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The following Policy is an updated Policy as approved at the September 6, 2025 Board of Directors meeting.

Fiscal Management Policy

I. Background & Intent

There are particular parameters and limitations about the nature of 9MR HOA's income and expenditures that dictate needing to follow a particular fiscal process. This Policy is intended to support new directors and relevant others in gaining critical knowledge about how to successfully manage that process, and in doing so this is intended to protect the financial success of the HOA and therefore the best interest of all HOA members.

Any person who has the right and fiduciary responsibility to discretionarily spend HOA funds or make fiscal decisions on behalf of the HOA – including but not limited to directors of the Board, committee members, and authorized agents of the BOD – is hereinafter referred to as a Fiscal Manager. Within (30) days of any Fiscal Manager's first time of service that person shall attend a meeting of the Board of Directors (BOD), or of the designated agents of the BOD, wherein a full introduction and explanation of this Policy's facts and meanings are imparted and discussed. It is the responsibility of the BOD president to insure that a record of this requirement having been fulfilled by the Fiscal Manager is entered into the minutes of the next BOD meeting. The attendance of a Fiscal Manager at such a meeting constitutes an agreement from that Fiscal Manager to adhere to this Policy.

Please also see section X, "Definitions", at the end of this Policy.

II. General Fiscal Concepts

1. The fiscal management concepts discussed throughout this Policy are what all Fiscal Managers should follow as they go through a fiscal year of managing income and expenditures, indeed 'the glasses which to look through' when making all fiscal decisions. In general, the following are guiding concepts when managing expenditures:

   a. Most individual expenditure categories in the annual budget were created by averaging all prior years' actual spending for each category after first adjusting them for inflation; the reasons for this are explained in subsection II.2. below. So it is expected that in any given year any of these category's total actual expenditures will either fall short or exceed the budget for that category, but that over time those over/under amounts will wash each other out. A main management key to making sure the balance does stay washed is to *watch trends over time* that might indicate that a category's expenditure total is changing over time beyond the average, which in turn means that more income may be needed to pay for the new trend; remember that the assessment rate (needed income) was set by the already established trend, or "standard".

b. Almost all historical road *maintenance* (that is *maintenance,* not Capital Improvements) has been conducted essentially at a minimum level that maintains all roads, so the averaged expenditure figures for those maintenance categories represent this 'minimum' as an established historical "standard". So Fiscal Managers need to keep watch that if any maintenance standard is increasing – like for example raking washboard more often – that means there's more money going out than collected and the situation needs to be rectified. A qualified Road Manager and/or directors, who are either familiar with HOA history or records, is essential in advising Fiscal Managers about potential changing standards. Specific road maintenance contractor files in the HOA archives also show records of standards.

c. The subject of budgeting for annual gravel replenishment expenditures is different than all other expenditure planning. It is not based on historical averaging but rather is based on calculating gravel wear from a rate of traffic. So that calculated projected funds amount for gravel must be collected through assessments and then spent each year strictly as the calculation calls for. This subject is addressed in detail below.

d. Of course it is always prudent to track expenditures during a year compared to their projected budgeted amount. If the expenditure amount is approaching the budgeted amount then this gives the manager a heads-up to be especially sure that "standards" are not being increased; if they are increasing then funds are being spent that exceed the budgeted standard, such excess which there is not funding for.

e. As discussed at section VIII below, there is an important accounting and funds controlling difference between funds for road *maintenance* and road *improvements* (Capital Improvements). As opposed to annual averaging and adjusting for regular road maintenance, Capital Improvement funds are specifically secured by the Board analyzing and pricing any given proposed project and taking those funds from assessment or other income that is not needed for minimum road maintenance or other financial obligations. Again as discussed at section VIII below, funds for Capital Improvements are deposited and withdrawn from a unique Capital Improvements bank account or ledger amount.

