

DECONSTRUCTING YOUR OPERATING BUDGET



Presented by:

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THE BOARD'S JOB

To Protect, Maintain and Enhance the Value of the Assets

The assets are comprised of the buildings and grounds, property values, **financial health** of the community, and residents' perception of their quality of life while residing in their community.

Owners are Actually Happy

CAI 2016 National Survey

- 87% of residents rate their overall community association experience as positive (65%) or neutral (22%).
- 84% say members of their elected governing board "absolutely/or for the most part, serve the best interests of their communities."
- 69% say their community managers provide value and support to residents and their associations.
- 88% say their association's rules protect and enhance property values (66%) or have a neutral effect (22%); only 5% say the rules harm property values.

These findings objectively refute the unfounded and unsubstantiated myth that the community association model of governance is failing to serve the best interests of Americans who choose to live in common-interest communities.

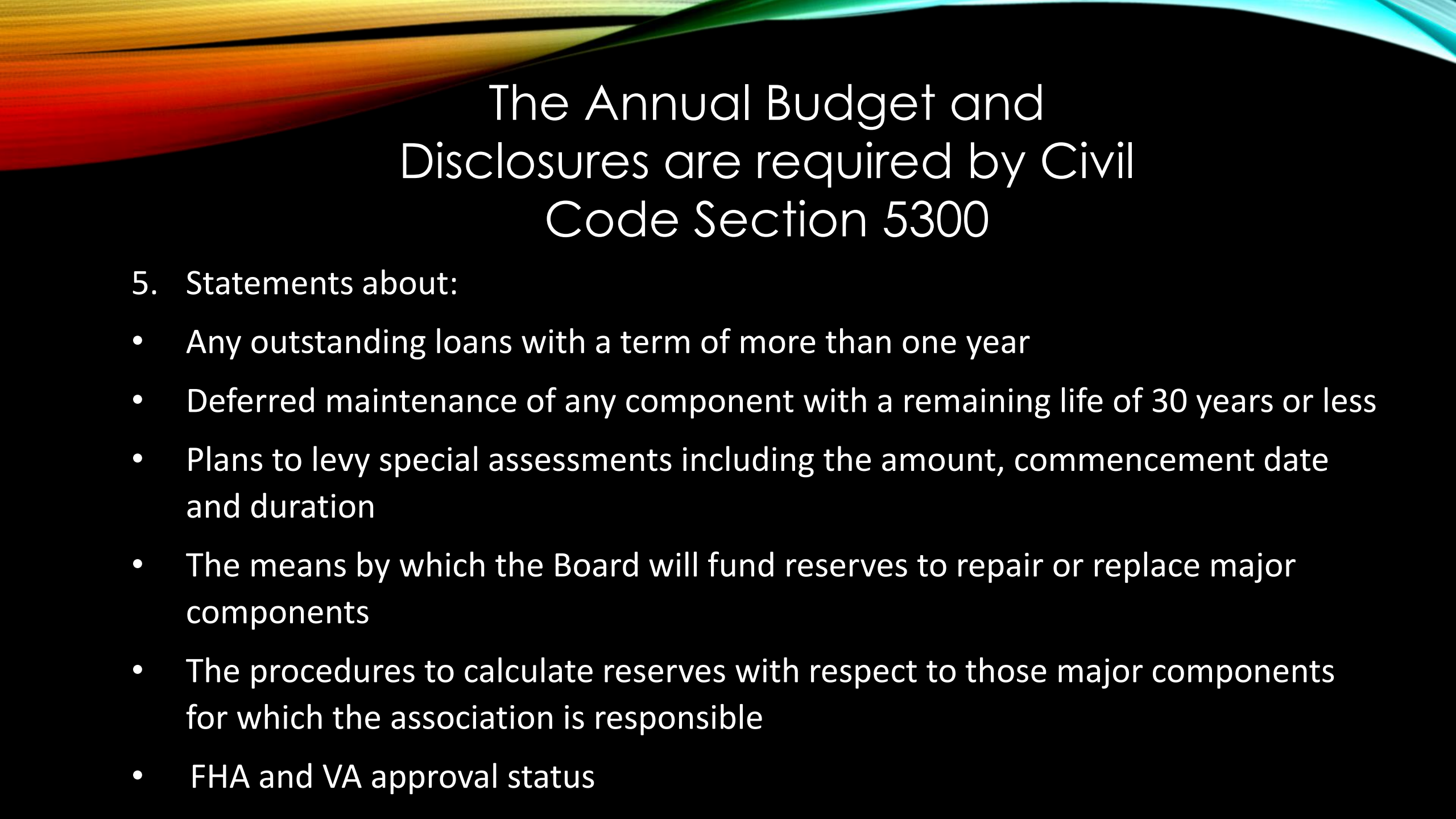
The same study noted that 70% of respondents noted that a positive Association experience was a result of Effective Board Leadership.

