

HOA Financials

Included with this package is our Operating Budget document (Appendix "A"). It shows what was budgeted compared to what was spent in 2024, and the budget forecast for the 2025 year.

The Operating Budget document should be looked at as three (3) columns titled:

1. **2024 Budgeted,**
2. **2024 Actual** (highlighted grey), and
3. **2025 Projected.**

Each column is read from top to bottom and columns are ordered left to right. The percentages to the right of a column show the percentage of change (called a *variance*) between what was planned and what was spent. It is useful to know the *variance* because it helps identify any significant changes in planned expenses and account for inflationary impacts.

Overall, the Association's 2024 Operating Expenses ("Actual") exceeded budget projections ("Budgeted") by only 8%. The slight overage was due to the expense created by improvements to the Association's center retention pond.

The budget line item again most impacted in 2024 was "**General Maintenance.**" General Maintenance are repair costs of items that are *not* recurring (not regularly needed or needed only once) and are *not* "Components" identified in the Reserve Study.

In 2024, the Board unanimously agreed to make needed improvements to the retention pond located at the center of the Association. Although the improvements represent a one-time expense, they created annual, recurring savings by eliminating other costs associated with the retention pond such as weekly mowing and spray services, and annual post-snowplowing repair.

The retention pond repair is a good example of a General Maintenance item because we do not anticipate this repair recurring, and it is not a component item contemplated in the Reserve Study. While the Board budgets for unanticipated maintenance expenditures, the need to improve the retention pond exceeded our budgeted costs resulting in a one-time overage of General Maintenance expenses.

To help offset the unanticipated expense for improving the retention pond, the Board elected to hold off on purchasing an updated Reserve Study in December 2024, until Spring of 2025. The delay in updating the Reserve Study through the Winter saved the Association thousands of dollars in 2024 while presenting no risk to the Association and not violating statutory requirements. The Board also saved several thousand dollars in legal fees this year by avoiding the need to retain or engage legal counsel.

The Board does not anticipate the need for any further major maintenance or improvement projects in 2025 and the General Maintenance budget forecast is significantly less.

While the "TOTAL OPERATING EXPENSES" were slightly more than budgeted in 2024, they are anticipated to resume to less than planned levels in 2025. This is due to an expected *decrease* in expenses under the General Maintenance category in the coming year. It is important to note that the projected Maintenance category expenses for 2024 were \$18,700, and the projected Maintenance category expenses for 2025 are \$15,800. From a year-over-year perspective, we are planning for a reduction in overall Maintenance expenses of 15-18%. This projected savings includes budgeting for a heavy snow fall and the need for snow removal at the end of 2025.

Regular "**Maintenance**" expenses for "Landscaping" and "Snow Removal" services account for approximately 60% of the Association's entire annual Operating Expenses. It is important to note that should costs for any of these services significantly increase, fuel prices rise considerably, or we experience an unusually heavy snowfall, the cost for these services could increase to more than budgeted. There is no way to predict the future, so these factors cannot be accurately budgeted for.

However, should a marginal, unexpected or unanticipated increase in Maintenance costs occur, the Board's conservative budgeting approach is designed to absorb these costs with little or no impact on Annual Dues or the need for a Special Assessment. However, any significant changes in expenses due to catastrophic or unexpected events could result in the need for the Board to make an adjustment to Annual Dues or issue a Special Assessment.

The Total Operating Expense forecasted for 2025 is \$26,060. The income remaining from Operating Expenses is allocated to the Reserve Fund. The projected amount forecasted for the 2025 Reserve Fund is \$17,745.

The 2022-23 Reserve Study recommended that to have sufficient funding to repair or replace Association owned assets (called "Components") the Association should allocate \$20,400 each year to the Reserve Fund. Components include items like roads, sidewalks, water drains, signs, and chain link fencing. The \$20,400 reserve recommendation is called a "Reserve Fund target."

Prior to the current Board's tenure beginning in CY 2021, the Association had been 50% or more *underfunded* each year to meet the Reserve Fund target. The current Board made an adjustment in 2021 to our Budget including an automatic annual increase in Dues to keep on pace with regular inflation. Keeping on pace with regular inflation is necessary to maintain consistent contributions to the Reserve Fund each year. Since then, we have been targeting an adjusted \$16,500 annual Reserve Contribution. In the calendar years 2021 through 2024, the Board has reduced our Reserve Contribution shortfall from 50% to around 25%, taking the Association closer each year to its planned 20% shortfall (in other words, our 80% funded target).