2. A major, somewhat less-evident reality which challenges unfamiliar 9MR HOA Fiscal Managers is this: It is understood that most of 9MR's expenses involve the requirement to maintain dirt roads, and that the main influencer on those expenses are weather circumstances – which are unpredictable – therefore most of 9MR's budget cannot be *literally* predicted or controlled. That explanation is the driving reason why most road maintenance expenditure budget categories are arrived at by averaging historical expenditures for that category. This weather-driven averaging 'reality' is the only reasonable way to protect the solvency of the HOA, manage road expenditures, and hence also not over or under charge members through inaccurate assessment rates. Fortuitously, as discussed at subsection II.b. above, HOA expenditure records show a fairly accurate 24-year history of 'what it costs' to minimally maintain the roads (again except regarding the subject of gravel replenishment). This means that expenditure records show all the ebbs and flows and changes of how weather has affected minimum road maintenance costs over the years. So these yearly expense records – if adjusted for inflation and averaged for each road maintenance category (except gravel replenishment and Capital Improvements) – are the most accurate likely expense figures that can be used as a basis to set annual assessment rates by.

   There are other factors that inform the accurate setting of annual assessment rates also, which are discussed in section III below.

3. Another critical item for Fiscal Managers to understand is what the CCR-required “Reserve Fund” is, what it is for, and how the funds within it are allowed to be increased or decreased (see also “Definitions”, section X below). CCRs, Article IV, Section 4 applies. The general fiscal concept is that, if Fiscal Managers successfully manage annual income (assessment rate) and expenditures correctly, the Reserve Fund automatically maintains itself and is used as a cash buffer for the ebbs and flows of yearly categorical expenses as weather and other directly unpredictable events cause expenditures to go over budget in any given year. So there is a calculated and justified list, with dollar values, itemizing which expenditure items are expected to fluctuate and therefore how much excess ‘buffer’ money should be left accessible to pay for such expenses when they go over budget; that total list and total value is the base value of the Reserve Fund (see pages 18-20 in the report entitled, “MASTER 2021-2022 Reserve Fund and Study Report” for the items, values, and their calculations http://9mileranchhoa.org/wp-content/uploads/2022/05/MASTER2021-2022ReserveFundandStudyReport.pdf).

   This Reserve Fund balance automatically maintains itself at the adequate base level over time **if all Fiscal Managers perform the actions discussed in sections III, IV and V below**; in other words, over the years, proper HOA income (assessments) will automatically replenish the drawdowns in the Reserve Fund. However, the fund loses value over time due to the lowered value of the US dollar, so each year this lost value has to be determined and charged for through assessments (or if the dollar has gained value then a lowering of the assessment rate might be appropriate). Instructions about the Reserve Fund and calculating the dollar loss value each year are included in section III.1.c. below.

III. Annual General Review of Expense Records and Setting Projected Income and Expenses for the Coming Fiscal Year

1. Prior to the adoption by the BOD of any proposed annual budget, as part of the preparation of the BOD creating the coming year’s proposed Annual Budget and annual assessment rate, the BOD or its designated agents will do the following:

   a. With the exception of the categories of “Gravel” (see III.1.b) and “Capital Improvements” (see III.1.e), conduct a review of each expenditure category in the official chart of accounts in the accounting system to determine if there are any clear, set changes expected for expenses in the coming year; if there are changes then adjust the relevant projected category expense. For example, in 2022 our raking contractor increased his raking rate from $60.00 per hour to $100.00, which is a 67% increase. So for the budget year 23/24 the “raking” category expenditure amount was arrived at by increasing the prior years’ raking figures 67%. Every HOA expense contractor and supplier should be consulted to verify if and exactly what their rates/prices are knowingly projected to change for the coming year, and those changes should be incorporated into the action in this subsection.

   b. Reviewing and adjusting the expense category of “Gravel” needs to happen each year also but how that is done is different from other categories; it is not based on historical averaging. Unlike other road maintenance categories, the wear of gravel on roads does not occur because of weather fluctuations but rather occurs by auto traffic, and that traffic rate and subsequent wear can be calculated and a corresponding amount of funds for gravel can be arrived at. The BOD will consult with historical gravel wear calculations and adjust them if necessary as traffic levels change. Then that calculated volume of worn gravel will be costed out to current/projected gravel prices and a final annual categorical expense for “Gravel” will be inserted into that budget expense category.

   c. **Potential income needed for compensating for CCR Reserve Fund value loss due to inflation.**