The Annual Budget and Disclosures are required by Civil Code Section 5300

The Annual Budget and related disclosures are required by Civil Code Section 5300 to be distributed between 30 to 90 days before the fiscal year end, and shall include:

1. A pro forma operating budget, showing the estimated revenue and expenses on an accrual basis
2. Summary of the association's reserves prepared pursuant to section 5565
3. Summary of the reserve funding plan and note that the full study is available by request
4. Summary of the association's insurance policies

continued



The Annual Budget and Disclosures are required by Civil Code Section 5300

5. Statements about:

- Any outstanding loans with a term of more than one year
- Deferred maintenance of any component with a remaining life of 30 years or less
- Plans to levy special assessments including the amount, commencement date and duration
- The means by which the Board will fund reserves to repair or replace major components
- The procedures to calculate reserves with respect to those major components for which the association is responsible
- FHA and VA approval status

6. Policy Statement, including

- Official Communications Contact Information page
- Request for Annual Notice of Address, Representative and Rental Status
- Location for Posting General Notices
- Notice of Option to Receive General Notices by Individual Delivery
- Notice of Board Minutes Access
- Mailing Address for Overnight Payment of Assessments
- Governing Document Enforcement Policy/Schedule of Penalties
- Assessment Collection Policy
- Notice of Assessments and Foreclosure
- Internal Dispute Resolution (IDR) Rights
- Alternative Dispute Resolution (ADR) Rights
- Welcome Packet, Rules, Architectural Standards and Forms, Schedule of Fees

The requirements for disclosures continue to expand every year.

Boards should consult with their manager and corporate counsel.

RESERVES: 3 YEAR PLAN

THE RESERVES

The first step in the process is to order your reserve study update: an accounting update or the required physical inspection at least every three years.

Order your update at least six (6) months before the fiscal year end.

Use your last study and notate what work was done and the actual cost.

Three Year Projects Summary Report			
Sample HOA		Report Date:	8/28/2017
		Fiscal Year End:	9/30/2017
2017/18 Anticipated Reserve Projects Schedule			
17	Exterior Lighting	Exterior Pole Lights	3,783
18	Exterior Lighting	Exterior Pole Lights, Poles	5,670
20	Miscellaneous	Quarterly Inspection Annual Fund	10,500
26	Exterior Furnishings	BBQ Grills	922
27	Exterior Furnishings	Park Bench, Metal Frame	3,125
29	Exterior Furnishings	Trash Receptacles	593
31	Fences & Railing	Wood Fence, Repair Fund (For HOA Fencing)	15,000
33	Landscape	Basins & Drainage Systems, Repair Fund	11,508
37	Landscape	Tree Maintenance	10,000
45	Pavement	Asphalt Pavement, Replacement - Parking	8,201
2017/18 Total Anticipated Reserve Expenditure			69,302
2017/18 Total Anticipated Reserve Fund Beginning Cash Balance			240,564
2018/19 Anticipated Reserve Projects Schedule			
20	Miscellaneous	Quarterly Inspection Annual Fund	10,815
37	Landscape	Tree Maintenance	10,300
2018/19 Total Anticipated Reserve Expenditure			21,115
2018/19 Total Anticipated Reserve Fund Beginning Cash Balance			324,974
2019/20 Anticipated Reserve Projects Schedule			
14	Roofing	Gutters & Downspouts	68,532
19	Miscellaneous	Miscellaneous Mechanical Systems Repair Fund	11,139
20	Miscellaneous	Quarterly Inspection Annual Fund	11,139
37	Landscape	Tree Maintenance	10,609
39	Landscape	Wood Retaining Wall - Entry Monument	2,512
46	Pavement	Concrete Pavement, Repair Fund	10,609
2019/20 Total Anticipated Reserve Expenditure			114,541
2019/20 Total Anticipated Reserve Fund Beginning Cash Balance			458,898

