best practices

REPORT #4

Financial Operations

Published by
Community Associations Institute Research Foundation

COMMUNITY ASSOCIATIONS INSTITUTE
RESEARCH FOUNDATION

Acknowledgements

Panel Members

F. James Ahlberg, CPA
Gayle Cagianut, CPA
Mark Cantey, CPA
Gil Cross, CPM, CMCA®
Jerome Fien, CPA, RMA, PSA
Howard Goldklang, CPA
George Hukriede, RS™, CPA
Bill Owens, CPA
Gary Porter, CPA
Linda J. Schiff
Ed Thomas, CMCA®, AMS®, PCAM®
R. Honey Wheeler, CMCA®

best practices

Community Associations Institute (CAI) and CAI Research Foundation are dedicated to conducting research and acting as a clearinghouse for information on innovations and best practices in community association creation and management. As part of the newly developed Best Practices project, operations related to two function areas of community associations—governance, resident involvement & conflict resolution, and reserve studies/management—were presented during CAI's 50th National Conference in May 2001. Best Practices in the area of financial operations as well as strategic planning and community harmony & spirit debuted at CAI's Community Leadership Forum in Charlotte, North Carolina, October 18-20, 2001.

What Are Best Practices?

The development of function-specific best practices in the community association industry has been a goal of CAI and CAI Research Foundation for several years. The Research Foundation is currently developing best practices in select topic areas using a variety of sources, including, but not limited to, past winners of the National Community Association of the Year Award (NCAYA), recommendations from industry experts, various industry-related publications and, once developed, recommendations from those communities scoring highly on the Community Performance Index. The subject areas for the initial best practices were selected through a survey of CAI and CAI Research Foundation national leaders.

The anticipated outcomes of the Best Practices project include:

- documented criteria for function-specific best practices,
- case studies of community associations that have demonstrated successes in specific areas, and
- the development of a showcase on community excellence.

The benefits of benchmarking and best practices include: improving quality; setting high performance targets; helping to overcome the disbelief that stretched goals are possible; strengthening cost positions; developing more innovative approaches to operating and managing practices; accelerating culture change by making an organization look outward rather than focusing inward; and, bringing accountability to the organization because it is an ongoing process for measuring performance and ensuring improvement relative to the leaders in the field.

Accordingly, this project represents an ongoing exploration of best practices used in community associations. The first series of best practices will set the bar, which applied research will then continue to raise.

SECTION ONE

Overview and Introduction

Financial Operations

It is CAI's purpose to foster vibrant, responsive, competent community associations that promote harmony, a sense of community, and responsible leadership. Given that the fiscal health of the association has a direct impact on every member of the community, proper management of financial operations is an important element of building better communities. While the responsibility for an association's finances rests with the board, there are numerous areas where advice should be sought from qualified financial professionals.

The board of directors, particularly the treasurer, is ultimately responsible for association's funds and may not abdicate their fiduciary responsibility. Given the reality that community association boards are made up of diverse individuals with varied degrees of financial knowledge, below are basic guidelines that should be followed to ensure sound financial operations.

Banking

- Maintain the association's funds, including the replacement fund (commonly called reserves) and operating fund, in separate accounts in the association's name and ensure that the board has direct access to the account.
- Maintain an operating cash balance of approximately two months expenses.
- Reconcile the association's bank statements and investments monthly (or at least quarterly) with the statements going directly to the board member reviewing them. The board member charged with reviewing the bank statements should not be responsible for payment of bills and/or signing checks.
- Require the full board to review copies of bank statements and investments on a quarterly basis.
- Require at least two board members' signatures to gain access to reserves.
- Require at least two authorized signatures on all checks over a predetermined amount as established by the board of directors.

Planning

- Establish a long-term financial plan for the association's assets (cash, accounts receivable, replacement fund, investments, etc.) that is reviewed and revised annually.
- Develop written, board-approved investment policies and procedures.
- Commission a reserve study and/or update current reserve study at least every three years and review the report annually.
- Prepare a long-term operating budget covering the next three to five years.
- Include reasonable reserves for future major repairs and replacement of common facilities in assessments as determined by the association's most recent reserve study.

Disclosure

- Provide homeowners with reasonably detailed summaries of budget and reserve information on an annual basis, with further information readily available.
- Request financial statements from the manager or accountant at least quarterly. (Please note: some associations may opt to view these statements more frequently. Further, state law may dictate the frequency with which financial statements must be prepared.)
- Inform homeowners that the annual financial statement, which is prepared in accordance with the basis of accounting used by the association, is available for review by owners and prospective purchasers within the time frame established by the association or specified in applicable statutes and governing documents. This report may be a review, a compilation, or an audit. If possible, a copy of this report should be sent to all members of the association. If copies are not sent to members, the board should publicize, through the association's newsletter, that copies are available upon request.

Policies/Record Keeping

- Develop a written, board-approved collection policy for enforcing owners' assessment obligations. Be sure to follow applicable state statutes regarding development and enforcement of the policy.
- Establish that the board must approve all write-offs of delinquencies in a timely manner.
- Solicit competitive bids for services and require board authorization for all expenditures over a predetermined amount.
- Request timely updates and reports from the association's manager and accountant.
- Keep detailed meeting minutes paying close attention to all fiscal matters.
- Conduct payroll audits to ensure all employees are legitimate and paperwork is current and complete.
- Require approval of invoices, by a board member other than the check signers, prior to payment.
- Establish and maintain a policy regarding archiving the association's permanent financial records.

Budgeting

- Assign budget items in the month during which the expenses are expected to be incurred rather than dividing total yearly expenses by 12 (for each month of the year).
- Require board approval for checks in payment of non-budgeted, non-recurring expenses in excess of an established limit.
- Compare income statement with the budget on a periodic basis (at least quarterly).

Budgetary Responsibilities

A community association's governing documents and management contracts will define formal roles and responsibilities in the budget process. These roles should be communicated in a constructive manner to all involved to ensure that appropriate expectations exist. Below is an outline of the reponsibilities of volunteers and professional staff typically charged with developing community association budgets.

Board of Directors

Most boards of directors are responsible for establishing, approving, and monitoring the community's budget. Although they have the power to establish a budget, most will delegate preparation authority to their manager or accountant. When directors review a proposed budget, they should consider the following:

- State statutes and requirements established in the association's governing documents.
- Owners' needs and expectations (the balance between mandatory and discretionary items).
- Committee and owner feedback.
- The need to reconcile income and expenses, otherwise known as balancing the budget.
- Financial forecasts (e.g. budgets) and analyses of past financial activities prepared by the manager or accountant.
- Capital budget and reserve study requirements.