The slight overage of \$17,745 of the \$16,500 Reserve Fund Target in 2025 will offset the slight shortage of \$14,931 in 2024, that resulted from the retention pond improvements expense.

In conclusion, despite the unexpected expense for the center retention pond improvements in 2024, the Association ended the year financially sound and in a strong position for the coming year. In the calendar years 2021 through 2024, the Board has reduced our Reserve Contribution shortfall from 50% to around 25%, bringing the Association even closer to its 20% planned target. This was solely due to the Board's strategic management of Association finances and its fiscally conservative position on expenditure and Reserve funding.

Reserve Funding as part of the Budget – a general explanation:

To adhere to state law, a Homeowners Association budget must include Reserve Funding. Explained simply, our Association's "income" comes in the form of annual Dues, fees, and fines from which we deduct our yearly Operating Expenses. What "remains" at the end of the year after operating expenses are paid is used to fund the Reserve Account.

Our Reserve Fund "target" (i.e., how much we should set aside each year for planned, future repair expenses) comes from the Reserve Study and is shown on the budget as "Reserve Target." Like all other expenses, we track the variance of our Reserve Target to determine how well we are meeting our \$16,500 reserve budget target each year. The current Board has been consistently within 9% of meeting this goal each year despite unexpected maintenance costs the past two (2) years. The Reserve Target was 10% underfunded this year due to the one-time expense of improving the retention pond, but we are expected to increase to 7% *over* our Reserve Fund Target in 2025.

Reserve Funding

Per statutory requirement, an Association must maintain a **Reserve Account** and conduct **Reserve Studies** (ref. RCW 64.38). These statutes govern the Association's responsibility for conducting Reserve Studies and managing the Reserve Fund. Part of those requirements, as outlined in the Association's Declarations, is annual reporting of the Reserve Fund status to Association members (ref. Declarations of CC&Rs, Article 3; 3.1.2).

For those not familiar with a Reserve Account, it can be thought of similar to an irrevocable trust or savings account that can only be used to pay for the major maintenance, repair, or replacement of the reserve components (e.g., items owned by the Association such as streets, light poles, stormwater systems, landscaping, etc.) and for unforeseen or unbudgeted costs that are *unrelated* to the maintenance, repair, or replacement of the reserve components listed in the Reserve Study. Reserve components such as streets and stormwater systems wear over time. The Reserve Fund is a statutory requirement for the Association to set aside the funds to meet the anticipated future repair needs and address any unexpected maintenance costs.

Below is information regarding the Association's most recent Reserve Study (Appendix "B"), the Study's recommendations, and our current Reserve Funding status as of 2024-year end.

Based on the 2022-23 Reserve Study, the recommended "Baseline Funding" minimum required to keep Reserves from dropping below a \$0 balance at any time in its 30-year projection is \$1,670 a month, or \$20,400 annually.

When the current Board met with Owners in 2021, the Reserve Account was significantly underfunded, and the President (James Pappas) proposed major corrections to the budget and offered several options for improving Reserve Funding. Attending Owners voted unanimously to adopt a Reserve Funding option that attempted to maintain approximately 80% of the full funding recommended by the 2021 Reserve Study (Note: An 80% of full funding target means the Association's Reserve Fund will perpetually be 20% underfunded). The option approved by Owners proposed an annual reserve funding target of \$16,500 (\$1,375/month) as opposed to the fully funded \$20,400 recommended by the Reserve Study.

Beginning in 2021, \$16,500 has been the annual Reserve Target adopted into the Budget and used as part of the annual Base Assessments ("Dues") calculation. The item at the bottom of the Budget labeled "TOTAL RESERVE CONTRIBUTION" shows how much the Association was able to fund the Reserves based on that year's Operating Expenses.

Reserve Budget Required Reporting Information

1. Current annual Assessment budgeted for contribution to the Reserve Account: \$16,500.
2. Recommended contribution rate from the 2022-23 Reserve Study: \$20,400.
3. The Funding Plan is 80% of the recommended contribution as voted by Owners in 2021.
4. No Special Assessments were made or are currently planned.
5. Based on the 2022-23 Reserve Study, the Reserve Account balance will be insufficient to meet the Association's obligation to fully maintain reserve components during the calculated thirty (30) year period.
6. There is currently a low-to-moderate risk that a Special Assessment may be needed in future years based on Component replacement needs. Until a loss occurs and the expense is known, it is not possible to determine the potential cost of any future Special Assessment to each Owner.
7. Fully Funded Reserve Balance recommended in 2022-23 Reserve Study for CY24: \$122,844.
8. Percent Funded as of 2022-23 Reserve Study: 54.7%
9. Current Reserve Funding (i.e., balance) as of CYE 24: \$93,747.00 (76% funded).
10. Five-Year Recommended Full Funding from 2022-23 Reserve Study:
 - CY 2024 - \$122,844
 - CY 2025 - \$146,107
 - CY 2026 - \$169,000
 - CY 2027 - \$197,773
 - CY 2028 - \$197,313
11. Five-Year funding projection based on current funding plan and % variance from Study:

Year-end Projection as of 2023

CY 2024 - \$95,029 (-22%)
CY 2025 - \$109,986 (-25%)
CY 2026 - \$124,943 (-26%)
CY 2027 - \$139,900 (-29%)
CY 2028 - \$154,857 (-22%)

Year-end Projection as of 2024

CY 2024 - \$93,747 (-23%) *Actual
CY 2025 - \$111,442 (-23%)
CY 2026 - \$129,137 (-24%)
CY 2027 - \$146,832 (-26%)
CY 2028 - \$164,527 (-16%)

The 2024 five-year projections in column two (2) above show a year-over-year improvement in the reduction of the annual Reserve deficit from the previous year in column one (1) above. This is a direct result of the Board's conservative fiscal management strategy implemented since 2021. While it is good the deficit is trending favorably (reducing), it is not possible for the Association to completely overcome the deficit without a one-time, large capital investment.

Based on the voting members' preference to avoid a one-time Special Assessment to "catch up" the reserve deficit, the Board adopted a revised budget strategy voted on by Owners in 2021 to maintain around 80% of full reserve funding and only issue a Special Assessment if a future repair need exceeded the funds available in the Reserve Fund.

To keep consistent with statutory requirements, the Board has ordered an updated Reserve Study for early Spring 2025. Current wear and remaining life expectancy of reserve components, projections to replace those components based on current costs, and the adequacy of our Reserve Funding will be reassessed, and the updated information in the new Study will be included in next year's annual review report.

Of course, no plan can accurately anticipate unexpected events that result in the need for catastrophic repair. Should such an event happen, the Board will evaluate the cost of the needed repair/replacement, the funding available from the Operating budget and Reserve Account at that time and determine if a Special Assessment is needed to cover costs. This is completely a "what if" scenario and cannot be anticipated or estimated.

State of the Association

It is recommended that every Owner read this section carefully. While the topics below may only affect some Owners, they apply to all Owners. Owners are held responsible for knowing the information presented below.

ANNUAL DUES – IMPORTANT DATES AND TERMS

The Creek at Chester Homeowners Association assesses annual Dues to each homeowner. Annual Dues paid by homeowners are used to pay for the ongoing costs of maintaining and servicing the Association property and to set aside the required "Reserve" funds used to pay for future replacement of key items such as roads, sidewalks, drainage systems, etc. Homeowner Dues are the Association's only source of income, so it is imperative that homeowners pay their Dues in a timely manner.

The Association's annual Dues have an inflation protection feature that increases Dues each year by 4% to account for normal inflation of services to maintain the property. Annual Dues can be additionally increased at the Board's discretion if expenses require it.

Dues for 2025 will be \$884.30 per Unit (household).

Below are the terms and dates pertaining to Dues.

1. Owners have two (2) payment options: **Full Pay** paid by March 30th, or **Two Pay** with half (50%) paid by March 30th and the remaining half paid by September 30th.
2. Invoices for annual association Dues are mailed the first week of March and for those who elect Two-Pay, a second invoice is mailed the first week of September.
3. March Dues invoices must be paid by March 30th, and September Dues must be paid by September 30th or late fees and interest may be additionally assessed. **Note:** If the Two Pay option is chosen, late fees and interest will apply if either the March or the September payments are received after the 30th of the month.
4. Charges for late payment of Dues include \$25 and 18% interest per month until paid and begin after that month's payment is due on the 30th.
5. Returned checks are subject to a \$40 fee.

For any homeowner who owes more than one (1) full assessment or is more than 90 days late, the Association reserves the right to place a lien on the property until all Dues, fees, fines, and interest are paid. If an Owner would like a copy of the Association's collection policy, it can be requested by email to the Board.

If any homeowner is having or anticipates having problems paying their Dues, the Board encourages you to contact us promptly so we can work with you to help resolve the situation.

2025-2026 BOARD OF DIRECTORS ELECTION RESULTS

Board of Director positions are for two-year terms and must be open for election at the end of those terms. This year, the election included the positions of President/CEO, Secretary, and Treasurer. All three (3) positions were up for election for the coming 2025–2026-year term.

