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WASHINGTON STATE CHAPTER *of* Community Associations Institute

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Better Budgeting

7 Steps to Smart, Strategic Spending

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4/16/25

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Overview

- Start Early
- Regularly Review Financial Reports
- Review Budget Performance
- Review Service Contracts
- Additional Items
- Reserve Fund
- Don't Get Surprised

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Step One: Start Early . . . No, really

- Begin budgeting discussions months in advance
- Connect with Reserve Specialist –
Late March early April
Plan to complete study by end of May
- Have status updates for current yr planned projects
- Let them know of unexpected reserve expenditures.

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Sample Calendar

<u>January</u> Prep and obtain tax documents and info	<u>February</u> Finalize previous year's financials and submit for audit	<u>March</u> Reach out to Reserve Specialist to schedule upcoming study	<u>April</u> Taxes 4/15
<u>May</u> Receive reserve study draft present to board for review	<u>June</u> Outline budget	<u>July</u> Draft budget for review with accounting department	<u>August</u> Finalize budget draft and get to board promptly
<u>September</u> Approve early and schedule ratification meeting	<u>October</u> Budget Ratification Meeting	<u>November</u> Prepare and send mailers for new budget	<u>December</u> Courtesy notification to remind owners of new payment starting January

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Step Two: Review Budget Performance

Take it one section at a time up to 14 months of history

- Review past year's financial trends to anticipate needs
 - Compare against current budget performance
 - Identify trends and areas of overspending or underspending
- Adjust future budgets based on past performance
- Identify chronic repairs – Frequent pipe leaks, frequent water intrusions from roof, and/or roof repairs, frequent sewer blockages
- Are larger projects needed to resolve?

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Step Three: Regularly Review Financial Reports

- Conduct monthly or quarterly financial review relevant to your association. Make this a habit.
- Review association's financial reports to identify:
 - Actuals vs. budgeted costs.
 - Monthly cash flow.
 - 3-month rule of thumb – three months of expenses covered in operating account.
- Identify and address discrepancies early, including one-off items not planned for the upcoming year.
- Whether or not to borrow from reserves.

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Step Four: Review Service Contracts

- Check your service contracts
 - When do they renew?
 - Are automatic increases written in?
- Anticipate additional costs for community improvements and amenities
- Set long-term financial goals for sustainability



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Additional Items

- Bad Debt Write-off
 - Handling Delinquencies
- Cash Carried Forward –
 - What to do with unused budgeted funds for specific projects
- Seek expert advice on investment strategies for reserves
- Inspections and permits for amenities
 - Pool
 - Elevator
 - Fire & Life Safety Systems

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Reserve Fund

- Reminder: The reserve study is a tool for planning repairs/replacements for large projects; maintenance or improvements.
Are all your components listed?
Connect with the Reserve Specialist on it.
- 10% of Association's income should be the minimum reserve contribution.

Summary -

Reserve Study Executive Summary

No-Site-Visit

Random Happy HOA

Report #: 12345

Anywhere, WA

of Units: 100

Level of Service: Update "No-Site-Visit"

January 1, 20XX through December 1, 20XX

Findings & Recommendations

as of January 1, 20XX

Starting Reserve Balance

\$583,964

Currently Fully Funded Reserve Balance

\$791,537

Average Reserve Deficit (Surplus) Per Unit

\$4,848

Percent Funded

49.8 %

Recommended 2022 Monthly "Full Funding" Contributions

\$8,400

Most Recent Reserve Contribution Rate

\$8,400

Reserve Fund Strength: 49.8%

Weak

Fair

Strong

< 30%

X

< 70%

> 130%

Risk of Special Assessment:

High

Medium

Low

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves

1.00 %

Annual Inflation Rate

3.00 %

This is a No-Site Visit update based on a prior Reserve Study prepared by Association Reserves for your 20XX Fiscal Year. No site inspection was performed as part of this Reserve Study.

This Reserve Study was prepared by a credentialed Reserve Specialist (RS #000).

Your Reserve Fund is currently at 49.8 % Funded. Being between 30% and 70% Funded represents a fair Reserve position. Associations in this range have a Medium risk of Reserve cash-flow problems (such as special assessments and/or deferred maintenance) in the near future.

Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase your Reserve contributions.

Your multi-year Funding Plan is designed to provide for timely execution of Reserve projects and gradually bring your association closer to the "Fully Funded" (100%) level.

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Don't Get Surprised

- New communities – Developer Turnover
 - Vendor and Service Contracts
 - Start your own budget plan
- Transitioning communities with limited financial history



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In Closing

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Questions?



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This course is approved by Community Association Managers International Certification Board (CAMICB) to fulfill continuing education requirements for the CMCA® certification

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