If the board has the power to approve the budget, the manager should provide all owners with a summary copy of the proposed budget before the board officially adopts it. Owner input is a key component of the budgeting process. Owner input regarding the budget leads to less animosity over budget priorities and the opportunity for increased resident involvement in other aspects of the community—thus, building a sense of community.

Treasurer

The treasurer is usually charged with the responsibility for the preparation and review of the draft budget. He or she typically delegates the initial preparation of the budget to the manager or accountant. If applicable, the treasurer will then review the draft of the budget with the association's finance committee.

The treasurer should consult all committee chairs and invite owners to comment on the budget to ensure support. Owner participation and support is especially important where a vote of owners is required for any of the following: a large required increase in assessments, special assessments, major improvements, or funding reserves. Again, funding of reserves should be based on the results of a reserve study. *(For more information on reserve studies, please consult Best Practices Report #1: Reserve Studies/Management.)*

The treasurer usually presents the proposed budget to the owners in some forum as agreed upon by the board. It may be presented at an open community meeting or sent to the owners with a request for feedback by a specific date. Frequently, community-governing documents require that an open meeting be held before the board adopts a budget.

Owners

Some states and some community documents require that the budget be passed by a vote of the owners. The preceding section explains the value of owner involvement in reviewing the proposed budget—even when the board is responsible for final adoption.

Manager

The manager's formal budget responsibilities are usually enumerated in the management contract. Even if precise responsibilities are not specified in writing, the board may expect the manager to:

- Prepare a draft budget.
- Review the draft with the treasurer, finance committee (if one exists), and the board.
- Revise the draft budget after changes are made.
- Mail a summary of the proposed budget to owners prior to approval.
- Mail copies of the completed budget to all owners and have copies on hand for prospective owners.

Managers should not be expected to perform services outside of their contractual agreements. Thus, a community association should review their current management contract to determine the manager's level of involvement in the budget process. Any desired changes in the services should be reviewed and negotiated.

SECTION TWO

Accounting Practices & Financial Statements

Accounting Practices

There are two commonly used bases of accounting, the accrual basis of accounting which is required by Generally Accepted Accounting Principles (GAAP), and the cash basis of accounting which is considered to be an Other Comprehensive Basis of Accounting (OCBOA). OCBOA is not in accordance with GAAP, which is most often used by community associations.

Accounting Basis Used for Financial Statements

An association's financial statements will reflect one of the following accounting bases (as determined by the board with input from both the association's manager and accountant):

Cash Basis—Cash basis accounting is similar to a checkbook. It records income when deposited and expenses when paid. The cash basis may not accurately reflect the association's true financial condition—it simply shows the result of cash transactions. Outstanding assessments and unpaid expenses, if any, are missing in this method, which distorts an association's financial health.

Modified Cash Basis—The modified cash basis is the cash basis with some aspects of the accrual basis. Under the modified cash basis some accounts, such as assessment income, are maintained using the accrual method. There can be degrees of modified cash basis.

Accrual Basis—Accrual basis accounting records income when earned and expenses when incurred. The statements are more useful for comparing the results of the budget to the actual activity. There are variances with the cash basis because transactions take place at different times. For instance, if an association makes a late payment at the end of a fiscal year, the financials would reflect it with 11 payments in one year and 13 payments in the next. With the accrual method, all 12 payments would be in the current year regardless of when the bill was paid. The accrual basis allows the association to gain the most accurate picture of its financial health.

Generally Accepted Accounting Principles

GAAP accounting provides uniformity among financial statements from different community associations. GAAP requires the use of accrual accounting for annual reports (see accrual basis explanation above). GAAP requires the following set of year-end financial statements for community associations:

Balance Sheet—A summary of a community's financial position at a specific point in time. The three major components of a balance sheet are:

- **Assets**—Items owed to or owned by an association.
- **Liabilities**—The association's debts to third parties.
- **Members' equity**—The owners' interest in the association's remaining assets after providing for the discharge of its liabilities. It may also be negative and called the members' deficit if its liabilities exceed its assets. Note: This is called fund balance under the fund method of reporting.

Statement of Income and Expense (or Revenue and Expense)—Represents the operating activities for a given period of time, usually one year, ending on the same date as the balance sheet.

Statement of Changes in Members' Equity (or Fund Balances)—Reconciles the beginning and ending members' equity with results of operations for the period.

Statement of Cash Flows—Reconciles an association's operating, investing, and financing activities from the basis of accounting used (generally the accrual basis) to a cash basis to reflect what caused the changes in the cash balance during the year.

Notes to Financial Statements—Footnotes that provide additional information to help the reader understand the association's financial situation. The notes may describe the type of association and its characteristics, provide information about the association's reserve and investment polices, tax filing status and debts, explain the purpose and time period of special assessments, describe significant commitments and possible events that could have a financial impact on the association (e.g., pending lawsuits), and explain related party transactions.

Financial Statements and Reports

Year-end financial statements help determine and outline a community association's fiscal health. Experts suggest that a Certified Public Accountant (CPA) specializing in community associations prepare these statements.

Audit

An audit is an examination of an organization's accounting records and procedures by an independent certified public accountant for the purpose of verifying the fairness of the presentation of financial statements. An association's governing documents and/or state statutes may require an annual audit. However, in the absence of a state mandate, external verification of the accuracy and completeness of the association's financial records is a sound business practice. The audit should include, but is not limited to, the following: confirmation of selected transactions and balances with outside parties (such as banks and contractors); a physical inspection of records; a trace of transactions to supporting documentation and authorization by someone within the association; and review of the association's legal documents and minutes.

After the audit is complete, the CPA will prepare an opinion report that details one of the following four outcomes:

1. The auditor issues an unqualified or clean opinion that states that the financial statements are presented fairly in all material respects.
2. The auditor issues a qualified opinion that says the statements, with certain reservations, are fairly presented.
3. The auditor disclaims his/her ability to issue an opinion.
4. The auditor issues an adverse or negative opinion.

Clearly, a community association should strive for a clean opinion or, if necessary, a qualified opinion. The third scenario—a disclaimer—usually occurs when the client organization or the circumstances surrounding the audit restrict the CPA's ability to collect sufficient evidence to form an opinion. An adverse opinion is issued when evidence indicates that the financial statements do not fairly reflect the association's financial position or operating results.