In accordance with Section IV of the Declaration of CC&R Bylaws, a call for candidates was sent by the Secretary to all Association Owners on October 30, 2024. Since no replies were received by the Secretary in the time allotted to tender nominees for the open positions and the current Board of Directors remained unopposed. As a result, this year's Board of Directors election resulted in an uncontested, single-winner walkover result for the 2025-2026 Board Member Election, and no vote was required.

The Board held an election certification meeting on Sunday, November 17, 2024, to certify the uncontested, single-winner walkover results of the 2025 - 2026 Board Member Election and invited all Owners to attend. The certified 2025-2026 Board Election Results are as follows:

President, CEO – James Pappas

Secretary – Robert Alberti

Treasurer – Steve Tripp

According to Article 5 of the Declarations CC&R Bylaws – Board of Directors, Section 5.3, when the board consists of three (3) directors, one (1) is initially to be elected for a one-year term and two (2) are elected for a two-year term. From then forward, all positions serve a two-year term, and the election of Board members is staggered each year.

The purpose of this rule is to keep the rotation of directors from occurring at the same time in any one calendar year. Somewhere in the Associations' past prior to 2021, this rule was unobserved, and the election of all directors was aligned to the same two-year period.

To correct the oversight of this rule, the newly elected President will only serve for one calendar year in 2025. At the end of CY 2025, the President position will be put up for re-election, so the President election is held in off-years from the Secretary and Treasure positions as required.

ASSOCIATION LAWSUIT

In September of 2024, the Association was named as a defendant in a lawsuit filed by Mr. Josh Demers of Pacific Lawn Maintenance ("Pacific Lawn"). Pacific Lawn claimed the Association owed for mowing and weed and feed services performed in July 2024.

Pacific Lawn was notified in June by the President to stop all services until the sprinkler system repair requested three (3) months earlier in April was complete. Despite the Association's written request to cease services, Pacific Lawn knowingly continued mowing and applying fertilizer and feed, and then charged the Association. Upon receipt of the July invoice for services that had been requested to cease, the President promptly terminated our contract with Pacific Lawn.

Mr. Demers attempted to intimidate the Association into paying for the unauthorized July services by sending the Association to collections. The President contacted the collections company and after providing documentation of the unauthorized services, the collection agency ceased its collection efforts against the Association. The same day Mr. Demers was notified by the collection agency that it would no longer pursue collections on Pacific Lawn's behalf, he filed suit against the Association in Spokane County District Court.

The President contacted the Spokane County District Court and made notice the Association would be present to defend the claim and be represented by the Association President, James Pappas.

James and Amy Pappas prepared all the legal documents, compiled defense exhibits, devised a legal strategy on behalf of the Association, and presented the Association's defense and counterclaim in Spokane County District Court on September 24th.

Upon reviewing evidence of the Association's documentation of communications with Pacific Lawn and several signed affidavits of Association members, the judge ruled to dismiss Pacific Lawn's claim and ruled in favor on one (1) of the three (3) counterclaims presented by James on behalf of the Association.

The Association prevailed and the court ruled that Pacific Lawn had to make financial restitution to the Association including court costs and fees. The President followed up with Pacific Lawn thirty (30) days after the ruling and collected the full amount of the judgment. The funds from the judgment were deposited into the Association's operating account.

BOULDER SAFETY BARRIER

The roadway where Madison Road makes a sharp left, turning onto Mohawk Drive has been a safety issue for Chester Creek residents for several years. This intersection is situated in the Southeast corner of the Association property and abuts the backyard of Association homes.

On several occasions over the past few years, a vehicle coming West down Mohawk has lost control and been unable to negotiate the right turn North onto Madison Road resulting in the vehicle crashing through the backyard fence of our Association member(s), tumbling through the down-sloped backyard, and coming to rest near our Owner's patio or house.

This type of accident has happened several times since the Association was built and as recent as this past year. The risk for property damage is unfortunate and inconvenient, but the potential for bodily injury or fatality is unacceptable, especially considering in the last collision, the vehicle rolled down the backyard and came to rest next to the homeowner's patio.

After the last accident, the Board convened on the matter and made an immediate, unanimous decision to place a boulder safety barrier in the tree lawn behind the fence at the Mohawk-Madison turn to block vehicles unable to negotiate the curve. The (FOUR) large, several-ton boulders will help prevent an uncontrolled vehicle from crashing through the fence and into the backyard of our homeowners.

The safety of homeowners and their families is the Board's highest priority and why it unanimously agreed to take measures to mitigate future property damage and bodily injury to the homeowners. Note: This is also an example of a General Maintenance expense referred to in the HOA Financials section.

