 5% of the annual assessments with 10 - 15% being very good. If the funds are not used in the current year, they can be accumulated in retained earning (excess operating funds/members equity) for future years.

Include Contingencies Within Each Component of the Budget

The second way to plan for the unexpected is to include contingencies within each component of the budget. For example, if the Association feels that $100,000 is needed in Landscape Expenses for the upcoming year, they may budget $105,000 (or add in a 5% contingency factor). This then is done for most, if not all, of the categories.

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Association Budgeting in "Tough Economic Times"

Gayle Cagianut, CPA

Every person should have a budget . . . and few do. A budget helps smooth out the ups and downs of short term and long term financial goals. However, we, as individuals, have options when financial upheavals strike—options such as taking on another job, changing our lifestyle, increasing credit card debt or even walking away from financial obligations through bankruptcy and foreclosure. Most of these options are not available to an Association.

Associations are communities of individuals who are pooling their financial resources to protect their real estate investment, maintain a lifestyle and share maintenance and other obligations. These are the same individuals that may not have a budget in their own life. Thus, when it comes to preparing a budget for their Association it is a difficult process. Unlike individuals or government entities, there is not a lot of credit out there for an Association. It is often difficult to borrow money. The Association cannot walk away from its debt by filing bankruptcy. Thus, the Association is left finding ways to pay bills and keep the place maintained. Here are five budget suggestions in what is often termed (and albeit the oft overused phre) "tough economic times":

1. Don't expect to collect all budgeted assessments (and associated costs)

The reality is that most Associations will encounter bad debt write-offs. The budget must reflect the fact that some of the unit owners won't pay their assessments. Because the banks will not quickly foreclose on the units there may be a long period of time where the association does not receive assessments. How to estimate the amount to budget for noncollection of assessments is very subjective and specific to each situation—but it is important not to underestimate this amount. It is better to assume the worst and then collect more than what you expected.

Along with the bad debt budget line item there needs to be consideration for payment of collection measures on those past due assessments. While the costs can be passed along to the unit owner, if the unit owner ends up walking away from the unit, the Association may not collect the monies they expended trying to get the unit owner to pay. However, the Association must have a collection policy and uniformly enact it. It also may be necessary at times to force a foreclosure to get the unit back and get someone in that will pay rent or will purchase the unit and pay assessments. The Board must understand that a portion of their bad debt allowance must include not only the assessment that isn't collected but the unreimbursed legal costs that are expended to try and collect that debt.

2. Focus on long-term as well as short term

The Board is charged with protecting, maintaining and enhancing the assets of the association. The decisions made today affect future as well as current owners. If the decision is made not to maintain the buildings or not to set aside monies for future major repairs and replacement of common area components, the value of the investment may decrease and the costs will be born disproportionately by future owners.

Lack of focus on longer term goals often means that a special assessment is needed. Special assessments are not popular in that future owners are generally paying for past mistakes and that is not well received by those owners. Plus, special assessments make it difficult for the owner to budget for that expense personally. When they purchased the unit in the Association they were aware of the monthly obligation and they should have been aware that it would go up as inflation occurred. But, a large one-time assessment (even with a payment plan option) was not in their budget and may considerably impact on their financial situation adversely.

All too often the Board wants to stop funding reserves or borrow from reserves (with no realistic payback). That is not a good answer. The deterioration of the common areas will continue. Instead, this is the time to have a reserve study and come up with a realistic reserve funding plan. With the advice of the reserve professional in collaboration with the Board and management, a plan may be developed that will adequately fund reserves with the minimal amount of monthly obligation. But, once that plan is determined the Association needs to fund that plan. Funding reserves (the replacement fund) is an important obligation of the Association.

3. Have a plan when there is a deficit

The Association is an ongoing entity that doesn't operate in the vacuum of just the current year. Thus, when the Board works on the budget they need to look to the past as well as the future.

If there was a shortfall last year and there was no contingency fund, the Board needs to budget for that shortfall in the current year's budget. It will not go away on its own. One recommendation is to include a budget line item—Prior Year Operating Deficit. This makes the issue very visible.

Alternately, if the Association is lucky enough to have an operating fund that has built up during the past years, then a current year budget could include usage of some of that prior year excess. But, be sure that it is not all used up in one year and that there still remains a balance for future years. Most recommendations are one-half to three months of operating expenses as a balance in the operating fund for contingencies.