Financial experts recommend that a CPA familiar with community associations perform an audit annually, minimally every other year. It is important to note that some state statutes require that community associations be audited on a specific timetable.

Review

A review is less thorough than an audit, thus a less costly analysis of an association's financial activities. It provides the board with some assurance that the financial statements are consistent with typical trends without the detailed examination obtained in an audit. In a review, the CPA interviews management personnel and others involved in the association's accounting process in order to assess the association's financial procedures. The reviewer compares the actual amounts with the association's prior year line items and looks for trends or irregularities.

The review provides a significantly lower level of assurance than an audit does. The report states that the CPA is not aware of any material or significant changes that should be made to the financial statements in order for them to conform with GAAP or OCBOA.

Compilation

A compilation is a presentation of financial statements prepared by an accountant, not necessarily a CPA, but does not provide any level of assurance regarding the financial statements. Compilations should also be prepared in accordance with GAAP or OCBOA. Through a compilation, the association asks an accountant to prepare its year-end statements based on the information that the board or manager provides. The accountant does not make any representation about the accuracy and completeness of the financial statements. However, if he/she becomes aware that the statements are incorrect, he/she is obligated to disclose that fact.

Reading Financial Statements

Financial statements are produced for two primary reasons:

- To provide their internal and external users with the economic information needed to make appropriate decisions on behalf of the community association.
- To enable the community association board and manager to control the association's financial operations.

warning signs to look for when reviewing financials

- A steady decline in the amount of cash on hand.
- Significant and/or unexplained differences between actual and budgeted figures for items.
- An increase in the amount of owners' assessments owed to the community.
- Unusually large legal expenses—unless reason is disclosed.
- Absence of a reserve study.
- The failure to resolve any differences between bank statements and the financial statements in a timely manner.
- Untimely generated, or missing, financial statements.
- Financial statements not prepared using GAAP.

SECTION THREE

Assessments, Taxes, and Investments

Assessment Collection

The association declaration and state law give associations the authority to collect assessments. It is not unusual for a board to be responsible for hundreds of thousands of dollars in assessment fees. Given their fiduciary responsibility, association boards must collect assessments in a timely, systematic manner. Each association should adopt, by resolution, the procedures for the collection of payments (dues or assessment fees). The policy should be distributed to all members and uniformly enforced. Communication of the association's budget is critical to assessment collection because those members who understand the association's financial position are more likely to pay their dues on time.

Characteristics of an Effective Collection Policy

An effective collection policy should:

1. Be established by a formal resolution of the board that:
   a. Specifies the problem to be solved (e.g., collection of delinquent fees);
   b. Delineates the procedures to be followed;
   c. Designates the circumstances under which the procedures are required or permitted.
2. Specify only actions that are within the power of the community association and its board.
3. Set a firm due date for assessments.
4. Outline the steps to be taken by the person(s) responsible for collecting assessments when a payment is late with a specific timeline for each step of the process.

take note

- All members of the association must have proper advance notice of the due date for assessments.
- Be certain to uniformly apply collection policies to all owners.
- Be sure that whatever steps taken to collect assessments are authorized by enabling statutes, governing documents, and fair debt collection requirements under the Federal Fair Debt Collection Practices Act. Any steps taken should be automatic and systematically increase in severity.
- Once an account is turned over to legal counsel, it is critical that all further communication be between the association's attorney and the delinquent owner or the owner's attorney.
- The right to recover attorney fees and costs from a delinquent party should be guaranteed by state statute or the governing documents.

5. Allow for discretion in special cases (the burden of requesting special consideration should be placed upon the owner). The discretionary power should be under the control of the board of directors.
6. Specify when a delinquent assessment should be referred to legal counsel (this step should be automatic once a delinquent assessment reaches a specific age or amount).
7. Provide for the collection of any costs associated with collecting delinquent assessments.

Federal Income Tax Filing Responsibilities

The following are general federal income tax filing responsibilities for community associations:

1. All associations must file a federal income tax return every year. The lack of taxable income does not eliminate the need to file, and filing a tax return does not necessarily mean that the association owes the government money.
2. A community association is generally required to file its federal income tax return as a corporation using Form 1120, but may elect to file as a homeowners association using Form 1120H, if it meets certain requirements. The association should consult its tax professional regarding this choice because tax rates are different.
3. A community association's federal tax return is due the fifteenth day of the third month after the end of the tax year. It is possible to obtain up to a six-month extension of time in which to file a return. If an association needs an extension, it must file an extension request form and pay any expected tax due by the original filing deadline.
4. If previous boards failed to submit tax returns for previous years, the current board is not absolved from filing a return for the current year or for any previous year that was omitted.
5. An association may be required to make quarterly payments of its estimated annual tax, depending on the tax filing method it uses. When a tax professional prepares an association's tax return, he/she will notify the association if it needs to make estimated tax payments for the upcoming year.
6. State income tax filing requirements vary from state to state. They are not necessarily the same as federal requirements.

Investments

The purpose of this section is to provide basic information on community associations and investments—not to advise how associations should handle their investments. Investments involve the purchase of assets with monetary value for the purpose of generating additional value over time. Examples of investments include savings accounts, certificates of deposit, US Treasury securities, and stocks, which are not often recommended as an investment option for community associations.

Investment Policies and Procedures
A community association should have a written investment policy and a set of procedures for ensuring that the policy is implemented. In some instances, governing documents and state statutes establish investment policies for associations. For example, certain states require that association funds can be invested only in federally insured lending institutions and government securities.

Essential Investment Objectives
The three essential investment objectives for community associations, in the order of their importance, are:

- **Safety**—protecting the principal (amount of original investment) from as much risk as possible.
- **Liquidity**—the ease and costs associated with converting an investment into cash or cash equivalent.
- **Yield**—the amount of return on an investment. The ultimate earnings from an investment are not necessarily the stated rate of interest.

Common Investment Policies
(Please note: These are only suggestions. Your association's CPA and/or financial advisor should recommend investment policies to fit your community's particular circumstances.)

- Investments should be federally insured either through FDIC or the US Government. Thus, not more than $100,000 will be invested in any one financial institution so that the funds are fully protected by FDIC.
- Investment income must be optimized without any risk of loss to the principal (amount of the original investment).
- Investment maturities should meet projected cash flow needs.

Common Investment Procedures
(Please note: These are only suggestions. Your association's accountant and/or financial advisor should recommend investment procedures to fit your community's particular circumstances.)