DRAINAGE POND IMPROVEMENTS

The Board has received requests from multiple homeowners to consider improving the appearance of the drainage pond located at the center of the Association property.

Because drainage pond construction is regulated and must meet certain code requirements, the Association is limited in what it can do. For example, there is a requirement for the basin to be grass-lined, but we are not permitted to chemically treat the grass or to install a sprinkler system. Because of these rules, the grass that grows in the pond does not appear healthy and green and has an unkempt appearance. The pond's poor appearance contrasts sharply with the well-kept, well-groomed properties adjacent to it, making the poor aesthetic more noticeable.

The President consulted with Spokane County Engineering Department and discussed improvement options. We were advised the pond basin could be covered with aggregate rock of a specific size so long as the grass beneath was not sterilized and no growth barrier installed.

The President obtained bids for lining the pond basin with rock and the Board evaluated the expense of installing a permanent rock solution against the cost of annual maintenance and upkeep of the pond, which included costs for weekly mowing, weed control, and the repair to the small rock bed adjacent to the sidewalk after each plowing season. The Board concluded the improvement was a warranted expense considering the value of the aesthetic improvement to homes nearest the pond and the offset of annual maintenance and repair expenses that would no longer be needed.

Working in accord with the Spokane County Engineering Department, the President contracted our landscaping provider to grade the West slope of the pond (nearest the sidewalk) and install basalt aggregate. Instead of subcontracting rock delivery, our landscaper elected to pick up and deliver the rock at considerable cost savings to the Association.

RECREATIONAL VEHICLE USE PROHIBITION

The rules of the Chester Creek Association mirror closely with State and local laws. Spokane County does not permit the on-road use of motorized recreational vehicles: ATVs, UTVs, Side-by-sides, offroad dirt bikes, and other offroad vehicles not licensed explicitly for on-road use. Regardless of State and County laws, the Board has the express authority under the Declarations to adopt and publish rules governing the use of Common Areas and the personal conduct of Owners and their guests (ref. Article V, 5.10.a).

THE USE OF ANY MOTORIZED RECREATIONAL VEHICLE ON ASSOCIATION PROPERTY OR ROADS IS STRICTLY PROHIBITED AT ANY TIME.

Violations of this policy are subject to a \$1,000 fine per occurrence including financial responsibility for any costs, interest, and legal expenses incurred by the Association.

The Board takes this measure seriously and implemented it solely for the safety and protection of all Owners, their families and pets and asks all homeowners to cooperate with this rule. No waivers or mitigation of fines or fees will be granted for violations of this policy.

The Board has a fiduciary duty to all association Owners and their families to protect them from legal liability and exposure to harm. Motorized recreational vehicles are designed specifically for offroad use where the dangers of bodily injury and property damage like those in a residential neighborhood are not present. To uphold its fiduciary responsibility, the Board has ruled that the use of any motorized recreational vehicle or a vehicle primarily designed for offroad use is strictly prohibited on all Association property. If you are not sure a vehicle fits the definition of recreational vehicle, you are urged to contact the Board for clarification before using it.

VINYL FENCE REPAIR

The Architectural Review Committee (ARC) is aware of several damaged vinyl fence panels and will be reaching to individual Owners in Spring to request repairs be made.

If a vinyl fence on or adjacent to a lot is damaged, the Owner is responsible for repairing it. Repairs are required to be completed promptly. If an Owner chooses to repair a damaged vinyl fence of their initiative, they are still required to contact the ARC to obtain approval before beginning the work.

Note: The Association owns NO vinyl fencing. The only fencing owned by the Association is the chain link fence adjacent to the center drainage pond. Any vinyl fencing adjoining a lot is the responsibility of the homeowner. If a damaged fence divides two Units, the homeowner on each side of the fence is financially responsible for their equal portion of the repair unless prior agreements have been made between the two homeowners or unless the damage was solely caused by one homeowner. If you have any questions about this issue, please contact the Board.

HOUSE MAINTENANCE

Thank you to all the homeowners who voluntarily painted or updated their homes in 2024!

A few homes remain in need of repainting. If at any time a home is showing faded paint, or the paint is worn sufficiently enough to expose the material beneath, the ARC and Board will require that paint and/or repairs be made by the Owner that year.

Note: The request of the ARC or Board to update the painting or make repairs to a Unit is required and subject to fines and penalties if not complied with. If you wish to discuss the matter or have questions about the condition of your home, please contact the Board and we will arrange for an ARC or Board member to visit with you.