As long as all outstanding HOA bills have been paid, the sum total of funds that exist in all HOA accounts at the end of a fiscal year – except the Capital Improvements account/ledger amounts – cumulatively represent the most accurate determination of the current balance of the CCR-required Reserve Fund (Article IV, Section 4). Reserve Funds sitting in HOA accounts are losing value as yearly inflation reduces the value of a dollar. This means that what is held as Reserve Fund dollars intended originally to pay for a specific list of overages is losing its ability to pay for those overages at the rate of annual inflation, so that lost value needs to be charged to the membership in the coming annual assessment rate. Conversely, if it is found that *deflation* has occurred then that should rather be entered into the final assessment rate calculation and act as a *reduction* in the assessment rate.

The base amount of Reserve Funds, and the calculation and purpose for the funds, can be viewed on pages 18-20 in the document entitled, "MASTER 2021-2022 Reserve Fund and Study Report" (MASTER Report) (http://9mileranchhoa.org/wp-content/uploads/2022/05/MASTER2021-2022ReserveFundandStudyReport.pdf); all directors and relevant other Fiscal Managers should understand those pages. Also, the factors in those pages should be changed at any time if a qualified analysis calculates otherwise.

As shown in the MASTER Report, the Reserve Fund has an original set value in 2021 of $50,259.76; this is the value in 2021 that these 'buffer' funds will fluctuate up and down from, as time goes, as averaged expenditures fluctuate over the years.

The following process will be used in order to calculate the actual inflation value each year:

i.) Review pages 18-20 in the MASTER Report and determine if any of those expense categories have experienced a direct inflated cost.

ii) Now determine the specific inflated amount of any applicable category. For example, in preparing the budget and assessment rate for fiscal year 23/24, the only reserve fund item in the MASTER Report that experienced a cost increase was the subject of "Adjusting for worst-case watershed erosion event/season". In 2022 the cost for gravel increased by 45%, which affects the subject. Here's the actual calc for inflation:

1. total reserve fund value for the subject per the MASTER Report: $14,030.00
2. Road Manager estimates that 30% of erosion costs go toward gravel, so 30% of $14,030.00 is $4209.00

   That $4209.00 worth of gravel has increased in cost by 45%, so 45% of $4209.00 is **$1894.00**; that is the amount that the gross HOA income (assessments) needs to increase in order to cover that inflated portion of the Reserve Fund.

d. Allowing for annual uncollected assessments. Each year there is an average uncollected percentage of HOA assessments; up through 2021 the average uncollected assessments rate was 4%. This means the BOD needs to add the value of this uncollected percentage into the calculated annual per-Lot assessment rate in order to make sure the final collected amount will cover all expenses. This value is arrived at by finding 4% of the added together total expenses in subsections III.1.a-c. above. Of course this uncollected percentage value may change over the years if the collections rate gets better or worse, so the BOD should occasionally review this rate to see if it is changing and apply the changed rate accordingly.

e. Creating a projected needed per-Lot annual assessment rate for the coming year.

i.) Add the figures together from subsections III.a.-d. above and divide that by 310 (Lots) to obtain the *minimum* needed per-Lot assessment rate for the coming year. This figure does not include any additional BOD-discretionary funds for "Capital Improvements", which are funds defined as spent from the Capital Improvements bank account/ledger and for the purpose of fundamentally improving a road section's ability to either shed water or improve its capacity to carry traffic in some way, particularly in comparison to how the road was originally built by the developer (these funds are addressed immediately below).

ii.) If the value does not exceed the Board's unilateral power to raise the annual assessment rate by 10%, the Board can raise the per-Lot assessment rate to include funds for Capital Improvements. That total value can of course be divided by 310 (Lots) and added to the minimum rate discussed in the subsection immediately above to arrive at a final assessment rate.

IV. 3-year Review of Expense Records & Other Adjustments

1. At the end of every third fiscal year, starting effective at the end of fiscal year 2024, during the time of the BOD conducting the work outlined in section III. above, the BOD or its designated agents will conduct a review and re-averaging of road maintenance categories and any other expense category which is averaging-based, now incorporating the last 3 years of expenditure records in with all prior historical records in order to achieve a new updated accurate averaging of those expenditure categories. Other potential adjustments, for quantifiable practical reasons, may be made to those averages as well, as addressed below.