30 YEAR FUNDING SCENARIO

THE RESERVES

- Once you've confirmed that the component list is accurate, the funding plan should be reviewed.
- This HOA has no increases for three years but does not achieve 100% funding over 30 years.

What do you want your reserves to look like?

Cash Flow Funding Plan											
Sample HOA										Report Date:	11/29/2017
										Fiscal Year End:	9/30/2017
Fiscal Year	Annual Reserve Contribution	Monthly Reserve Assessment	Percent Increase	Anticipated Beginning Balance	Estimated Interest	Anticipated Reserve Expense	Anticipated Special Assessment	Anticipated FYE Cash Balance	Fully Funded Balance	Surplus / (Deficit) of FFB	Projected FYE Percent Funded
2017/18	152,000	194.87	0.00%	240,564	1,713	69,302	0	324,974	831,650	(506,676)	39%
2018/19	152,000	194.87	0.00%	324,974	3,039	21,115	0	458,898	940,326	(481,428)	49%
2019/20	152,000	194.87	0.00%	458,898	3,444	114,541	0	499,801	959,198	(459,398)	52%
2020/21	152,000	194.87	0.00%	499,801	4,412	58,647	0	597,566	1,039,467	(441,901)	57%
2021/22	152,000	194.87	0.00%	597,566	4,412	156,384	0	597,593	1,024,831	(427,238)	58%
2022/23	152,000	194.87	0.00%	597,593	1,042	493,350	0	257,286	666,138	(408,853)	39%
2023/24	152,000	194.87	0.00%	257,286	1,913	66,021	0	345,178	740,396	(395,218)	47%
2024/25	152,000	194.87	0.00%	345,178	2,870	58,173	0	441,875	828,632	(386,758)	53%
2025/26	152,000	194.87	0.00%	441,875	3,996	42,296	0	555,575	939,648	(384,073)	59%
2026/27	152,000	194.87	0.00%	555,575	2,821	273,474	0	436,921	819,771	(382,850)	53%
2027/28	156,560	200.72	3.00%	436,921	3,249	111,995	0	484,735	866,630	(381,895)	56%
2028/29	161,257	206.74	3.00%	484,735	4,418	42,911	0	607,499	990,180	(382,681)	61%
2029/30	166,095	212.94	3.00%	607,499	4,291	178,359	0	599,526	982,178	(382,652)	61%
2030/31	171,077	219.33	3.00%	599,526	5,506	48,946	0	727,163	1,111,611	(384,448)	65%
2031/32	176,210	225.91	3.00%	727,163	6,618	65,356	0	844,634	1,232,536	(387,902)	69%
2032/33	181,496	232.69	3.00%	844,634	6,105	234,143	0	798,092	1,187,886	(389,794)	67%
2033/34	186,941	239.67	3.00%	798,092	7,652	32,896	0	959,789	1,353,966	(394,177)	71%
2034/35	192,549	246.86	3.00%	959,789	8,907	69,058	0	1,092,187	1,492,712	(400,525)	73%
2035/36	198,326	254.26	3.00%	1,092,187	10,021	90,040	0	1,210,494	1,619,087	(408,592)	75%
2036/37	204,275	261.89	3.00%	1,210,494	8,842	326,293	0	1,097,319	1,511,142	(413,823)	73%
2037/38	210,404	269.75	3.00%	1,097,319	2,359	861,398	0	448,684	854,188	(405,504)	53%
2038/39	216,716	277.84	3.00%	448,684	3,436	105,085	0	563,751	962,076	(398,325)	59%
2039/40	223,217	286.18	3.00%	563,751	3,792	184,587	0	606,173	997,029	(390,856)	61%
2040/41	229,914	294.76	3.00%	606,173	5,071	99,052	0	742,106	1,127,017	(384,911)	66%
2041/42	236,811	303.60	3.00%	742,106	6,012	140,948	0	843,980	1,223,816	(379,835)	69%
2042/43	243,915	312.71	3.00%	843,980	7,598	84,143	0	1,011,351	1,388,272	(376,921)	73%
2043/44	251,233	322.09	3.00%	1,011,351	9,411	70,251	0	1,201,744	1,578,403	(376,659)	76%
2044/45	258,770	331.76	3.00%	1,201,744	10,602	141,532	0	1,329,584	1,707,444	(377,860)	78%
2045/46	266,533	341.71	3.00%	1,329,584	12,772	52,368	0	1,556,521	1,939,019	(382,498)	80%
2046/47	274,529	351.96	3.00%	1,556,521	10,904	466,169	0	1,375,784	1,758,355	(382,570)	78%

