Budgeting for Success: Webinar Outline

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What are the Hallmarks of a Successful Budget?

1) The association has the cash it needs to function. That's your target. A board member's primary responsibility is to preserve, protect, maintain, and enhance the assets of the association (not maintain status quo, minimize assessments, or "keep things affordable").
2) Owners are paying the true cost of running the association. No fictional budgets ignoring actual expenses and trends, no "kicking the can down the road" for expenses (Operating and Reserves!) onto the shoulders of owners in future years.
3) Management, Board, and Owners expect annual adjustments. Train owners to expect annual changes (increases), if only to keep up with inflation. Maintaining the same assessment structure for multiple years is a sign of failure, not success!
4) Owners are aware of the issues at the association, and where their money is being spent. Be *transparent* and communicate. It's their money, they should know what the Board is doing to minimize expenses and what tradeoffs have been considered.

Bottom line: budgeting is more than the task of adjusting numbers (to make income equal expenses). Make sure you have aimed at the target of meeting the needs of the property. Expect to use your communication and salesmanship skills!

What are the Hallmarks of a Successful Budget Process?

1) Start early – six months in advance of the Fiscal Year End. It takes time. A lot of it. Starting early gives you options that you don't have when your back is against the wall.
2) Do your homework and research –Look at year-to-date and prior

budget figures. Know trends and expectations for the future.

3) Prepare a draft budget - so board/management can begin to ponder and deal with priorities and adjustments (communicate to owners, consider tradeoffs, etc.).
4) Follow up, follow up, follow up - The budget is a living document and a guide, so it will never be “perfect”, but publish it and get it in place!

What are the big Mistakes to avoid?

1) Aiming towards the wrong goal of keeping assessments artificially low, limiting assessment changes, hitting a "target" number, or avoiding a necessary special assessment.
2) Forgetfulness. Learn from prior years – typical delinquencies, which expenses typically went over-budget, etc!
3) Lack of foresight. The association was there before you became an owner, it will be there afterwards. See yourself as a "link in the chain" with a multi-yr perspective. Carry the association towards the future, and hand it off successfully and in good financial shape to the next board.
4) Unsuccessful delegation. Volunteer help is great and assists in owner buy-in, but make sure those who are helping have the right skill set and are responsible.
5) Lack of information. Estimates are fine when information is absent, but expect to base most of your decisions on year-to-date expenses, prior year budgets, or a current Reserve Study. Otherwise, you're dooming yourself to mistakes.

What Helpful Hints pave the way to a Successful Budget?

1) Focus on the goal (of providing the association with the cash it needs). That is your job as a board member… to preserve, protect, maintain, and enhance the (physical and financial) assets of the association.
2) Communicate to the owners, early and often. Communication builds owner confidence and buy-in to the process.
3) Start early. Everything takes time, and there are always delays. Budgets typically have distribution deadlines, so make sure and schedule the "back-time" for delays, such as someone being out of town, a particularly slow budget committee, etc.
4) Have a multi-yr plan. Be aware of the past. If the necessary changes are large, embark on a 3-yr or 5-yr plan to get assessments or Reserve contribution (see the "$10 solution") at the right level.
5) Deal with the truth. Someone needs to be the "grownup" or "designated driver" for the association, seeing its financial needs and speaking the truth. Have the courage to create a budget that gives the association the cash it needs. Some people may be "priced out" of the community over time, but how they spend their money is their decision, not yours.

6) Budget for the majority. Your job as a board member is to act in the best interests of the association, not cater to the whims (or perceived needs) of the vocal minority.

Board members – you are a corporate officer and fiduciary. You have a duty to run the association towards a successful future.

Managers – it is your professional duty to provide wise counsel to your association clients. Know what you are trying to accomplish (keep your eye on the goal), have a good process, avoid common mistakes, and take advantage of hints from those who have done it successfully many, many times before!

For additional Resources see:

www.ReserveStudy.com

www.Adamen-Inc.com

You can view the recorded webinar by clicking on this link:
https://youtu.be/2s14VFEjv7w

Audience Questions

Q: Can tree replacement, xeriscape, and other greenscape or landscape projects be funded through Reserves?