   This 3-year period for review mimics the spirit of what RCW64.38 requires of HOAs about reserve fund planning and reporting, which promotes the same purpose of maintaining accurate annual assessment rates while minimizing the need for unplanned special assessments.

   The following considerations, at least, will be given to the re-averaging and additional potential adjustments:

   a. Base data used for re-averaging will be taken from the official HOA accounting records and other direct expense records.

   b. Pertinent committee members and/or HOA agents (or prior involved people) should be counseled for their perspective and input about considerations for potential expense category changes.

   c. The total figure for any expense category for each prior year will be adjusted forward to current pricing levels (inflation) *prior to averaging all years together;* ***this is critically important and if not done will cause a large error in the final assessment rate calculation***. For hypothetical example, let's say the plowing rate in fiscal year 2010/11 was $85.00 per hour and the total plowing expense for that year was $10,000. In our current year 2023 the average plowing rate is $140.00 per hour, which is a 65% increase over the rate in 2010. So the recorded 2010 total expenditure for plowing of $10,000 needs to be adjusted up by 65%, which would make the adjusted figure for that year now be $16,500; in other words, that's what it would have cost in today's dollars. That type of adjustment for current pricing should be done for each historical year for plowing, and then all of those adjusted figures should be averaged to come up with the final adjusted averaged current figure. The process just discussed for the category of plowing should be conducted for every other expense category that is based on averaging.

   d. Looking for trending changes over the prior three years for each expense category needs to be considered. For hypothetical example, let's say the Road Committee reports that they are witnessing a generally higher trend of ditching expenses because the type of road gravel topcoat that has been being placed in recent years is more erosive on its surface, so ditches are silting up a little more and therefore more ditch pulling appears to be a likely consistent trend for the future. A trend like this would override basic annual expense averaging, and this trend should be reasonably quantified/expensed out by a qualified person and added into averaged expense figures to arrive at a new most reasonable projected expense figure for ditching.

e. Adjustments need to be made for road maintenance expense categories that are influenced by an increase in traffic rate, like "Gravel" (replenishing worn away gravel from auto traffic). There are existing calculation methods for this in the HOA archives that should be referenced in helping establish new gravel replenishment volumes as traffic rates increase.

f. Adjustments need to be made if a performance standard is changing, like for example if the plowing standard will be increased from plowing at 4" snow accumulation to 2" accumulation. Another example would be if more miles of roads are being plowed now than in the past. Yet another example would be if the raking frequency increases because less washboard is desired compared to what the prior raking historical standard can pay for. In other words, financial managers should always be on watch for if any performance standard is changing because that means there is not adequate funds to pay for that change yet and therefore either the standard should be reduced or the BOD needs to find a way to increase HOA income to pay for a new, higher standard. In this same vein of advice – regarding BOD fiscal oversight – it is wise that directors verify with the Road Committee regularly about whether road maintenance is being conducted at historical standards.

V. Approving & Categorizing Expenses

It is understood that in order for the fiscal management process discussed herein to work it is ***very*** important that accurate approval and categorization of expenses happens; if not then the tracking and reviewing of expense categories will be erred, and Fiscal Managers will in turn make incorrect decisions about spending funds and setting assessment rates.

Most funds the HOA spends are self-explanatory as to what accounting expense category a check written would be expensed to. "Road maintenance" has many different subcategories/breakdowns (see subsection V.4 below) – including multiple different subcategories that may be assigned from just one bill at times – thus accurately categorizing road maintenance expenses requires particular diligence from the Road Manager and oversight from the BOD. The following will be followed with respect to approving and expensing HOA funds:

1. **All funds spent must be prior approved by the BOD.** Common/set expenses, such as Liability Insurance or Website Fees, do not need a motion by the BOD to pay; these are set costs approved through the annual budget approval process. The Treasurer (or agent thereof) will inform the BOD when payments are taking place and/or if there are any changes to prior approved costs.
   The BOD will approve Road Maintenance expenses, through BOD motion, prior to commencing road work. Prior to payment of Road Maintenance expenditures, the Treasurer (or agent thereof) will send invoices to the Road Manager for approval of invoice and breakdown of Road Maintenance categories to be used, categorized according to options in the official HOA Quickbooks chart of accounts (see also subsection V.4 below). Some invoices will require multiple expense categories.