- Management is to deposit all payments received on a daily basis.
- Transfers of budgeted additions to reserves are to be made on a monthly basis.
- Certificates of deposit, passbooks, bonds, etc., are to be under direct board control—not management control.
- A quarterly special report of earnings on investments is to be prepared by management or the treasurer and presented at a board meeting.

Investment Checks and Balances
Every association needs a system of internal checks and balances to protect its investments. Such checks and balances include:

- Association boards should consult a financial advisor prior to investing.
- Association boards should vote to invest funds based on an approved investment policy.
- Two signatures should be required to withdraw funds from investment accounts. However, an exception may be made for transfers between accounts of the same association.
- Association managers, employees, and volunteers should be covered by fidelity insurance (insurance that protects against employee dishonesty which may lead to the theft of money, securities, or property) to protect the association from loss due to employee theft.

Bid Requests/Request for Proposals

Management of a community association's resources frequently involves the use of contracts to obtain the products and services required. Given such, one component of the board's fiduciary responsibility is to ascertain that the association is not paying too much for the products and services it receives. The most effective way to ensure competitive prices is through bid requests to potential contractors.

A bid request or request for proposal (RFP) is an announcement that an organization is interested in receiving proposals for a particular project or service. The bid request form includes: bid specifications (detailed instructions about the products or services requested); information about the association that the contractor will need in order to prepare a bid; and, a request for information about the contractor that will help the association evaluate the contractor's ability to perform the work and meet the specifications. Preparing a bid request or RFP involves: gathering preliminary information; identifying potential contractors; preparing thorough and accurate bid specifications; and preparing a complete bid request or RFP. To prepare some service specifications, the association may need to draw on the technical skills and knowledge of such parties as an engineer, architect or supplier.

Because of the amount of effort the bidding process requires for both the community association and the bidders, the process should be used only for significant projects or purchases and for on-going services such as lawn maintenance. The board of directors should determine the minimum size of a contract that requires competitive bidding. Simply stated, bid requests and RFPs allow the board to solicit competitive prices for products and services, thereby ensuring that the community association obtains the desired services from a quality service provider at a reasonable price.

Case Studies of Strategic Planning

case study #1

The Oakridge Estates Community Association

Size:	352 Planned Unit Development
Age:	24 years
Location:	Ventura County, California
Board Size:	Five (5)
Contact:	Gayle Cagianut, CPA
E-mail:	gayle@hoacpa.com

This association is exemplary with regards to its financial operations. The board takes an active role in the financial matters of the association and seeks professional advice from their manager, accountant, insurance agent, and reserve study professional as needed. The association encourages open communication from its members and repeatedly meets its budget expectations. Below are some specific areas of financial diligence:

Review of financial statements and documents. The management company prepares financial statements monthly, including a balance sheet and an income statement with comparisons to the budget. Also included in the financial information are a check register and a listing of delinquent accounts, as well as copies of all bank statements and reconciliations. The board reviews this financial packet at each board meeting and discusses the items therein.

Replacement fund/reserves. The association segregates replacement fund activity and operating fund activity in its financial statements. Reserve cash is also segregated from operating cash and is kept in a separate bank account. In compliance with California Civil Code, two signers are required to withdraw any cash from the reserve cash account. The board of directors approves all reserve expenditures and that approval is noted in the board meeting minutes. There is an on-site reserve study prepared at least every three years, and that study is reviewed annually by the board and adjustments are made as needed. Reserves are funded in accordance with the budget.

Budget. The budget is prepared using data from the prior year with line item adjustments as needed. The budget is distributed to homeowners 45-60 days prior to the end of the fiscal year. The budget packet includes the information required by the California Civil Code, i.e., the delinquency policy, reserve study data, insurance information, and notice of arbitration/mediation rights.

Financial stability. There is approximately five percent of annual assessments in the operating fund balance (equity). This is within the range of CAI's recommended contingency amount (of two to five percent minimum) to be kept on hand for unexpected financial requirements.

Income taxes. For several years, the association has filed form 1120, with the lower tax rate of 15 percent. Because the association diligently segregates operating and reserve accounts, funds reserves according to the budget, and denotes capital and non-capital reserve activity, it has qualified to file IRS Form 1120.

Annual accounting. An annual report, either an audit or a review, is prepared by a CPA. That report is completed and mailed to the homeowners within 120 days of the year-end. An additional product supplied by the CPA is a management letter wherein suggestions for improvements to various financial matters are noted. The board and manager are always open to suggestions and willing to make changes necessary to improve financial transactions.

case study #2

Kiawah Island Community Association

Size:	4115 properties
Age:	26 Years
Location:	Kiawah Island, SC
Board Size:	Seven (7)
Contact:	Joe Bunting, CMCA®, AMS®, PCAM®
E-mail:	KICAtalk@aol.com

Kiawah Island is a National Community Association of the Year Award (NCAYA)-winning community in South Carolina. In addition to the board and management's dedication to community spirit and service, they also pay particular attention to financial operations.

Governing Documents. The community's governing documents provide certain guidelines related to the association's financial activities. Financial statements are prepared per the accrual basis of accounting prepared according to the fund reporting method. Using the accrual method ensures observance of limitations and restrictions on the use of financial resources that the governing documents require. The association board and staff also prefer to have an annual audit conducted because it gives the members a level of confidence that is not possible with a review or compilation. When it's all said and done, the board and the staff want their work scrutinized to the fullest extent.

Bank Statements. As per the association's Financial Controls Manual, the association's treasurer and controller's assistant reconcile Kiawah Island's bank statements monthly. This allows the association to regularly monitor its assets. The individuals responsible for reconciling the bank statements do not have check signing authority. Authorized signatories on all bank accounts are the board treasurer, the general manager, the controller, and the assistant general manager. Regular checking transactions require two of the aforementioned representatives' signatures. Access to the association's reserves accounts requires the board president's and treasurer's signatures.

Financial Statements. Association financial statements are produced monthly to keep the board "up to speed" on operations. The financial statements are discussed every six weeks at a board meeting. Board meeting minutes are posted on the association's Web site for membership review. Financial statements (and annual financial audits) are always available at the association office for members' review and the financial audit is provided once per year as part of the annual meeting packet materials.

Write-offs. Further, the association has a set process by which "write-offs" (delinquencies) are approved—the controller approves accounts with a balance of less than $100, the manager approves accounts with a balance of more than $100 but less than $500, the treasurer approves accounts with a balance of more than $500 but less than $1,000, and the board must vote and approve write-offs for accounts with a balance of more than $1,000.