Yes. Projects passing the National Reserve Study Standards four-part test (Common Area maintenance responsibility, with a limited Useful Life, a predictable Remaining Useful Life, and above a minimum threshold cost of significance) should be funded through Reserves. Landscape-related projects often pass this four-part test.

Q: My association's annual budget is around $45K. We keep about $20K balance to ensure that we have adequate funds to cover unexpected expenses and larger annual expenses. Is this too much, too little or about right? Is there a "typical" operating fund balance an association should have as a cushion for unexpected costs?

Best practice for balance in your checking (Operating) bank account is commonly recommended to be about two or three months of income. With a $45k budget ($3750/mo), that means $7500 - $11,250. So $20k is above typical best practice.

Q: If an item is budgeted, is it recommended to spend it just because it is budgeted, even if it not needed for that year?

No. Association funds are precious. Don't spend them needlessly. Coming in under-budget on one line item offsets a budget line item that went over budget, and allows you to truthfully see at the end of the year how much money was <u>needed</u> by the association (allowing you to adjust your budget expectations for the following year).

Q: What is the ideal percentage of Reserve Fund?

Ideal is the 100% level, where the Reserve Fund is equal to the value of Reserve component deterioration at the association. In general, associations above 70% Funded enjoy the benefits of a strong Reserve Fund (absence of special assessments and deferred maintenance), while special assessments and deferred maintenance are common among associations under 30% Funded.

Q: You state that most communities are underfunded. Is it possible that the standard of 70-130% funded is too high, and not realistic?

No. The data clearly shows that special assessments are <u>rare</u> among associations above 70% Funded because they have the funds needed to perform projects in a timely manner. Special assessments are <u>frequent</u> among associations under 30% Funded, because those associations fundamentally don't have the money they need to perform necessary projects. Special assessments are an obvious "great equalizer", catching associations trying to underfund their Reserves. Attempting to underfund Reserves is always counterproductive, resulting in special assessments, expensive deferred maintenance, and an adverse effect on home values.

Q: What is your opinion on moving monies within a budget from one line item to another during that budget year? Moving the budgeted money from one line item to another would not result in any change to the bottom line of the total budget. And if this is acceptable, does it not affect any variance analyses that would take place?

Better to leave it as-is, so at the end of the year you can clearly see which line items were over budget and which ones were under-budget, and adjust the budget accordingly next year. This is not a game to "get each line item right". The objective is to provide for the needs of the association. Leaving the numbers "as-is" helps see that bigger picture.

Q: Should a Statement of Appropriated Retained Earnings be used to secure funding for Reserve components?

Not necessary. It is much simpler than that. Regular Reserve contributions are expected in community associations to prepare the association for large, irregular Reserve expenses by offsetting the daily/weekly/monthly predictable cost of deterioration.

Q: I'm the brand new treasurer of our community. We're planning to repave our roads this fiscal year. Was it OK that we didn't add anything to reserves last year knowing this expense was coming?

Best practice, as it is fairest and results in the lowest cost to the homeowners, is to make appropriately sized contributions on an ongoing basis that offset the ongoing cost of deterioration. Make regular contributions to Reserves, so when you encounter an expense, the association will have the funds.

Q: Accrual v. Cash basis thoughts given the volunteer board members?

Typically in the HOA business we see a modified accrual system of accounting: Accrual Income, Cash Expenses. This seems to be a workable way that most people can understand. If not, Cash based is the simplest to understand for Boards having a tough time.

Q: How often should you do an YTD budget, if you are already doing a monthly budget?

It's an ongoing process. YTD figures should be available monthly (or quarterly, depending on how often financial statements are produced) for the board to review.

Q: How often should you update your reserve study?

While state laws may have lower standards (update your Reserve Study every 3rd or 5th year, or update it with a site inspection every x years), best practice is to update your Reserve Study annually. Reserve contributions are typically 15-40% of an association's total budget, worthy of annual review. In addition, statistics show that associations performing (inexpensive) annual Reserve Study updates have a 35% lower rate of special assessments than associations neglecting to update their Reserve Study information for three or five years at a time. Reserve contributions get out of balance surprisingly easy and quickly!

Q: Typically what is the cost for an updated study? Isn't it too expensive to do annually?