OPERATIONS

Once you've completed the reserve funding portion of the budget, the next step is to compile the data for the operations

Think about the following while compiling the data for your budget:

- What improvements could be made to your community?
- What lies in the future for your community?
- Does the Board have a long term plan? Multi-year budgeting? Facilities plan?
- How has your community changed in the past decade?
- How will it change in the next decade?
- Improving a sense of community – funding for a social event?
- Utility and insurance expenses are the most likely to vary widely year over year

OPERATIONS

Start with a multi-year history of the budget; projections versus actual expenses

Sample HOA										
FISCAL YEAR January 1 to December 31										
65 Units										
	2015		2016		2017		2018			2019
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	BUDGET	ACTUAL	PER UNIT
INCOME										
Member Assessment	222,300	231,400	249,600	249,600	249,600	249,600	249,600	145,600	145,280	0
Late Fee Income	120	1,197	0	2,864	440	2,503	440	257	1,318	0
Returned Check Charges	0	0	0	30	0	30	0	0	30	0
Fines (Violation)	0	0	0	0	0	200	0	0	0	0
Interest Income Operating	0	5	0	16	12	10	6	4	9	0
Interest Income (Reserve)	36	222	0	1,144	0	1,153	688	401	521	0
Misc Income	1,200	125	0	907	0	320	0	0	0	0
Insurance Claims	(1,200)	0	0	0	0	0	0	0	0	0
Collection Income/Expense	(120)	0	0	0	0	0	0	0	0	0
TOTAL INCOME	222,336	232,950	249,600	254,561	250,052	253,816	250,734	146,262	147,158	0
EXPENSES										
TRANSFER TO RESERVE										
Reserve Deposit	113,880	104,390	145,000	145,000	152,000	152,000	152,000	88,667	88,667	0
Reserve Interest	36	222	0	1,144	0	1,153	688	401	521	0
TOTAL RESERVE	113,916	104,612	145,000	146,144	152,000	153,153	152,688	89,068	89,187	0
ADMINISTRATIVE EXPENSE										
Management Contract	19,500	19,000	18,000	18,000	18,000	19,000	19,775	11,535	11,728	0
Management Extra	1,320	893	650	125	650	85	450	263	393	0
Delinquent Letter Fee	0	200	0	510	440	480	400	233	330	0
Copies and Printing	600	1,051	1,200	451	1,200	376	1,200	700	225	0
Postage	300	503	400	422	650	535	650	379	564	0
Office Expense	600	779	0	38	0	272	0	0	0	0
Bank Fees	0	0	0	49	0	0	0	0	0	0
Coupon Book Expense	0	(22)	0	124	125	114	120	70	74	0
Storage Fees	240	285	0	0	0	0	0	0	0	0
CPA	1,200	1,400	1,400	1,400	1,400	1,400	1,400	817	1,400	0
Website	1,200	0	0	0	0	0	0	0	0	0
Federal Income Tax	0	0	0	0	0	0	0	0	0	0
State Income Tax	72	0	0	10	10	10	10	6	10	0
Sec. of State Filing Fee	0	0	0	35	70	35	70	41	0	0
License and Fees	924	10	70	0	0	0	0	0	0	0
Legal - General	3,600	3,321	3,600	244	3,600	3,317	3,600	2,100	3,862	0
TOTAL ADMINISTRATIVE	29,556	27,420	25,320	21,408	26,145	25,624	27,675	16,144	18,585	0