Budgeting. Kiawah Island's board and staff also work to develop and follow a comprehensive budget each fiscal year. Budget items are allocated to the month during which expenses occur. For example, the pool contractor provides a specific annual schedule for the coming year listing the services and personnel he is providing each month and their cost. These monthly allocations are included into the annual budget because it makes sense to match expenses with income. For example, during the months that the pool contractor is providing services, the pool is open and income is being generated.

Unbudgeted expenditures more than $2,000 must have prior board approval. Approval may be obtained either at regularly scheduled board meetings, or by mail vote, when necessary. Unanimous approval is needed for a mail vote to pass. Also, the Finance Advisory Committee is informed of such expenditures and makes their recommendations to the board prior to the meeting or mail vote.

To facilitate association operations when unbudgeted expenses of a serious nature arise, the budget may contain a line item for contingencies, not to exceed the limit approved by the board. The guidelines for the use of these funds are: (1) an unanticipated emergency, e.g., hurricane, flood, fire, etc., (2) the replacement or repair of equipment that either fails or is destroyed unexpectedly and is considered by the general manager to be critical to the efficient operation of the association, or (3) for the protection of association property from imminent damage.

The reason for this line item is that time required to obtain board approval for unbudgeted expenditures may, under certain conditions, cause significant unnecessary expense to the association, or that approval may be unattainable due to the unavailability of board members, etc. The use of this line item, within the guidelines above, is to be in the Operating Committee's discretion only. When expenditures are made, the general manager is to seek board ratification immediately, of both the expenditure and his/her justification for the use of the contingency funds versus the regular process for advance approval of non-budgeted expenditures more than $2,000. Once approved by the board, the expense will be moved to the correct line item and/or department. The board has the authority to suspend use of the contingency line item at any time, by written notification to the general manager.

Competitive bids. The general manager, at the direction of the board, is the contracting agent for the association. The general manager will sign all bilateral contracts. The general manager may delegate purchasing authority and the ability to sign purchase orders to various department heads. However, the general manager may not delegate authority to sign general insurance or employee benefit contracts. Where feasible, all contracts and purchase orders will be in the association's standard format appropriate to the type of purchase. The general manager reserves the right to have the contract reviewed by legal counsel and/or insurance representatives. Whenever a form of contract or purchase order other than the association's standard is used, appropriate review will be exercised. The general manager reserves the right to require that the standard format be used.

All contracts valued annually at $25,000 or more require competitive bidding. Competition for contracts less than $25,000 is not precluded and is recommended when time and cost for obtaining quotes is reasonable. Staff is expected to perform due diligence in obtaining bids, when required. Contracts with fewer than three responses must contain a certification from the requesting manager that all available responsible bidders were sought and suitable follow up performed to get as many bids as possible, with explanations of unusual circumstances. The board must approve any sole source award, in advance. Similarly, any contract to be awarded to other than the lowest bidder must have prior approval by either the board or, for reserve projects, the Major Repair & Replacement Committee.

Any contract in excess of $25,000 must either be approved in the annual budget or have specific prior board approval, except in the case of emergency or contingency purchases. Additional board approval is required in cases where conditions change, before or after the contract is let, which significantly affect the scope or cost of the contract (more than 20%). No service contract may be automatically renewed for more than 12 months without additional approval sought from the board. There will be no contracts between the association and one of the association's employees, board members, committee members, or their respective relatives, regardless of dollar value.

Long-range fiscal planning. The board directs the Finance Advisory Committee to develop a five-year fiscal plan, which includes disaster, insurance, and facilities acquisition components. The committee receives information about the capital projects proposed for the future from the Long Range Planning Committee. In their disaster planning, the committee considers financial disasters (for example, they determine what happens if revenues become reduced). Draft plans are presented to the full membership at open forums and via mailings for comments before the board approves them.

case study #3

Riverbend at Leisure World

Size:	231 units
Age:	3½ years
Location:	Lansdowne, Virginia
Board Size:	5
Contact:	Joan Owen, CMCA®, AMS®, PCAM®
E-mail:	joanaliceowen@aol.com

Riverbend at Leisure World is a National Community Association of the Year Award (NCAYA)-winning community in Northern Virginia.

Bank Accounts. The bank accounts are all in the name of the association and are not co-mingled with any other association managed by the management company. Expenditures are made only after authorized by a purchase order signed by the on-site manager and the property manager. This process was instituted for convenience and prompt payment of bills. The managing agent reconciles the association's bank statements and investments monthly. In accordance with best practices, this person does not have check signing authority. Two signatures are required for checks, and the established limit for non-budgeted, non-recurring expenses that require board approval for checks is $2,000.

Financial Reporting. The association's financial statements are prepared using the modified accrual basis of accounting because the board prefers to see income when it is earned and expenses when they are incurred. Riverbend's board commissions an annual audit, feeling that it is their fiduciary duty to the owners to do so. The monthly financial statements are first given to the Budget and Finance Committee for detailed review at their monthly meeting. A written explanation of the statements is also provided by the community manager in advance of their meeting. The Board also receives a copy in their monthly Board packet. Owners are welcomed to receive a copy of the statements upon request.

Long Range Planning. Riverbend establishes a long-range fiscal plan primarily through the association's replacement reserve study. The board will continue to update the reserve study every year themselves and every three years with the assistance and guidance of a reserve specialist. The association also has a ten year budget which projects future income and expenses.

Reserves. Board members control replacement reserve accounts. Two signatures are required to access the reserve accounts. The board funded the reserves this year in strict compliance with the most recent professional reserve study. They also place all interest earned back into the reserves account to offset inflation.

Competitive Bids. The association normally requires soliciting three bids for projects. The board will ask 12 firms to bid on a forthcoming concrete sealing project. Management has a contractual arrangement that the Board should approve all expenditures over $2,000.

Write-offs. The board of directors must approve write-offs of delinquencies more than $10.