A "Full" Reserve Study (which typically only needs to be done once) prepared by a credentialed, independent professional regularly costs in the range of 1% or less of an association's total annual budget. Update Reserve Studies (Update With-Site-Visit and Update No-Site-Visit), the kind you'll be doing annually on an ongoing basis, are significantly less expensive than a "Full" Reserve Study.

Q: My association recently had a reserve study conducted. They had two alternative funding options. One was $60 more than our current monthly transfer; the other was $400 less. Both increase 3% a year. Comments?

You haven't provided enough information for me to evaluate one recommendation over the other. Every owner should pay their fair share over time through budgeted Reserve contributions that offset deterioration. Because inflation is real, you should expect your Reserve contributions to increase into the future, offsetting inflationary trends.

Q: Are Directors obligated to follow a reserve study?

No, but there is some liability exposure if a Reserve Study prepared by an independent and credentialed Reserve Study professional was ignored without a valid reason.

Q: If the board doesn’t follow "professional advice" in the reserve study, will D&O insurance protect the board?

D&O insurance is for accidental events, not intentional underfunding of Reserves. Expect D&O insurance will not cover the board’s defense if their reason for not following the reserve study was a conscious (short-sighted and selfish) decision to keep assessments low and push reserve funding into the future. Remember it is the board’s job to provide for the needs of the association. See more on the D&O subject here, and read more about Reserve Studies and the Business Judgment Rule (against which the decisions of Board members will be judged) here.

Q: What's a good come back for board members that want to minimize maintenance payments on the grounds that the poorer owners won’t be able to afford more and if we increase maintenance it will simply throw those folks into delinquency and we'll be in worse shape.

Express compassion for their situation as their friend and neighbor, but remind them that your job as a board member is to run the affairs of the association, and an increase is necessary. Your legal responsibility as a board member is to the association: to preserve, protect, maintain, and enhance its assets. If some people are giving you pressure expressing their personal financial concerns, it is their responsibility to either adjust their spending habits so they can afford to live in the association, or sell and move to a more affordable home (selling to someone who can afford the true cost of living in your association).

Q: I understand that keeping assessments artificially low is not desirable. However, many households in our over-55 community operate on fixed household budgets. Even small increases in the assessment could be a hardship for some residents. I feel that it is also important to keep assessments from getting out of control. If there is not some attempt to manage the increase in assessments, they could quickly get high enough to drive some people out of our community.

See above. I applaud your compassion. But board members need to control their feelings and act in light of their responsibilities. Board members are like the “designated drivers” for the association, making sober decisions to bring the association safely to the future. You have no responsibility to keep current residents in your association or to pursue “affordability”. There will always be less expensive places people can live than your association. People can choose to move to less expensive housing as they see fit.

Q: What do you do if your community is over funded?

Our recommendation is to continue to make Reserve contributions, but at a rate slightly below what is needed by the association. In this way owners remain in the habit of making contributions, and that rate can be increased slightly without much disruption to the budget after a few years when the association's Reserve Fund has dropped down near the 100% level.

Q: Our HOA will be coming into a large capital infusion from the sale of a communal asset. There will be great pressure to apply these funds to a large infrastructure project for which we already have a loan. Can you suggest a percentage split between reserves and this large project?

Loans are expensive. Pay it off as soon as possible.

Q: We are seeing issues in a Developer Turnover budget year, when build-out was stalled for several years as has happened in many communities. Now with more homeowners the community needs are increasing, this should be the time when reserves should grow too.

Correct. Adequate Reserves need to be collected, no matter who is in control (the Developer or homeowner board members). In newer associations, the Reserve Fund typically grows rapidly due to few expenses in the early years.

Q: Can you talk a little bit about what the best process is for budgeting and planning to expend reserve funds ... we approve the budget for operating expenses and how much to put into reserves each year but we don't do a good job of discussing and approving what reserve expenses we will incur in a given year.

At the beginning of each year, look to see which Reserve projects are scheduled to occur (hopefully you have a current-year Reserve Study for this purpose!). There are different failure or "end of life" modes. See an article on "do on schedule" or "wait" by clicking here. If the Board is uncomfortable with evaluating the projects scheduled to occur, or making these types of (BIG) decisions, you can appoint a committee of owners, preferably those with some construction, financial, or general business backgrounds, to review the issues and make a recommendation. This committee could be allowed to talk with the reserve preparer and other experts (and pay them – the experts, I mean) as needed to give real time input and recommend a plan for actual work to commence. I like this approach because it brings more stakeholders (owners) in to the process and allows them to take ownership, along with the Board, in the eventual outcome. However, Board, make sure you give the committee specific goals, deadlines and parameters, and ensure they report to the Board periodically while in process. The end result is still your responsibility!