4. Evaluate expectations

Possibly there are previous expectations that can be reduced when money is tight. There may be large projects that were deemed important in prior years that can be delayed until a future year. There may be nonessential services that can be reduced without a large impact on the unit owners or with the agreement of the unit owners.

However, if the unit owners bought into the Association because of certain features—24 hour concierge service, gated and patrolled community, clubhouse amenities – the Board needs to evaluate those expectations and not eliminate them if quality of life would be adversely affected. Determining expectations may be a difficult process and not everyone's expectations are the same. This requires good communication skills and an understanding of the community.

CAUTION - eliminating a budget line item that reduces the budget a minuscule amount while not meeting unit owners expectations may be counterproductive to developing a community where people want to live. So, carefully evaluate the *benefit* of the reduction to the cost of the reduced expectation.

5. Operate with a business-like attitude

Operate the Association as a business. Take the time necessary to really review and understand the financial statements of the Association. Learn from historical financial statements as to where the monies come from and where they are spent. The Board should ask questions if they do not understand. Financial matters are a vital part of running this business.

The Board is not expected to know everything about running the Association. Thus, as with any business owner, they should bring in professionals to assist and advise them. This is never more true than in the budgeting process. There may be cost saving tools out there of which the Board is unaware. The most amount of time should be spent on the largest dollar items on the budget. Get input from those vendors or companies about how to save money without sacrificing service or product quality.

Ultimately, the Board must determine the correct assessment that it takes to operate the Association. This is not the assessment amount that will make them popular with the current group of unit owners. This is the amount that it takes to meet the Association's obligations as well as the needs and expectations of the majority of the unit owners. The Board needs to make the decision to increase assessments and/or decrease costs as needed. The Board needs to be willing to be tough in order to ensure the Association's financial well-being in these "tough economic times."

RESERVE ACCOUNT LAW – WHAT'S CHANGED?

by Jim Talaga, RS
President
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June 2011

www.reservestudy.com

Effective January 1st, 2012 Condominiums will have expanded reporting standards required within Washington Reserve Study/account law. Homeowners Associations with "significant assets" will be required to perform and disclose Reserve Studies in a similar manner as condominium associations.

Full text of House Bill 1309 can be found here: http://apps.leg.wa.gov/billinfo/ by entering 1309 into the search box. The bill passed 98 – 1 in the House, 48 – 1 in the Senate and was signed into law by Governor Gregoire on April 29th, 2011.

New reporting & disclosure standards (paraphrased – to be codified within RCW 64.34.308).

- In addition to disclosing within resale certificates and Public Offering Statements, specific information from the Reserve Study must be provided to all owners as part of the summary of the annual budget
- Current budgeted reserve contribution rate, recommended contribution rate from the Reserve Study and the funding plan upon which it is based. Any additional regular or special assessments scheduled to be imposed, date they are due and the purpose of the assessment
- Based on the most recent Reserve Study and other information, whether currently projected reserve account balances will be sufficient at the end of each year to meet the association's projected obligation for major maintenance, repair or replacement of reserve components during the next thirty years

- If reserve account balances are not projected to be sufficient, what additional assessments may be necessary to ensure sufficient funds

- The estimated amount recommended in the reserve account(s) at the end of the current fiscal year based on the most recent Reserve Study, the projected actual account cash balance at the end of the current fiscal year and the Percent Funded at the date of the last Reserve Study. • The estimated amount recommended in the reserve account based upon the most recent Reserve Study at the end of the next five budget years, the projected account cash balance in each of those years; and if the funding plan approved by the association is implemented, the projected reserve account(s) cash balance in each of the next five budget years and the percent funded for each of those years. *N**ote: This will require additional calculations from the Reserve Study provider or other if the association chooses a reserve contribution rate different than recommended within the study. All of the other requirements above can already be found in a Reserve Study prepared in accordance with CAI's National Reserve Study Standards.*** *****

Reserve Study Must Include (paraphrased – to be codified within RCW 64.34.380)

- A reserve component list, including: roofing, painting, paving, decks, siding, plumbing, windows, and any other reserve component that would cost more than one percent of the annual budget for major maintenance, repair or replacement. ***If any of these components is not included in the Reserve Study, the study should provide commentary explaining the basis for its exclusion.***
- A recommended reserve account contribution rate, a contribution rate for a Full Funding plan to achieve **one hundred percent** Fully Funded reserves by the end of the thirty-year study period, a Baseline Funding plan to maintain the **reserve balance above zero** throughout the thirty year study period without special assessments.