   As stated above, there cannot be enough emphasis put on the importance of correct and consistent expensing of costs, especially for Road Maintenance. It would be helpful if all Road Committee members were aware of and understood the official list of road maintenance categories.

2. The BOD can add/adjust/change the official Quickbooks chart of accounts expense categories if deemed necessary. The goal is to have the best fiscal working tool, produced through Quickbooks financial reports. The Road Manager may at times suggest a new expense category.

3. The Treasurer (or agent thereof) will produce and send a monthly reconciliation report to all Board members. This will include:

a. Current month end bank statements on all HOA bank accounts.

b. Reconciliation reports on all HOA bank accounts; proof of balanced books to bank statement.

c. Copies of all checks and corresponding invoices for said month.

d. Month end balanced Balance Sheet and Profit & Loss statement.

4. As of the date of this Policy the following are all the Road Maintenance subcategories and explanations for what each includes:

a. "Road Gravel": funds spent for *topcoat* gravel only (this would not include funds spent on base gravel or gravel used for any purpose other than gradable/rakeable topcoat gravel).

b. "Gravel Machining": funds spent for man and machine to shape, form or compact topcoat gravel that was laid down by truck *but the truck placement alone did not leave the gravel either crowned or reasonably able to be driven on by regular auto traffic without additional machining.*

c. "Raking/Grading": funds spent for using a rake or a grader or any other machine to crown, repair watershedding shape, or eliminate washboard or potholes on the road plane. This *does not* include pulling/reestablishing ditches or any roadside/embankment work.

d. "Ditch/Culvert Cleaning": funds spent for man and/or machine to clear culverts of blockage or reestablish water flow ditches or roadside shaping that acts as water runoff capacity along road planes.

e. "Other Road Material/Repairs": funds spent on repairs/maintenance that do not fit better as applied to other specific categories. Examples of this could be replacing or installing road signs, or repairing/replacing a cattle grate (essentially items that happen anomalously or so infrequently that they do not warrant having their own expense category).

f. "Admin. Labor & Materials": Expenses that support road work/repairs being set up or executed, like road driving expense mileage from volunteers for assessing roads, labor/materials/mileage associated with marking roads for buried utilities location by contractors, stakes and paint and flagging for marking road work, etc.

g. "Capital Improvements": funds spent from the Capital Improvements bank account/ledger and for the purpose of fundamentally improving a road section's ability to either shed water or improving its capacity to carry traffic in some way, particularly in comparison to how the road was originally built by the developer.

h. "Emergency Repairs": funds spent to repair roads/ditches/embankments outside of the regular spring and fall maintenance regiments. These usually result from unusual or extreme short-term weather events, like summer cloudbursts, etc. Another qualifying feature for this category is that it is deemed that the repairs should be made ASAP so as to avoid greater road deterioration or passability or undue driver danger. Another example is a tree that has fallen across a road and needs to be removed immediately in order to restore road passability.

i. "Road Base Repairs": funds spent to repair soft spots (a.k.a dust spots) in roads where the topcoat gravel has worn through and the base gravel beneath is either non-existent or inadequate such that auto traffic sinks into the road spot. This category DOES NOT include general road base *improvement* projects where the developer's original road build was simply lacking enough road base material to start with (that would be categorized as a Capital Improvements expense).

j. "Erosion Prevention/Control": funds spent to add materials or road side embankment work which helps prevent or control erosion resulting from water flowing over the edges of roads or in ditches. Examples include installing rip-rap rock in ditch sections that have excessively eroded from strong water flow and need armoring, or placing rip-rap rock on a road embankment slope that shows erosion vulnerability from water flow, or placing large boulders around a culvert inlet or outlet basin that has shown vulnerability to erosion, etc. This DOES NOT include emergency immediate repairs of erosion areas that have washed away and present an immediate danger to either the road structure of to passing auto traffic.

k. "Roadside/Easement Maintenance": funds spent to fell or trim trees within roadside easements, or to remove or manipulate roadside/easement strata or boulders so that use or maintenance of a road/easement can be restored/enabled.