Q: What are key questions to ask a Reserve Study company when asking for bids?

As with any potential business partner for the association, check their references and experience, view a sample product (make sure you find it clear and informative) and look for professional credentials: either the "RS" (Reserve Specialist) or "PRA" (Professional Reserve Analyst).

Q: What is the best method to put together a budget?

Take real income and expenses, and add an inflation factor to accommodate real cost increases. The key word here is: REAL

Q: What is the most efficient way to budget for multiple maintenance projects? Our condo association provides exterior maintenance on all of our units.

See above: it's the same

Q: What's the best way to project or anticipate increases necessary due to inflation when preparing the annual budget?

Check (Google) the Consumer Price Index (CPI) for your region.

Q: Where can I go to learn more about Reserve Studies (online training)?

We have a deep resource of materials in our online Library or in our list of recorded webinars and webinar outlines.

Q: How do I go about getting a Reserve Study proposal?

Easy! Click here and enter some brief information about your association and where you'd like us to send/email the proposal.

Q: Did you say $10/mo/owner should be a good Reserve Funding plan?

No. For many underfunded associations we've proposed what we call the "$10 solution". It likely took many years for your association to develop the habit of Reserve underfunding. So if you can't take a larger step, build the size of your Reserve contributions $10/mo/owner each year for the next 3-5 years. Read more here.

Q: If we have an existing (for a prior year) Reserve Study, do we need to start over with a new one, or can we update it?

If the prior Reserve Study was prepared by a credentialed Reserve Study professional according to National Reserve Study Standards, the same or a different Reserve Study professional can update it either with or without a site inspection (depending on your needs and time that has lapsed since the last Reserve Study). If you don't have such a reliably prepared Reserve Study, you'll need to start over with a "Full" Reserve Study responsibly prepared according to National Reserve Study Standards.

Q: I want to budget for capital expenses such as additions to buildings. Is this a reasonable expense for the budget?

The board's responsibility is to protect, maintain, and enhance the assets of the association. If that means adding an asset to the association (something appropriate to maintain or enhance property values), by all means yes. Just don't pay for "new" additions to the association from Reserves. Reserve funds have been set aside for repairing or replacing existing assets.

Q: What is the right way to budget for totally new capital improvements?

The most common way is to pass a special assessment (or temporary assessment increase) to collect funds for that project.

Q: Once you complete a capital improvement project, can this be included in the reserve?

Yes. Once a capital improvement is installed, it can and should be added to the Reserve Component List.

Q: What are some tips for proposing an increase to reserve contributions?

First: Never refer to Reserve contributions as "for the future". Characterize Reserve contributions as offsetting ongoing deterioration, which makes them sound more like any other bill the association is obligated to pay. Second: Reserve expenses are inevitable and unavoidable, so if you underfund Reserves you'll just pay the same money (or more!) later by way of special assessments or declining home values. Third: it's the board's responsibility to protect, maintain, and enhance the assets of the association, and providing funds to offset deterioration is the board's job.

Q: If you have an HOA that you took over that has deferred maintenance, already high monthly dues and can't pass a special assessment to save the complex...How do you sell it to the membership that dues increase or special assessment are at times, required necessities?

Communicate, communicate, communicate – Early, often, and continuously. News and info <u>every month</u> about the issues the community faces. Be creative with this process – don't send the same information out every time in the same way. Once a month, something should come from the Board that touches the residents directly. For example, let's say the pool plaster is failing and should have been replaced 5 years ago. Take pictures of the pool and its flaking and cracking plaster. Add information about what it costs to restore it, and also add a picture of what it would look like repaired. Put in the dollar amount, and bring it home: "Repairing our pool and making it a joy to use again will be a total burden of $4.50 per month per unit for one year." Reality of the problem, reality of the cost, reality of the current and future look of the pool. And be very aware of the tone of your communications: Factual, informational, and <u>positive</u>.