Additional Resources

Best Practices Reports *(available at www.cairf.org)*

Community Harmony & Spirit
Governance, Resident Involvement & Conflict Resolution
Reserve Studies/Management
Strategic Planning

Books Available from CAI*

Assessment Collection: Legal Remedies, Item #5567
A Complete Guide to Reserve Funding & Reserve Investment Strategies, Item #5606
An Analysis of the AICPA Guidelines, Item #5656
Bid Specifications and Contract Preparation, Item #5192
Collecting Assessments: An Operational Guide, Item # 5516
Common Interest Realty Associations Audit and Accounting Guide, Item #R3141
Drafting Association Rules, Item #5486
Increase Income, Not Assessments, Item #146X
Property Taxes and Homeowner Associations, Item #5389
The Role of the Association Treasurer, Item #5427
Tips for Protecting Your Association Finances, Item #7000

Periodicals

Ledger Quarterly, Item #SUBLQ-1, 4 issues/year

Web Sites

Community Associations Institute—*www.caionline.org*
Community Associations Institute Research Foundation—*www.cairf.org*
American Institute of Certified Public Accountants—*www.aicpa.org*
Internal Revenue Service—*www.irs.gov*

CAI's Professional Management Development Program (PMDP) Courses

M-100: The Essentials of Community Association Management
M-206: Financial Management

CAI's Homeowner Education Track

Please contact your local CAI chapter for class dates, times, and locations. For a complete list of CAI chapters and contact information, visit CAI's Web site at www.caionline.org or call 703-548-8600.

**All item numbers are taken from the 2002 Community Associations Press Bookstore. For more information, please call CAI Central at 703-548-8600 or visit CAI's Web site at www.caionline.org.*

About Community Associations Institute Research Foundation

Community Associations Institute (CAI) Research Foundation is a national, non-profit 501(c)3 organization founded by CAI in 1975. The Foundation is the driving force for common interest community research, development, and scholarship. Both CAI and CAI Research Foundation are the only organizations recording the history of, and identifying trends in residential community association living. There are more than 231,000 community associations across the country, reflecting the growth of community-based solutions to modern housing problems.

CAI Research Foundation serves as the catalyst for positive change in the community association industry by:

- Illuminating future trends and opportunities;
- Supporting and conducting research;
- Mobilizing resources.

Operating under the belief that community associations reflect a deep commitment to grassroots democracy, the Foundation has fostered the growth of associations by providing educational and research support through CAI's chapters. The Foundation is committed to providing quality research and publications for promoting academic interest in these phenomena.

For more information about Community Associations Institute Research Foundation, please call (703) 548-8600 or visit our Web site at www.cairf.org.

About Community Associations Institute (CAI)

Community Associations Institute (CAI) is a national, nonprofit 501(c)(6) association created in 1973 to provide education and resources to America's 231,000 residential condominiums, cooperatives, and homeowner associations, and related professionals and service providers. The Institute is dedicated to fostering vibrant, responsive, competent community associations that promote harmony, community, and responsible leadership.

As a multidisciplinary alliance, CAI serves all stakeholders in community associations. CAI members include condominium and homeowner associations, cooperatives, and association-governed planned communities of all sizes and architectural types; individual homeowners; community association managers and management firms; public officials; and lawyers, accountants, engineers, reserve specialists, builder/developers, and other providers of professional services and products for community associations. CAI has nearly 17,000 members in its chapters throughout the U.S. and in several foreign countries. The national office is in Alexandria, Virginia.

How does CAI serve its members?

- CAI advances excellence through seminars, workshops, conferences, and education programs, some of which lead to professional designations.
- CAI publishes the largest collection of resources available on community associations, including books, guides, *Common Ground* magazine, and specialized newsletters on community association finance, law, and management.
- CAI advocates community association interests before legislatures, regulatory bodies, and the courts.
- CAI conducts research and acts as a clearinghouse of information on innovations and best practices in community association creation and management.
- CAI provides networking and referral opportunities through both the national office and local CAI chapters, CAI-sponsored insurance programs for directors and officers, a 401(k) retirement plan, and discounts on products and services.

How can I get more information on CAI or on community associations?

For membership or other information, call the national office at (703) 548-8600 (M–F, 9–5:30 ET) or visit CAI's Web site at www.caionline.org.

COMMUNITY
ASSOCIATIONS
INSTITUTE
RESEARCH
FOUNDATION

225 Reinekers Lane
Suite 300
Alexandria, VA 22314
www.cairf.org

COMMUNITY ASSOCIATION BUDGETS AND RESERVES

Summary:

CAI believes it is imperative for all community associations to adopt and use a financial planning and budget process which accurately reflects projected annual operating costs and long-term capital or major expenses ("reserves") and results in a balanced budget. CAI believes that the developer and developer-controlled board should prepare and disclose the initial budget to assure accurate estimation of projected operating costs and reserves. CAI also supports full and open disclosure to owners and the opportunity for participation by owners in the development of the budget. Further, CAI opposes laws which would mandate how community associations fund and maintain reserves.

COMMUNITY ASSOCIATION BUDGETS AND RESERVES

Policy

Community Associations Institute (CAI) believes it is imperative that all community associations adopt and use a financial planning and budget process that accurately reflects projected annual operating costs and long-term capital or major expenses ("reserves") that results in a balanced budget.

CAI believes that developer and developer-controlled boards should prepare and disclose initial budgets to assure accurate estimation of projected operating costs and reserves. CAI also supports full and open disclosure to owners and the opportunity for participation by owners in the development of budgets.

Although CAI believes community associations should be encouraged to fund and maintain reserves, CAI opposes laws which would mandate how community associations fund and maintain reserves. CAI believes that the method and manner of funding reserves are best addressed by the members of the community association and its elected board of directors.

Background:

Community associations are responsible for substantial activities involving maintenance, services, repair and replacement of facilities and equipment, and rules enforcement. Depending upon the extent of association activities and facilities, the costs of carrying out these activities are collected annually from owners through association assessments. These assessments are determined during the annual budget process. Special services or amenities may be funded through user fees. Sound financial management and administration of these services require a careful and prudent approach to the development of a budget that ensures necessary funds are available for the operation and replacement of facilities. Particularly challenging to the developer-controlled board of the association is the development and adoption of the initial budget. This is due to the lack of prior activity of the association against which to compare or judge the adequacy of the initial proposed budget.

- Colorado
- Answers to Frequently Asked Questions
- G&PA Links
- G&PA Frequently Asked Questions
- Political Action Committee
- State Legislative Issues
- 2013 August Advocacy Campaign (FEMA/Housing Reform)
- Solar Rights and Easements by State
- FEMA Advocacy and Talking Points 2013
- Community Association Ombudsman Programs by State
- Clothesline Bans by State
- Contribute to a LAC

Community association boards are obligated to maintain common property and facilities and must be prepared to maintain common property and facilities and repair and replace facilities and equipment as necessary. The replacement of major facilities involves considerable cost that must come from existing cash resources, operating assessments, special assessments or loans at the time such replacement or repairs are needed. Due to the potential costs of future major repair and replacement, concern exists about the ability of the association and its owners to meet those costs exclusively through assessments, special assessments or loans.