New Definitions (paraphrased – to be codified within RCW 64.34.020)

- Baseline Funding plan means establishing a reserve funding goal of maintaining a reserve account **balance above zero dollars** throughout the thirty-year study period.
- Full Funding plan means setting a reserve funding goal of achieving **one hundred percent** Fully Funded reserves **by the end o**f the thirty-year study period.
- Significant Assets within <u>Condominium Associations</u> means that the current total cost of major maintenance repair and replacement of the reserve components is **fifty percent** or more of the gross budget of the association, excluding the budgeted reserve contribution. The criteria for significant assets within <u>Homeowners Associations</u> is the current total cost of major maintenance, repair and replacement of the reserve components is s**eventy-five percent** or more of the gross budget, excluding the budgeted reserve contribution.

Borrowing from Reserves (paraphrased – to be codified within RCW 64.34.384)

- An association may withdraw funds from its reserve account to pay for unforeseen or unbudgeted costs that are unrelated to maintenance, repair or replacement of the reserve components. See RCW 64.34.384 for specific notification requirements.
- Payment for major maintenance, repair or replacement of the Reserve Components out of cycle with the Reserve Study projections or not included in the Reserve Study may be made from the reserve account without meeting the notification or repayment requirements under this section.

Homeowners Associations

The requirement to perform and disclose Reserve Studies for Homeowners Associations with significant assets is very similar to the requirements of condominiums with some notable exceptions as listed below. The full text can be found using the link at the beginning of this article.

Key differences between HOA and Condominium requirements (paraphrased – to be codified within RCW 64.38)

- Significant assets means that the current replacement value of the major reserve components is **seventy-five percent** or more of the gross budget of the association, excluding the budgeted reserve contribution.
- Reserve component means a common element whose cost of maintenance, repair or replacement is infrequent, significant, and impractical to include in an annual budget. ***HOA law will not specifically require roofing, painting, paving, decks, siding, plumbing, windows to be included as these components are not found in many HOA's.***
- An association is not required to follow the Reserve Study requirements if the cost of the Reserve Study exceeds **five percent** (10% for Condos) of the association's annual budget, the association does not have significant assets, or there are ten or fewer homes in the association.

How these changes are likely to affect owners and industry professionals

First, don't panic; the other associations in your market area have the same requirements. The law goes into effect in 2012, allowing time to understand and implement the resulting changes. Reserve disclosure requirements level the playing field and ultimately reward associations for their financial stewardship, not necessarily for having the lowest assessments around. Ultimately the community will benefit in many ways from having a solid financial plan and buyers being able to make informed decisions, choosing a property that is within their financial means.

The new requirement of Reserve Study information to be disclosed, along with the summary of the budget, dictates that more information will be needed by your governing document's budget delivery deadlines. Studies therefore should be performed well in advance, earlier in the year than many have typically performed in the past. Most studies take 6 to 8 weeks to complete and this new deadline is likely to increase this time frame during seasonal demand for Reserve Study providers.

Reserve Study providers should work closely with the association to discuss their recommendations and options in light of the requirement for associations to show reserve cash flow projections for the next five budget years, if a reserve contribution rate other than recommended in their study has been chosen.

Association Reserves is in position to help associations through this transition period and provide effective budget and disclosure information as the association's planning partner, providing solid, reliable guidance based upon CAI's National Reserve Study Standards, adopted in 1998.***

While there remains no funding mandate within the law, requirements for the association to maintain "adequate" or "sufficient" reserves can be found within many Declarations. The keys to success remain communication, disclosure and strong leadership.

*** http://www.reservestudy.com/pdf/NRSS.pdf

CAN I PAY FOR THIS FROM RESERVES?

by Robert M. Nordlund, PE, RS
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Association Reserves, Inc.

August 2016

www.reservestudy.com

Can we spend our Reserve Funds on this project? This is common question raised by Boardmembers and Manager of condos, HOAs and other forms of association governed communities.

When a Boardmember or Manager is confronted with an unexpected repair or replacement they think should be considered a Reserve expense, the Component List in the Reserve Study is a good first place to look. But what if that project doesn't appear in your latest Reserve Study? Can the Association still pay for it from Reserves?

While it may be simple to rely on the Component List to determine if an expense should be paid from Reserves or not, the higher authority is actually National Reserve Study Standards. National Reserve Study Standards are the ultimate authority on the appropriate use of Reserve Funds and contain a simple four-part test:

RESERVE COMPONENT "FOUR-PART TEST"

According to National Reserve Study Standards, only components that pass all 4 parts of the 4-part test are eligible for Reserve Funding:

- Is it a common area maintenance responsibility?
- Is it life limited?
- Does it have a predictable Remaining Useful Life?
- Is its cost above a minimum threshold of significance?