Q: Please discuss whether it is appropriate for a budget to include estimated late fees, interest/finance charges and fine income. The prior Manager said it should not be included.

It's not something I typically recommend, as that income is almost always just a "guesstimate" and typically used as a crutch so the Board can keep assessments lower. Budgeting for "blue sky" may work this time – or may not. Is that the charge of a trustee, to count on income on behalf of the community that might not be there? If you end up with a few thousand more in income, there is always somewhere that money needs to go, either to operating, or reserves. Very few communities have too much income.

Q: Are there any inexpensive digital tools to help in the budget process?

A spreadsheet should do the job: income at the top, followed by a list of anticipated expenses, then a Reserve transfer at the bottom. In addition, most commercial association software packages have budget modules.

Q: Should the manager or treasurer prepare the draft budget?

Depends on the community, the wishes of the Board, and the skill-set of the treasurer.

Q: Our HOA sets aside $ for reserves. The accountant keeps the $ in the operations account and then at the end of the fiscal year puts that money and any other excess revenue into the reserve account. Should the accountant be putting the $ each month into the reserve account?

Best practice is to have two separate funds, Operating and Reserves, and to make Reserve transfers at each billing cycle (to make sure it gets done, and to make sure it doesn't get accidentally spent!).

Q: re: transparency/communicating - how is this best performed when you have 30 to 40% renters?

Communicate to renters in addition to owners. Renters can be long-term residents of the association and have their own interest in it being a nice place to live. They can also be an important conduit to owners, giving them vital feedback on the condition of the community, such as "I used to like living here but janitorial has been cut back and now the laundry rooms are always dirty, so I'm planning to move out."

Q: I am a professional association manager. A common question I get from board members is what percentage of reserves is good to have set aside? We do reserve studies; however, the board still asks if there is a generic dollar amount/percentage to have for reserves. Is there such a thing?

No. Because each association has different common area amenities, and is different in size and age and amount of deterioration, Reserve fund size is measured in terms of Percent Funded ($ in Reserves compared to $ of deterioration), not "cash in Reserves". A Reserve Fund in the 70-130% range is regularly a range where special assessments are rare (a sign of budget success) and property values are maximized. Read more here.

Q: Should the reserve study be used to establish reserve contributions?

Absolutely. A Reserve Study shows the components (projects) the Reserve funds will be used for, it reveals the size/strength of the Reserve Fund (typically reported in terms of Percent Funded), and recommended contributions to offset deterioration and provide for the needs of the association. Without it, you are relegated to guessing, never a strong board position! Read more here.

Q: Should a budget include a projection for delinquency (bad debt)?

YES. Unlike budgeting for projected additional-yet-unknown income (like late fees, etc.) budgeting for projected “losses” is the right, safe and conservative thing to do: You are protecting the community from income loss by budgeting for that reality. See what delinquencies were last year, evaluate general economic trends, and project some delinquencies in the coming year.

Q: Last year we had an undedicated expense account that board members didn't like, and we called it a slush fund. Now we don't have that account and are showing a few accounts over budget. Which is best?

As a political matter, this would depend on the community – the “slush fund” category is something that some Boards can live with, others not. For practical reasons, most associations have a line item for “miscellaneous” to catch **minor,** unanticipated expenses. If it goes beyond minor (this would depend on the size and complexity of the budget), then obviously when the next years’ budget is prepared take into consideration whether or not a new line item should be added to keep the “slush fund” minimal.

Q: Where can we get examples of an association budget format that will be easy for board to understand?

If you have a management company, ask them for an example budget, or, consider asking a neighboring association for a copy of their budget. Published resources are available from the Community Associations Institute, both in their “Best Practices” category and “Guide for Association Practitioners”. See their entire library of publications here. Most associations have very simple budgets, so don’t go crazy with worry, especially if your income is under $300,000.

Q: Are there any GAP rules published for HOAs?

Yes! There are a number of “Guide for Association Practitioners” booklets published and sold by the Community Associations Institute at very reasonable prices. Please see their library of published resources here.

Q: Where can I find examples of format for a reserve budget?

Please see a sample Reserve Study here. Please see a short primer on Reserve Study basics here.

Q: Should an annual audit be available to all homeowners?