OPERATIONS

(continued)

Sample HOA											
FISCAL YEAR January 1 to December 31											
65 Units											
OPERATING EXPENSES											
Insurance	24,780	36,471	24,780	24,502	26,000	25,486	26,191	15,278	16,859		0
Landscape Contract	18,900	22,920	18,900	18,690	18,000	20,810	19,000	11,063	11,340		0
Landscape Renewal	0	700	0	0	0	0	600	350	0		0
Landscape Extras	900	75	1,200	83	120	0	120	70	1,142		0
Landscape Tree Work	600	1,100	0	0	0	120	0	0	0		0
Weed Abatement	1,200	0	1,500	3,240	3,800	1,900	3,240	1,890	0		0
Irrigation Repairs	1,320	2,261	1,500	4,927	5,000	449	1,200	700	250		0
Backflow Valve Testing	240	280	240	260	260	260	260	152	0		0
General Maintenance	120	0	360	196	360	36	360	210	585		0
Janitorial	600	160	120	0	120	457	600	350	259		0
Maint. and Janitorial Supplies	120	0	0	0	120	0	0	0	0		0
Pest Control	300	325	600	345	360	0	360	210	0		0
Maintenance - Walks/Drives	600	(3,440)	0	0	0	0	0	0	0		0
Maintenance - Lift Station	10,020	5,000	0	0	0	0	0	0	0		0
Window Washing	0	0	1,200	0	0	0	0	0	0		0
Common Area Repairs	1,200	1,477	0	939	1,200	0	1,200	700	411		0
Roof and Gutter Repairs/Maint.	2,100	2,300	1,800	905	1,200	3,475	4,000	2,333	0		0
Gutter Cleaning	0	0	2,800	2,040	2,400	2,046	2,400	1,400	1,990		0
Electrical Repairs/Supplies	0	81	800	0	0	0	0	0	350		0
Lighting Repairs	0	436	0	145	300	1,489	1,200	700	151		0
General Bldg. Maint. and Repairs	1,200	430	0	0	0	493	0	0	109		0
Drain Cleaning and Maintenance	360	0	3,600	1,029	1,007	14,331	5,000	2,917	18,721		0
Other Operational Expense	0	0	0	0	0	0	0	0	0		0
Social Events	0	0	0	60	60	0	0	0	0		0
Reserve Study Update	3,000	0	0	0	0	0	0	0	0		0
TOTAL OPERATING	67,560	70,575	59,400	57,360	60,307	71,352	65,731	38,343	52,167	0	0
UTILITIES											
Gas and Electric	660	55	660	2,143	2,000	847	600	350	479		0
Telephone	0	504	600	425	600	851	600	350	574		0
Water	8,124	11,676	12,000	8,396	9,000	13,424	7,000	4,083	6,640		0
TOTAL UTILITY	8,784	12,235	13,260	10,965	11,600	15,122	8,200	4,783	7,694	0	0
BAD DEBT/CONTINGENCY											
Bad Debt	2,400	0	0	31	0	0	0	0	0		0
Contingency	120	0	6,620	0	0	36	3,840	2,240	0		0
TOTAL B.D./CONTINGENCY	2,520	0	6,620	31	0	36	3,840	2,240	0	0	0

