

**Heritage Glen III Homeowners Association
BUDGET INITIATION and MANAGEMENT POLICY**

Purpose

The purpose of this Budget Initiation and Management Policy is to establish clear standards and guidelines for the initiation and management of financial budget activities for Heritage Glen Division III. These guidelines are meant to define the responsibilities and processes of the Heritage Glen Third Addition Homeowners Association Board with the budget process.

Defined Terms

As used in this Budget Initiation and Management Policy the following terms have the stated definitions:

Heritage Glen Third Addition Homeowners Association (“HG III-HA”): The legal entity responsible for operating and governing the Heritage Glen Third Addition homeowners association, in accordance with its Articles of Incorporation, Bylaws, Declaration of Covenants, Conditions and Restrictions, Washington State law and other governing documents.

Governing documents means the articles of incorporation, bylaws, plat, declaration of covenants, conditions, and restrictions, rules and regulations of the association, or other written instrument by which the association has the authority to exercise any of the powers provided for in this policy or to manage, maintain, or otherwise affect the property under its jurisdiction.

Budget: The document that projects the anticipated expenses and income for the association.

Operating Budget: The portion of the budget that deals with day to day expenses of the association. These include utilities, general maintenance, administration, insurance and other expenses of an annual nature.

Reserve Budget: The portion of the budget that details the long term expenses of the association for the replacement or repair of major physical components of the association. These include items such as roads, entrance monuments and storm water drains.

Common expense means the costs incurred by the association to exercise any of the powers provided for in the governing documents.

Contribution rate relates to both the annual assessment and reserve study as described in *RCW [64.34.380](#); the amount contributed by the individual

homeowner so that the association will have cash reserves to pay both annual bills and reserve study major maintenance, repair, or replacement costs without the need of a special assessment.

Assessment shall mean a monetary amount that is levied against a lot for annual association operations, funding and expenditures.

Special Assessment: An assessment made in addition to the regular assessment caused by a planned or unforeseen expense. Reference HG III-HA Declaration of Covenants, Conditions, and Restrictions Article 5 Section 4.

Properties shall mean and refer to the real property described in the governing documents and such additions thereto that may hereafter be brought within the jurisdiction of the Association.

Lot shall mean and refer to any portion of the properties described as a separate tract or plat, excluding the common areas, on the survey of the properties to include any subsequent additions to HERITAGE GLEN ASSOCIATION, THIRD ADDITION.

Owner shall mean and refer to the recorded owner, whether one or more persons or entities of a fee simple title to any lot which is a part of the properties including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

Policies

1. HG III-HA Annual Budget

A. The purpose of the annual budget is to identify activities and expenses that require HGIII-HA attention for the fiscal year.

2. The HG III-HA has the following budget powers:

A. Adopt and amend budgets for revenues, expenditures, and reserves; and, impose and collect assessments for common expenses from owners.

B. Exercise any other powers conferred by the governing documents;

C. Exercise all other powers that may be exercised in this state by the same type of corporation as the association; and

D. Exercise any other powers necessary and proper for the governance and operation of the association.

3. Budget components:

A. Income is the money the HOA will receive to support activities. The primary source of income is owner assessments, but there are other sources as well. Other sources may include interest received on idle funds in the bank and any money received from fines.

B. Expenses are categorized by how they are spent. Included in operating expenses are things like utilities, routine maintenance, cleaning

expenses, insurance, and so forth. In general, operating expenses are those that happen on a recurring, relatively short term basis.

- C. Reserve or Replacement Fund:** Income for replacements should be designated or earmarked for that purpose. Additionally, when expenditures are made for replacement of capital items such as sidewalks, painting, paving, or large scale replacement of items; these expenditures are considered *replacements* and should be funded from the reserve fund.
- 4. Budget development:** The budget process begins four months prior to the start of the fiscal year with a review of the current year's expenditures and activities by the HOA BOD. In April of each year a draft budget is developed based on the previous experience of the HOA and projections of any new or non-reoccurring activities that need HOA attention. The draft budget shall address both annual bills and reserve study contributions. In May a final budget that addresses the needs of the HOA for the next operating year needs to be presented to and approved by the HOA Board of Directors during the month of May. Any adjustments to the home owner's annual assessment must also be approved as part of the budget resolution.
- 5. Assessments, collection of annual dues and special assessments:**

 - A.** Annual assessments are based upon the homeowners prorated share of the annual budget. Assessment statements for each fiscal year will be produced by the HG III-HA Treasurer and mailed out to all home owners on June 1 or the first business day thereafter.
 - B.** Annual assessments are due and payable on the first day of July of each year or as set by the Board of Directors.
 - C.** The due date for any special assessment shall be fixed by the Board of Directors in the resolution authorizing the assessment.
- 6. HGIII Home Owner's Personal Obligation of Assessments.** The general policy to assess and collect annual dues, special assessments and fines is established in the Heritage Glen Association Third Addition By-laws and Articles of Incorporation. Article V of the Heritage Glen Association Third Addition Declaration Of Covenants, Conditions And Restrictions provides the following:

 - A.** Each Lot owned within the Association conveys, whether or not it is so expressed in its deed, to covenant and agree to pay to the Association: (1) annual assessments or charges, and (2) special assessments for capital improvements.
 - B.** Such assessments are to be established and collected as herein provided. The annual and special assessments, together with interest, costs and reasonable attorneys' fees, shall be a charge on the land and shall be a continuing lien upon the property against which each such assessment is made.
 - C.** Each such assessment, together with interest, costs and reasonable attorneys' fees shall also be the personal obligation of the person who was the owner of such property at the time when the assessment fell due. The personal obligation for delinquent assessments shall not pass to his

successors in title.

7. Budget Management;

- A. The HGIII BOD shall adopt and amend the HGIII HOA budget for revenues, expenditures, and reserves prior to 1 June each year.
- B. The HGIII BOD shall adopt, impose and collect assessments for common expenses from HGIII owners.
- C. The HGIII BOD shall review the budget's periodic expenditures and revenue at regularly scheduled HGIII BOD meetings and adjust expenditures as necessary.
- D. The HGIII BOD shall publish HGIII Budget as follows: with the minutes of the May BOD meeting; on the HGIII website; and as a discussion item at the HGIII HOA Annual meeting.

8. Reserve Account & Study.

- A. **Reserve Account:** In accordance with RCW 64.38.065 HGIII has established a reserve account with a financial institution to fund major maintenance, repair, and replacement of common elements, including limited common elements that will require major maintenance, repair, or replacement within thirty years. The board of directors is responsible for administering the reserve account.
- B. **Reserve Study:** The HGIII reserve study as described in RCW [64.38.065](#) is supplemental to the association's operating and maintenance budget. In preparing the reserve study, the association estimated the anticipated major maintenance, repair, and replacement costs, whose infrequent and significant nature make them impractical to be included in an annual budget. The Reserve Study will be reviewed annually and updated every three years.
- C. **The HGIII reserve study will include the following:**
 - i. In accordance with RCW 64.38.065 a reserve component list, including any reserve component that would cost more than ten percent of the annual budget of the association, not including the reserve account, for major maintenance, repair, or replacement. If one of these reserve components is not included in the reserve study, the study should provide commentary explaining the basis for its exclusion. The study must also include quantities and estimates for the useful life of each reserve component, remaining useful life of each reserve component, and current major maintenance, repair, or replacement cost for each reserve component;
 - ii. The date of the study and a statement that the study meets the requirements of this section will be made in the form of an HOA board action. The statement will include the following level of reserve study performed:
 - Level I: Full reserve study funding analysis and plan;
 - Level II: Update with visual site inspection; or
 - Level III: Update with no visual site inspection;
 - iii. The association's reserve account balance;

- iv. The percentage of the fully funded balance that the reserve account is funded;
- v. Special assessments already implemented or planned;
- vi. Interest and inflation assumptions;
- vii. Current reserve account contribution rates for a full funding plan and baseline funding plan;
- viii. A recommended reserve account contribution rate, a contribution rate for a full funding plan to achieve one hundred percent fully funded reserves by the end of the thirty-year study period, a baseline funding plan to maintain the reserve balance above zero throughout the thirty-year study period without special assessments, and a contribution rate recommended by the reserve study professional;
- ix. A projected reserve account balance for thirty years and a funding plan to pay for projected costs from that reserve account balance without reliance on future unplanned special assessments; and
- x. A statement on whether the reserve study was prepared with the assistance of a reserve study professional.
- xi. The HGIII reserve study must also include the following disclosure statement:

"This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement. The failure to include a component in a reserve study, or to provide contributions to a reserve account for a component, may, under some circumstances, require you to pay on demand as a special assessment your share of common expenses for the cost of major maintenance, repair, or replacement of a reserve component."

9. Changes to this Budget Policy

HG III-HA or Board of Directors reserves the right to change, modify or update this policy at any time without notice. Any changes in this policy will receive advance notification by being posted on the HG III-HA website and published in the HG III-HA Newsletter.

10. Annual review

HG III HA Board of Directors members shall:

- A. Individually read and initial this document annually.
- B. Collectively review this document annually for content and continued applicability.

6. Expiration: This Policy Statement shall expire five years from date of promulgation or sooner if revoked or amended.

If you have questions or concerns about our Budget Initiation and Management Policy, please contact any member of the HG III-HA Board of Directors.

Reviewed and approved by HG III-HA Board of Directors; 10/06/2015.