Developers should:

• Use the services of an independent professional to prepare the budget or, at a minimum, review and offer recommendations for changes to the budget to help assure accuracy. The independent professional should have no financial involvement with the developer and should have prior community association budgeting experience. Additionally, the professional should rely upon his or her expertise in budget preparation and review. A developer who lacks the necessary expertise should seek professional assistance.

• Organize the association as an entity with the authority to borrow.

• Formulate the association budget and ensure that resultant assessment fee levels are not adjusted or amended as a result of marketing or sales considerations.

• Ensure that the initial budget, budget presentation, and reserves analysis reflect not only annual operating considerations, but initial funding of reserves accounts established for future repair and replacement of capital facilities and equipment.

All associations should consider and adopt a formal policy for meeting substantial future repair and replacement obligations. Associations should fund, in whole or in part, reserve accounts based upon replacement cost estimates and annual contributions necessary to assure that all or a substantial portion of those funds are available when needed. Reserves should never be established solely as a fixed percentage of the operating budget or of the value of the improvements.

While all associations should plan for meeting their substantial future repair and replacement financial obligations, the form of any plan should be tailored to the individual association and its members. Different methods of reserve funding analysis should be appropriate for different associations. For example, some associations may be faced with tax liabilities associated with the funding of reserves for certain components. Community associations with substantial limited use areas, whose maintenance is paid for by the owners using those areas, may treat those maintenance costs differently. The amount that members of one association are willing and able to pay for assessments that cover unfunded repair and replacement reserves will differ from amounts of other associations. The ability or the attractiveness of borrowing for long-term capital or major expenses will also differ. CAI opposes laws that do not allow community associations and their members to determine the appropriate level and method of funding for reserves for long-term capital or major expenses.

CAI shall encourage and educate lenders with an understanding of the credit worthiness of associations, adequate instruments for securing loans, and the opportunity to extend credit for the repair, expansion or replacement of improvements.

- Adopted by the Board of Trustees, April 10, 1983
- Amended and Approved by the Public Policy Committee, 1993
- Approved by the Board of Trustees, October 9, 1993
- Amended and Approved by the Public Policy Committee, May 11, 1996
- Approved by the Board of Trustees, May 11, 1996

- Amended and Approved by the Public Policy Committee, October 22, 1997
- Approved by the Public Affairs Council, October 22, 1997
- Amended and Approved by the Public Policy Committee, April 22, 1998
- Approved by the Public Affairs Council, April 22, 1998
- Approved by the Board of Trustees, April 25, 1998

ASSOCIATION - 2014 PROPOSED BUDGET
SUPPLEMENTAL BUDGET INFORMATION ON RESERVES

In Compliance with RCW 64.34.308 and RCW 64.38.025
16-Sep-13

In compliance with Sec. 4 (a)

Current Budgeted Contribution to Reserves:	$1
Recommended Contribution to Reserves From Study:	$1
Funding Plan Used for Recommendation:	Threshold
Proposed Budget's Contribution to Reserves:	

In complicance with Sec. 4 (b)

Is Additional Funding (Regular or Special Assessment) Planned?	Yes/No
When is it due?	
What is its purpose?	
Amount per unit per year (on average)?	
Amount per unit per month (on average)?	

In compliance with Sec. 4 (c)

Based upon the most recent reserve study, will the Association have funds to meet obligations for the next 30 years at the current contribution rate*? Yes

* - We assume the current contribution rate will be adjusted annually for inflation. Not doing so may cause a failure to meet obligations.

In compliance with Sec. 4 (d)

If funds are insufficient, see attached spreadsheet for what additional payments may be due and when. (Current Budget Projections per RCW 64.34.308 Section 4(d) or RCW 64.38.025 Sec. 4(d)) Refer to "Required Special Assessment" line.

In compliance with Sec. 4 (e)

	Per Study:	Per Budget:
Projected 2013 Year End Reserve Balance	$2	
Percent Funded as of the study date		

In compliance with Sec. 4 (f)

5 Year Projections Using Recommended Reserve Fund Contribution & Current 2013 Reserve Fund Contribution

Estimates Per Study	2014	2015	2016	2017	2018
Year End ***Balance*** at ***Recommended Contribution***					
Projected ***Percent Fully Funded*** at ***Recommended Contribution***					
Year End ***Balance*** at ***Current Contribution***					
Projected Year End ***Fully Funded Balance***					
Projected ***Percent Fully Funded*** at ***Current Contribution***					

Inflated Contributions & Expenses

In compliance with Sec. 4 (g)

5 Year Projections Using Proposed 2014 Reserve Fund Contribution

Per Proposed Budget's Contribution	2014	2015	2016	2017	2018
Projected Year End ***Balance*** w/***Proposed Budget***					
Projected Year End ***Fully Funded Balance***					
Projected. ***Percent Fully Funded w/Proposed Budget***					

Inflated Contributions & Expenses

ASSOCIATION SERVICES AAMC
"Enhancing Great Communities"

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					

Office: 253-292-2125
Fax: 253-883-3565

3800 Bridgeport Way Suite A464
University Place, WA 98466

email@cedcore.com
www.cedcore.com

Assessment and Reserve Funding Disclosure Summary

Sample Association

For Fiscal Year Beginning: 1/1/2013 # of Units: 116

a) Budgeted Amounts:

Budgeted Amounts:	Total	Average Per unit*	
Reserve Contributions:	$7,421.00	$63.97	
Operating Budget:	$25,717.00	$221.70	
Total:	$33,138.00	$285.67	per: Month

Recommended amount:	Total	Average Per unit*	
Reserve Contributions:	$17,177.00	$148.08	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
11/1/2012	$862.07	Replenish reserves after deck repairs
N/A		
Total:	$862.07	

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*
2019	$5,172
2039	$36,207
0	
0	
Total:	$41,379

e)

All computations/disclosures are based on the fiscal year start date of:	1/1/2013
Fully Funded Balance (per RCW 64.34.020 (22) & 64.38.010 (9):	$1,419,938.00
Projected Reserve Fund Balance:	$17,686.00
Percent Funded:	1.2%
Reserve Deficit (surplus) on a mathematical avg-per-unit* basis:	$12,088.38

From the 9/17/2013 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: 9/21/2012**

The financial representations at the time of preparation are based on 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.