THINGS BOARD MEMBERS STRUGGLE WITH

Assessment Increases

Fiduciary duty

Catastrophes

Mid-year increases

Borrowing from Reserves

Regular Cost of Living Increase

Costs don't go down

Pay now or pay more later

Deferred Maintenance



THINGS BOARD MEMBERS CAN DO

Raise assessments annually

Bureau of Labor Statistics Inflation Calculator

2% January 2019 over prior year

Future owners shouldn't be burdened with today's expenses

When replacing reserve components, invest in longer lasting better quality products to reduce the frequency for repair/replacement

Add green technology solutions

Think about other sources of income



QUESTIONS?

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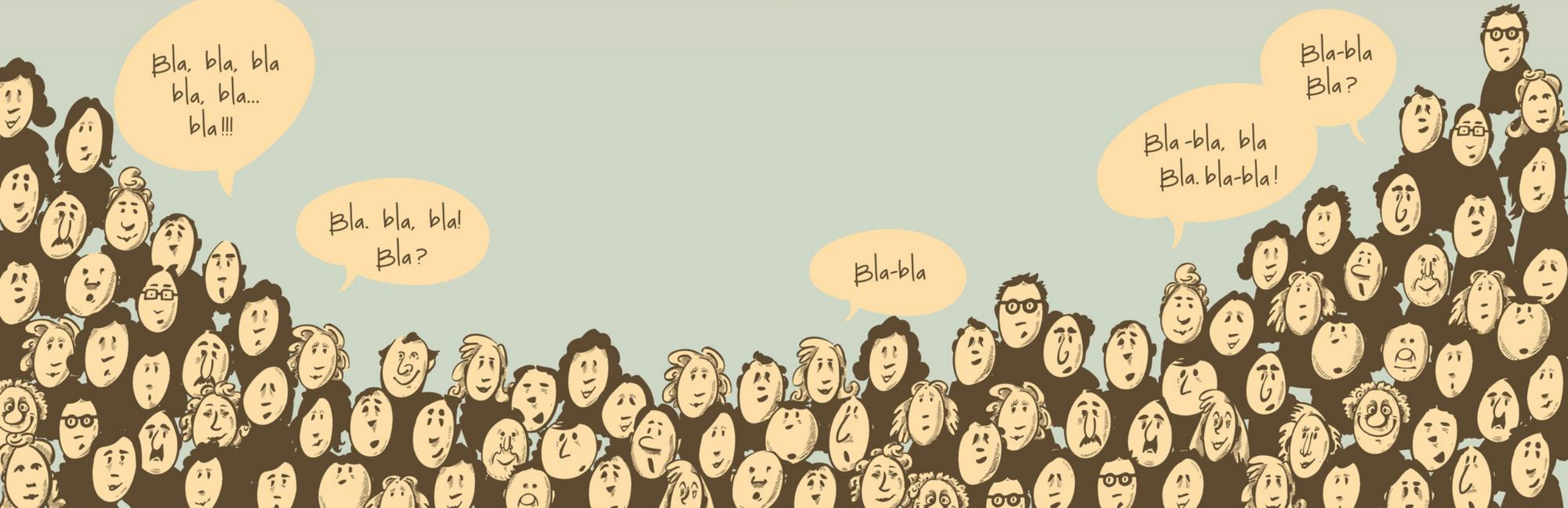
Bla, bla, bla
bla, bla...
bla!!!

Bla. bla, bla!
Bla?

Bla-bla

Bla-bla, bla
Bla. bla-bla!

Bla-bla
Bla?



THANK YOU FOR YOUR TIME!

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Please place all candy wrappers, popcorn boxes and soda containers in the receptacles provided in the lobby. The "Fasten Seat Belt" sign is off – you are now free to move about the cabin.