VI. Investments

No HOA funds, including Reserve Funds, shall be used for investment purposes if such funds reduce or risk the ability of the HOA to fulfill its duties and obligations under the CCRs. All investments shall happen according to all governing documents and applicable state laws, including but not limited to RCW64.38 and RCW24.03.

VII. Records

The BOD will ensure that reports and work-up calculations used to create the income and expense figures for all subsections above are filed with the HOA archives. This is for transparency to the membership and also to inform future HOA BOD members and Fiscal Managers for them to accurately carry forward subsequent years' expense and income projections.

VIII. Financial/Bank Accounts

Pursuant to the fiscal actions included in this Policy to date, there are essentially the following (2) different categories of HOA funds/accounts and how they shall be operated:

1. bank accounts, including certificate of deposit accounts (CDs) any any other account of deposit/withdrawal or savings *except the HOA account labeled "Capital Improvements"*. The funds in these accounts can be spent on all HOA expenses except on Capital Improvements.
2. any account or ledger amount labeled "Capital Improvements" or used for expenditures on Capital Improvements. Such an account/ledger amount should have deposits and withdrawals related ONLY to the subject of Capital Improvements.

The importance of adhering to strictly controlling the two different types of account categories/funds as delineated immediately above is inspired by the CCRs expressed/implied requirements that 'maintaining/repairing' roads is a legal *obligation*, and 'improving' roads is a *discretionary power*. So managing and disclosing the funds in clearly separate terms provides transparency, accuracy, ease of management, and keeps HOA legal liabilities low.

IX. Purpose Of and Determining the Balance of the Reserve Fund

The CCR-required Reserve Fund, at Article IX, Section 4, has to be able to have a balance at all times that accomplishes:

1. having enough cash to be able to pay for weather-driven road maintenance expenses on any given year that exceed historical averages (discussed at subsection II.2 above),
2. having enough added cash each year to compensate for the loss of value of the Fund due to inflation (discussed at subsection III.1.c above), and

3. enough cash to be able to pay for extreme or emergency road repairs (III.1.c, paragraphs 2 and 3).

As discussed at ss. II.3 above, fortuitously the Reserve Fund automatically maintains its proper balance if Fiscal Managers act in accordance with that subsection. As the reader might already suspect, it would be hugely complicated if not impossible to accurately calculate or project what the Reserve Fund balance "should" be at any given moment because of the myriad influencing factors that are beyond predictability and accumulate over the years. But the joy of this is, by viewing HOA 'profit and loss' accounting data for the last day of any fiscal year, one can see what it actually "is" on that day and therefore one can bypass the question of what it "should" be:

- As long as all outstanding HOA bills have been either paid or accounted for, the sum total of all funds that exist in all HOA accounts (minus outstanding bills, if any) at the end of a fiscal year – except Capital Improvements account/ledger amounts – cumulatively represent the most accurate determination of the current balance of the CCR-required Reserve Fund (Article IV, Section 4).

X. Definitions

The meaning of the words defined below are to be taken whether or not the word appears in this Policy as capitalized or used in the plural or singular.

1. **"Budget"**: any dollar amount duly set by the BOD or the HOA membership involving income and/or expenditures. Of particular note, the word does not imply:
   a. that if an expenditure category comes in 'under' budget those funds are therefore available to be shifted to some other category, and
   b. that if an expenditure category comes in 'over budget' that the long-term fiscal averaging of that category has been exceeded.
2. **"Fiscal Manager"**: any person who has the right and fiduciary responsibility to discretionarily spend HOA funds or make fiscal decisions on behalf of the HOA – including but not limited to directors of the Board, committee members, and authorized agents of the BOD.
3. **"Policy"**: this document in its entirety, which is required to be followed by all Fiscal Managers.
4. **"Qualified" or "qualifications":** a person who, upon due inquiry and knowledge demonstrated by the inquirer, possesses the skill and/or experience to perform the task they are assigned and that their work product is evident of their capacity to perform the work assigned to them.
5. **"Reserve Fund"**: the comprehensive meaning as expressed and implied at CCRs Article IV, Section 4. This does not mean and shall not be confused with the words "reserve fund" as used in RCW64.38.