Being a big believer in communication and transparency, I say yes, even though the law or your documents may not require it. If you don't want to print it and mail it (most people won't look at it, anyway), just ensure the owners know it is available if they so desire it via email, or, put it up on your website (if it has an owner login). For those few souls around who don't have internet access and want a hard copy, it would seem to me that mailing a hard copy is a small price to pay in the name of transparency. There is nothing to hide, so why not?

Q: Our state statute says: "… A special assessment in an amount greater than fifteen (15%) percent of the then current annual operating budget, submit ...to the Unit Owners for ratification ..." Is the "budget" the expenses?

Generally "total budget" is made up of income and expenses, which in a non-profit should be very close to the same number. So it could be either.

Q: Does the Board need to get this approval BEFORE they spend a significant amount of money?

Generally, no. An association is a republic, not a democracy, and the Board typically enjoys great latitude in budgeting and spending the funds; however, some associations may have restrictions on how much a Board can spend on an unbudgeted item, and there are often restrictions on capital improvements. Of course, it is always a good idea to always inform the owners of any significant financial activity.

Q: What responsibilities does the Board have to follow the published budget?

A budget is a financial **guideline**; not set in stone, and actual income and expenditures will never be exactly as budgeted. The budgeted income provides the annual financial resources within which the board manages the expenses of the association (see the answer provided above). If the board overspends in one area, without raiding Reserves or its cash margin, they will have to trim other expenses or ask the owners to approve additional funding (usually, political dynamite and a pretty good incentive to not overspend!).

Q: What are the "rules" for budgeting depreciation expense?

Depreciation is typically an accounting exercise done for tax reasons, not a budgetary issue. This question is best handled by your association CPA.

Q: Are there any published audit guidelines?

CAI has quite a bit of information on this topic. CAI members can log in to www.caionline.org to find information on this topic in their online Research Library.

Q: When should an association consider revising the budget? Mid-Year?

Generally the budget stands for the entire year. Only in rare circumstances do changes need to be made mid-year (as when there is an extraordinary expense which requires an assessment increase or an unanticipated special assessment).

Q: How do you handle a situation like ours, where each of our buildings is responsible for its own building maintenance fund?

If Reserves for each building is collected all together into the association's Reserve fund, itemize each building separately with its specific needs and project timing in the Reserve Study. If each building has its own fund and own income stream (assessments different from other buildings), each building needs its own mini-Reserve Study.

Q: What are the top reasons to have a Reserve Fund?

Taken almost straight from the Funding Principles in National Reserve Study Standards, the Reserve Fund allows the funds to be ready to be spent when needed (without waiting for a special assessment for the funds to be collected), it provides for budget stability so owners aren't exposed to irregular special assessments, regular contributions into the fund mean every owner pays their fair share in proportion to the time they own a home in the association, and it is fiscally responsible (the board's job is to provide for the needs of the association, and ongoing deterioration is a real expense that should be offset with regular contributions to the Reserve fund). Remember that Board members are fiduciaries, or trustees, and being so means you must be responsible in managing the assets of the community, which is probably the number one reason to have a Reserve fund.

Q: If we have a surplus this year and want to "roll that over" to next year, how do we show that in the budget?

A prior year surplus doesn't appear in the budget. If the funds remain in the Operating Fund, it means that the Operating account will be larger next year and be more capable of handling a time period when expenses exceed income. If the desire is to roll the funds into Reserves, that may require a specific resolution (see your accountant and tax preparer for details).

Q: Can you address the IRS' 70-604 resolution for "rolling over" excess funds to the next year?

We'll leave a better explanation of its application to your accountant and tax preparer, but we have brief article on the issue here. By the way – it is difficult to argue that rolling over some Operating budget funds from one year to the next into your underfunded Reserve fund is an "Excess Income" situation.

Q: Should expenses which normally occur in a specific set of months - like additional pool chemicals during the summer - be spread out over the full 12-months in the budget?

Many expenses are irregular throughout the year… water bill (due to summer watering), insurance premiums, etc. Some budget formats allow you to place expenses in specific months, and that is great. But if all you have is an average monthly amount, understand that the year-end total will be the key number. In this situation, throughout the year, there may be a few months where you are year-to-date over budget, or a few months where you are year-to-date under budget. That's why you need good notes so you can be patient until the 12th month!