30-Year Reserve Plan Summary - Recommended 11296-5

Fiscal Year Beginning: **01/01/13**

Interest:	**0.1%**	**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
2013	$17,686	$1,419,938	1.2%	Weak	$206,124	$83,334	$74	$28,700
2014	$278,518	$1,561,917	17.8%	Weak	$212,308	$0	$166	$105,678
2015	$385,314	$1,632,736	23.6%	Weak	$218,677	$0	$246	$6,578
2016	$597,659	$1,811,737	33.0%	Fair	$225,237	$0	$355	$0
2017	$823,251	$2,006,987	41.0%	Fair	$231,994	$0	$460	$38,999
2018	$1,016,707	$2,172,153	46.8%	Fair	$238,954	$0	$545	$92,974
2019	$1,163,232	$2,291,033	50.8%	Fair	$246,123	$0	$385	$1,033,333
2020	$376,407	$1,449,394	26.0%	Weak	$253,507	$0	$252	$0
2021	$630,165	$1,651,457	38.2%	Fair	$261,112	$0	$380	$0
2022	$891,657	$1,864,340	47.8%	Fair	$268,945	$0	$502	$45,210
2023	$1,115,894	$2,041,943	54.6%	Fair	$277,013	$0	$616	$46,903
2024	$1,346,620	$2,228,179	60.4%	Fair	$285,324	$0	$745	$0
2025	$1,632,689	$2,473,509	66.0%	Fair	$293,884	$0	$871	$74,282
2026	$1,853,162	$2,655,044	69.8%	Fair	$302,700	$0	$984	$75,629
2027	$2,081,216	$2,846,151	73.1%	Strong	$311,781	$0	$1,035	$335,266
2028	$2,058,766	$2,781,248	74.0%	Strong	$321,134	$0	$1,099	$44,714
2029	$2,336,286	$3,019,517	77.4%	Strong	$330,769	$0	$1,191	$241,909
2030	$2,426,336	$3,067,849	79.1%	Strong	$340,692	$0	$1,299	$0
2031	$2,768,326	$3,373,005	82.1%	Strong	$350,912	$0	$1,470	$10,555
2032	$3,110,153	$3,682,838	84.4%	Strong	$361,440	$0	$1,608	$151,065
2033	$3,322,136	$3,863,827	86.0%	Strong	$372,283	$0	$1,718	$144,850
2034	$3,551,287	$4,063,429	87.4%	Strong	$383,451	$0	$1,872	$0
2035	$3,936,610	$4,425,201	89.0%	Strong	$394,955	$0	$2,065	$11,880
2036	$4,321,750	$4,792,786	90.2%	Strong	$406,804	$0	$2,263	$0
2037	$4,730,816	$5,191,047	91.1%	Strong	$419,008	$0	$2,453	$70,436
2038	$5,081,841	$5,536,340	91.8%	Strong	$431,578	$0	$2,634	$60,091
2039	$5,455,962	$5,910,511	92.3%	Strong	$444,525	$0	$1,481	$5,433,747
2040	$468,221	$769,141	60.9%	Fair	$457,861	$0	$320	$115,729
2041	$810,672	$959,430	84.5%	Strong	$471,597	$0	$523	$0
2042	$1,282,792	$1,283,222	100.0%	Strong	$485,745	$0	$743	$81,655

30-Year Reserve Plan Summary - Budgeted

11296-5

Fiscal Year Beginning: **01/01/13**

Interest: **0.1%** **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
2013	$17,686	$1,419,938	1.2%		Weak	$89,052	$83,334	$45	$28,700
2014	$161,417	$1,561,917	10.3%		Weak	$91,724	$0	$77	$105,678
2015	$147,540	$1,632,736	9.0%		Weak	$94,475	$0	$96	$6,578
2016	$235,533	$1,811,737	13.0%		Weak	$97,310	$0	$142	$0
2017	$332,985	$2,006,987	16.6%		Weak	$100,229	$0	$182	$38,999
2018	$394,396	$2,172,153	18.2%		Weak	$103,236	$0	$200	$92,974
2019	$404,858	$2,291,033	17.7%		Weak	$106,333	$0	$0	$1,033,333
2020	-$522,142	$1,449,394	0.0%		Weak	$109,523	$0	$0	$0
2021	-$412,619	$1,651,457	0.0%		Weak	$112,808	$0	$0	$0
2022	-$299,811	$1,864,340	0.0%		Weak	$116,193	$0	$0	$45,210
2023	-$228,829	$2,041,943	0.0%		Weak	$119,678	$0	$0	$46,903
2024	-$156,053	$2,228,179	0.0%		Weak	$123,269	$0	$0	$0
2025	-$32,784	$2,473,509	0.0%		Weak	$126,967	$0	$0	$74,282
2026	$19,901	$2,655,044	0.7%		Weak	$130,776	$0	$24	$75,629
2027	$75,071	$2,846,151	2.6%		Weak	$134,699	$0	$0	$335,266
2028	-$125,495	$2,781,248	0.0%		Weak	$138,740	$0	$0	$44,714
2029	-$31,469	$3,019,517	0.0%		Weak	$142,902	$0	$0	$241,909
2030	-$130,476	$3,067,849	0.0%		Weak	$147,189	$0	$0	$0
2031	$16,713	$3,373,005	0.5%		Weak	$151,605	$0	$44	$10,555
2032	$157,807	$3,682,838	4.3%		Weak	$156,153	$0	$80	$151,065
2033	$162,976	$3,863,827	4.2%		Weak	$160,838	$0	$86	$144,850
2034	$179,049	$4,063,429	4.4%		Weak	$165,663	$0	$131	$0
2035	$344,843	$4,425,201	7.8%		Weak	$170,633	$0	$212	$11,880
2036	$503,808	$4,792,786	10.5%		Weak	$175,752	$0	$296	$0
2037	$679,856	$5,191,047	13.1%		Weak	$181,024	$0	$368	$70,436
2038	$790,811	$5,536,340	14.3%		Weak	$186,455	$0	$427	$60,091
2039	$917,602	$5,910,511	15.5%		Weak	$192,049	$0	$0	$5,433,747
2040	-$4,324,096	$769,141	0.0%		Weak	$197,810	$0	$0	$115,729
2041	-$4,242,015	$959,430	0.0%		Weak	$203,745	$0	$0	$0
2042	-$4,038,271	$1,283,222	0.0%		Weak	$209,857	$0	$0	$81,655