If the project passes the test, but does not currently appear in your Reserve Component List, it is appropriate to spend the cash from Reserves, and then to add the component to the Reserve Study during the next update.

There are a number of reasons why a component may not appear on the Component List. One reason is that the responsibility for a particular project may have changed from the operating budget to the reserve budget. For example, tree trimming could transition from the landscaping company (as part of their ongoing service contract) to a special reserve project every few years performed by an outside tree trimming company. Another reason is that a component that had previously been presumed not to be life limited is revealed, due to the association's advancing age, to have a limited useful life after all. Finally, there is always the possibility that the person preparing the study omitted the component by mistake.

The other question Boardmembers and Managers face with respect to this question has to do with a partial project done to a Reserve Component. For instance, is repairing a section of fence or repairing a section of roof (both of which appear as replacement projects in the Reserve Study's Component List) a legitimate use of Reserve Funds?

The answer for any routine maintenance or small repair, is no.

Unfunded, ongoing, partial repair projects are not an appropriate use of Reserve Funds with one exception. If the work being done measurably extends the Remaining Useful Life of the component listed in the Reserve Study.

As an example, replacing one or two fence posts and stabilizing the one wobbly area of the fence to extend its life by two more years is a legitimate Reserve expense. But repairing vandalism damage to the fence or replacing a broken slat here or there, should be considered "normal maintenance", prohibiting the use of Reserve Funds.

In every case, be sure these changes are documented in your next annual Reserve Study update. Adding a "missing" component, or changes to the Remaining Useful Life of a component is important information for both reserve planning and disclosure purposes.

"Enhancing Great Communities"
ASSOCIATION SERVICES AAMC

CEDCORE

Annual Reserve Fund Budget Disclosure

Budgeted Fiscal Year 2013

Complete all necessary yellow boxes

Per RCW 64.34.308 Section 4 (a) & RCW 64.38

Budgeted (Proposed) Monthly Reserve Contribution Amount	
Recommended Monthly Reserve Contribution Amount	
Recommended Funding Plan	

Per RCW 64.34.308 Section 4 (b) & RCW 64.38

Are any additional regular or special assessments scheduled? ☐ Yes

If yes, complete the table below. ☐ No

Due Date	Amount Per Unit	Purpose	Frequency (Monthly or Annual)
2013	*$ 500.00*	*Roof Project - Example Only*	*Annual*

Per RCW 64.34.308 Section 4 (c) & RCW 64.38

Based upon the most recent reserve study, and current contribution rate will the Association have sufficient funds to cover the anticipated reserve expenses over the next 30 years? ☐ Yes ☐ No

Per RCW 64.34.308 Section 4 (d) & RCW 64.38

If reserve account balances are not sufficient see for what additional assessments may be necessary?

Year	Amount

Per RCW 64.34.308 Section 4 (e) & RCW 64.38

Fiscal Year that the most recent reserve study was completed for	2013
Projected reserve fund start balance at the time of preparing the budget	
Projected reserve fund start balance at the time of the reserve study	
Percent funded at the time of the most recent reserve study	

Per RCW 64.34.308 (4) (f)

Projected Year End Reserve Account Balances

	2013	2014	2015	2016	2017
Reserve study recommendations					
Based on current reserve contributions					
% funded based on current contributions					

Per RCW 64.34.308 (4) (g)

Projected Year End Reserve Fund Balances

	2013	2014	2015	2016	2017
Based on proposed contributions					
% funded based on proposed contribution					

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CEDCORE

January 9, 2013

Board of Directors
HOA

Puyallup, WA

Dear Board of Directors,

You have asked CEDCORE, LLC for an opinion regarding whether HOA is required to complete a reserve study to remain compliant with Washington State Law.

RCW 64.38.065 (2) the Association "unless doing so would impose an unreasonable hardship, an association with significant assets shall prepare and update a reserve study, in accordance with the association's governing documents and this chapter. The initial reserve study must be based upon a visual site inspection conducted by a reserve study professional."

RCW64.38.065 (4) states that "the decisions relating to the preparation and updating of a reserve study must be made by the board of directors in the exercise of the reasonable discretion of the board. The decisions must include whether a reserve study will be prepared or updated, and whether the assistance of a reserve study professional will be utilized."