Q: How would you budget for an association that has been hit with several Code Violations that they are required to resolve?

If these are emergency expenses, spend the money. Perhaps transfer (borrow) some from Reserves, and execute the project. Then special assess, raise assessments, or retain a loan to restore the borrowed funds to Reserves.

Q: What about code or law changes that will take place in a few years?

If you have a few years to comply, include that project into your Reserve Study update, so you can start collecting funds and planning for that upcoming project (and future recurrences of that project!).

Q: How does a reserve study update treat a component with a Useful Life that has expired but is still in such good shape that it doesn't need repair or replacement for several more years?

If it is still serving well, either delay the project another year, or adjust the Useful Life and Remaining Useful Life in your Reserve Study update to more accurately model the current situation. Please realize that different components fail differently. Some projects you may actually wish to tackle before they "fail"! Read more here and here.

Q: Do you recommend adding a reserve item to cover any expenses from storms that insurance doesn't cover (like a large deductible) to eliminate possible special assessments?

No. Per National Reserve Study Standards, Reserves are to be used for projects that meet the four part test of being a common area maintenance responsibility, having a life limit, having a predictable life limit, and being a large enough expense to be "significant" to the association. Unpredictable storm events generally fail test #3, so they are indeed "surprises" and inappropriate for the Reserve budget. While it sounds like a good thing to do, Reserves pay the cost of deterioration, not guesses about things that might happen. Special assessments are for surprises.

Q: Is there a worthwhile benefit for an association with mid-year Fiscal Year End to transition to a 12/31 FYE?

Some associations serve as second homes, and enjoy seasonal occupancy. Their fiscal years may be adjusted so that the majority of owners are on-site when annual meetings(s) are scheduled to occur. Those non-12/31 associations can also enjoy lower prices and from their accountant and Reserve Study provider due to not always working with them during their "busy season". That said, if your Board or community wants to change their FYE for ease of understanding the budget and its implementation, you can do so.

Q: I put our reserves in a 5 year CD, a smaller amount into a 2 yr CD, and some in a "general savings" account. Is that a good strategy?

Yes. Maximize your interest returns on Reserve funds not expected to be used for a while, yet maintain some Reserves "liquid" or available in the short term for anticipated upcoming Reserve projects and the normal "surprises" that occur.

Q: Our 16-unit assoc. has many owners who want to special assess for reserve projects as they arise rather than saving regularly. How can the board convince them that is not responsible and more costly?

It is very rare for it to be appropriate for an association to handle its Reserve expenses via special assessments. Every association needs the cash to execute Reserve projects in a timely manner, and special assessments take time. In addition, not all special assessments pass, leaving boards without the funds they need to meet their responsibility to care for the association. Finally, there is the issue of fairness. Some owners may vote to not pass the special assessment because they will soon sell, forcing the replacement costs of assets *they enjoyed* onto future owners. While it is not a large factor, the interest earned from Reserve funds "on deposit" actually lowers the homeowner's cost of executing that project, as shown here.

Q: Are Reserve Funds mandatory in Arizona or can you simply have a dedicated Savings Account?

Having a Reserve Fund, fueled by ongoing contributions (paying the "deterioration bill") is always fiscally responsible. A dedicated Savings account sounds like a Reserve fund! Check with a local attorney to ensure you are compliant with state regulations with respect to disclosures, funds, and frequency of Reserve Study updates.

Q: Do you have a reference to the claim that Reserve contributions are 15-40% (or more) of total budget?

Yes. See this article.

Q: What is the best way to approach a revision in the replacement cost of asset within an association?

As if you anticipated a $100,000 roof replacement that is now going to end up costing $125,000 (or only $75,000)? Pay for the project from Reserves, and make sure you include that different estimate in your next Reserve Study update so you'll be better prepared for the next instance of that expense. The Reserve funds will all be re-allocated in the next Reserve Study update, so don't worry about a surplus or deficit in any particular "category".

Q: Do you feel that financial reports must be GAP compliant?

No. GAP is always recommended, and that recommendation is stronger for year-end reports and for larger associations with larger budgets. Financial reports should be clear and reliable (so boards can communicate clearly and openly with the membership), but some consideration should be made for "effective" financial reporting by smaller associations in mid-year financial statements.