

## Budget Season is Approaching

Budget season is fast approaching. This process can be streamlined by planning ahead and involving the community association. Usually your manager will work with the treasurer to prepare a draft budget. Another idea is to create a Budget Committee, which comprises members of the community association, enabling residents to have a say in how their money is spent. This not only spreads the work-load but promotes greater understanding by residents and acceptance of the fees and necessary increases.

It's important for everyone involved to understand the three basic components of the budget:

1. Funds needed for daily operation of the community, such as common electricity and water, grounds maintenance, management, insurance, and general maintenance. These expenses are either contractual or can be reasonably estimated based on historical data. An important consideration when looking at items in the operating budget is to consider the expectations of the community—for example, do members want a landscaper who is a “blow, mow, and go” type, or do they want a landscaper who provides a higher level of service, and charges more?
2. Funds needed to maintain reserves at sufficient levels. Reserve funds provide money for the repair and replacement of the community's capital assets—such as the pool, roofs, pavement, etc. It is fiscally responsible to provide for future known expenses by funding reserves over time rather than making special assessments for large projects.
3. Funds for additions or enhancements to the existing property. This is a function of what members of the community want and are willing to pay for. Ideally, the community should provide input and approval for this component.

The annual budget is an important management tool and the budget preparation process provides an opportunity for additional analysis to be made, planning to be done and a review of the association's goals and priorities. Some of the steps that are part of budget preparation are:

- Consider any ‘projects’ that have been discussed during the year, but were not planned for the current year, for inclusion in planning for the coming year: e.g. landscape upgrades, new benches or signs etc
- When preparing the draft budget, the preparer will:
  - Use year-to-date totals and project the actual totals through the end of the year.
  - Compare the annualized totals with the budgeted amount for the current year as well as the previous year's actual totals to identify trends.
  - Investigate any numbers that vary significantly from the budgeted amount to find the reason for the variance and budget accordingly.
  - Check with vendors to find out what the expected increases will be in their contracts (grounds, pool, management, termite contract, insurance, utilities etc.)
  - Check the legal documents to find out what rules apply to increases in assessments. It is fiscally responsible to increase the assessment annually to keep pace with inflation.
  - Include notes to explain the changes in line items where relevant.
  - Check the reserve study to ensure that budgeted reserve funding is following the recommendation as per the reserve study (long-range planning)
  - Include reserve expenses as scheduled per the reserve study.
  - Include recommended categories in your proposed budget, such as: an association website, Board Education (CAI), a reserve study or an update to the study.

The goal is always to develop a balanced budget. If expenses are greater than revenue, look for ways to lower expenses without compromising service. If that doesn't balance the budget, the only alternative is to increase assessments or levy a one-time special assessment. Keep in mind that the association is a Not-For-Profit entity, so your goal is effectively to have a zero income at year-end.

Responsible financial planning is an important fiduciary obligation of the board. The association's legal documents stipulate the deadlines for assessment approval, budget adoption and homeowner notification. Failure to properly notify homeowners of the new assessment could lead to disputes and non-payment of assessments.

Advance planning and preparation will ensure that the process goes smoothly:

1) Establish a clear timeline – as per the governing documents:

Assessment must be set by (date)\_\_\_\_\_ Ref:\_\_\_\_\_

Assessment notice must be sent by: (date)\_\_\_\_\_ Ref:\_\_\_\_\_

Budget must be approved by: (date)\_\_\_\_\_ Ref:\_\_\_\_\_

Budget to be provided to homeowners by (date)\_\_\_\_\_ Ref:\_\_\_\_\_

Mailed\_\_\_ Posted on web\_\_\_ Presented At annual meeting\_\_\_\_\_

Budget ratification meeting required: yes\_\_\_ no\_\_\_ Ref: \_\_\_\_\_

2) Prioritize by allocating adequate time on the meeting agenda for the budget discussion.

3) Contact the manager in advance of the meeting if there are questions about the proposed budget, so that all pertinent information can be researched and will be available during the budget discussion to enable a timely decision.