Exemptions: RCW 64.38.090 states that an association with ten or fewer unit owners is not required to follow the requirements under RCW 64.38.025 and RCW 64.38.065 through 64.38.085 if the cost of the reserve study exceeds five percent of the association's annual budget, the association does not have significant assets, or there are then or fewer homes in the association.

Hardship Qualification: RCW 64.38.065 indicates that if obtaining a reserve study creates a hardship the Association may not be required to obtain a reserve study. The cost to obtain an initial reserve study is estimated to be between $1,200-1,600. The Association Board of Directors with the assistance of association management and legal counsel may determine if this qualifies as a financial hardship. This estimated cost is greater than five percent of the annual budget. We recommend the additional estimates be obtained.

Significant Assets: RCW 64.38.010 (19) "Significant assets" means that the current replacement value of the major reserve components is seventy-five percent or more of the gross budget of the association, excluding the association's reserve account funds.

Our office completed a site visit on January 3, 2013. During the site visit we identified and quantified common area assets/component for which the association is responsible to maintain, repair and replace. The current replacement value is approximately $130,395 significantly greater than 75% of the annual budget.

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CEDCORE

Common assets include but not limited to:

Component	Quantity	Current Cost
Asphalt: Resurface	42192 square feet	$ 107,590
Basketball Assemblies: Replace	2 each	$ 1,500
Entry Monument: Repair/Replace	1 masonry	$ 1,200
Fence: Chain Link Replace	400 linear feet	$ 7,200
Fence: Wood Replace	385 linear feet	$ 5,005
Mailboxes: Replace	3 clusters	$ 4,650
Signs: Replace	10 metal	$ 1,750
Shelter: Repair/Replace	1 8'x10' wood	$ 1,500

Recommendations & Conclusion: Our findings are not based on a legal opinion, or are we qualified to offer such opinion. Based on the information above, it is our understanding that HOA does have "Significant Assets" which they are responsible to maintain, repair or replace. While Autumnwood HOA may qualify for an exemption because the cost of the reserve study may be greater than 5% of the annual budget, it is the conclusion and recommendation of this office that they obtain a reserve study. Without proper planning Autumnwood HOA may become significantly underfunded and unable to care for the common area assets/component for which they are responsible. Please, don't hesitate to call with any additional questions.

Sincerely,

Ray Myers, RS
President

Assessment and Reserve Funding Disclosure Summary

The Condominium

For Fiscal Year Beginning: 1/1/2013 # of Units: 186

a)

Budgeted Amounts:	Total	Average Per unit*	
Reserve Contributions:	$14,317.33	$76.97	
Operating Budget:	$34,419.75	$185.05	
Total Assessment Income:	$48,737.08	$262.03	per: Month

Recommended amount:	Total	Average Per unit*	
Reserve Contributions:	$15,588.00	$83.81	per: Month
Funding Plan Objective:	Full Funding		

b) 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 Due	Total Amount Per Unit*	Purpose
N/A		
N/A		
	Total: $0.00	

c) Based on 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 **No**

d) If the answer to "c" is no, what additional assessments or other contributions/loans to Reserves would be necessary to ensure that sufficient Reserve Funds will be available each year during the next 30 years?

Approximate Fiscal Year Assessment Will Be Due	Average Total Amount Per Unit*
2018	$2,151
2025	$2,151
N/A	
N/A	
Total:	$4,301

e)

All computations/disclosures are based on the fiscal year start date of:	1/1/2013
Fully Funded Balance (based on formula defined in 1365.2.5(b)4):	$1,462,209.00
Projected Reserve Fund Balance:	$422,697.00
Percent Funded:	28.9%
Reserve Deficit (surplus) on a mathematical avg-per-unit* basis:	$5,588.77

From the 11/1/2012 Reserve Study by Association Reserves and any minor changes since that date.

* If assessments vary by the size or type of unit, allocate as noted within your Governing Documents.

f/g) See attached 30-yr Summary Tables, showing the projected Reserve Funding Plan, Reserve Balance, and Percent Funded, under the recommended and actual budgeted Reserve Funding Plans.

Prepared by: Association Reserves (Mara Williams) **Date: 2/6/2013**

The financial representations at the time of preparation are based the Reserve Study for the fiscal year shown at the top of this page and the best estimates of the preparer. These estimates should be expected to change from year to year. Some information on this form has been provided to Association Reserves, and has not been independently verified.