

# Budgeting Basics

## BUDGETING BASICS FOR 2014

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**D**o you dread this time of year, when the entire buzz is about the budget? It's okay to admit it - some of us just aren't "numbers people," and dealing with a budget is on the Top 10 List, along with going to the dentist. Whether you're a community manager or Board member, it definitely adds to the stress of everything else that is going on and makes the task all the more daunting. But wait, it doesn't have to be stressful. Let's break it down and talk basics, so maybe, budget time next year (or even this year), will be FUN!

First and foremost, with all this talk about budgets, we need to identify who is actually responsible for your association's budget. Well, that would be the Board of Directors and not your community manager. Remember, your community manager acts on behalf of the Board, and he or she is there to help set a preliminary budget and help the Board gather data. However, the ultimate responsibility rests with the Board, as they fulfill their fiduciary roles. Accordingly, collaboration between the community manager and the Board is essential, because this budget actually becomes a legal document, with which to create an assessment stream.

So now that we know whose budget it really is, let's come up with a strategy for this budget. You need to ask yourself the following:

- Do we have a current reserve study?
- How did we do last year? Up or down?
- What's our situation today?

One must consider long-term planning in the budgeting process. Are you setting aside funds that coincide with the reserve study? Hopefully, you're saying, "Yes." This makes the community a better place for the homeowners, knowing that when it's time for those capital improvements, they won't require a "special assessment." These two words don't fare well in the community management world. Taking it one step further, are the bids for this project current and in line with the costs in the reserve study?

Okay, so we've got long-term planning in the strategy, what next? Well, if you're not a new community, you've got some history that will help project out the next strategy for this budget - operational expenses, where the fun begins. It's best to go back three years of financials to see how the expenses played have out. Don't forget to look at your current contracts or service agreements with vendors. Most importantly, look at where your last year ended. Were you up or down? The following are things to consider:

- Be sure to break out the budget into two categories: operating and reserve.
- Work on the biggest budget items first.
- Consider a line item for contingencies. Yes, they may happen.
- For the large projects, it may be best to work on one per year.
- For the contracts and services agreements with vendors, decide if you need to get competitive bids before putting together the budget
- Lay out budgeted items in the month they will occur.
- Be sure to incorporate the prior year's deficit or surplus by checking your governing documents to see if they have any clauses regarding treatment of deficits/overages.

- Zero-based budgeting is a must: all expenses + reserve contribution = annual assessment.

So there you have it in a large nutshell, right? Well..... Let's discuss where we are in the economy and how it's affecting our home front. Many might say that things are getting better, but we're still not out of this storm, and we need to make sure our budget is factoring in this reality. Not all associations are in this situation, but if you have uncollectible assessments, not considering an allowance for them in your budget is a BIG NO-NO. You may not be able to pay your bills if you ignore it. Budgeting for bad debt expense can be difficult, but if you leave it out of the budget, the association could be in a cash shortfall for the year. Manage conservatively by estimating more bad debt than less. If the association collects more, then it can be adjusted in the following year's budget.

### Sample Budget

#### OPERATING BUDGET

	ANNUAL BUDGET	MONTHLY BUDGET	AVG. PER UNIT/PER MONTH
<b>INCOME</b>			
Assessments (19 Lots)	29,486.00	2,457.17	129.32
Bank Interest - Operating	15.00	1.25	0.02
Miscellaneous Income	1,402.00	116.83	6.15
<b>TOTAL INCOME</b>	<b>30,903.00</b>	<b>2,575.25</b>	<b>135.49</b>

#### EXPENSES

<i>Administrative costs</i>			
Management Fees	2,508.00	209.00	11.00
Management Extras	100.00	8.33	0.44
Bank Charges	60.00	5.00	0.26
Office Exp, Supplies, Telephone	100.00	8.33	0.44
Copies	125.00	10.42	0.55
Postage	150.00	12.50	0.66
Annual Accounting	1,000.00	83.33	4.39
Legal	300.00	25.00	1.32
Newsletter/ Publications	100.00	8.33	0.44
Collection Charges/Bad Debt	1,000.00	83.33	4.39
Insurance, Fidelity, Liability, Property	2,000.00	166.67	8.77
Insurance, Workers Comp	350.00	29.17	1.54
Federal Income Taxes	10.00	0.83	0.04
Secretary of State Filing	75.00	6.25	0.33
Reserve Study	3,500.00	291.67	15.35
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>11,378.00</b>	<b>948.16</b>	<b>49.92</b>

<i>Operating Costs</i>			
Electrical - Irrigation & Gates	250.00	20.83	0.00
Water	1,800.00	150.00	7.89
Telephone - Entrance Gates	115.00	9.58	0.50
Street Cleaning	6,760.00	563.33	29.65
Landscape Services/Trash Removal	3,300.00	275.00	14.47
Landscaping Extras	300.00	25.00	1.32
Common Area Maint/Repairs/Supplies	1,000.00	83.33	4.39
Reserve Contribution 2014	6,000.00	500.00	26.32
<b>TOTAL RESERVE CONTRIBUTION</b>	<b>6,000.00</b>	<b>500.00</b>	<b>26.32</b>
<b>TOTAL OPERATING &amp; RESERVE</b>	<b>30,903.00</b>	<b>2,575.23</b>	<b>134.46</b>

#### RESERVE BUDGET

Anticipated Reserve Balance 1/1/14	20,000.00
Transfers from Operating Budget	6,000.00
Bank Interest - Reserves	800.00
<b>TOTAL RESERVE INCOME - 2014</b>	<b>6,800.00</b>
<b>TOTAL RESERVE EXPENSES</b>	<b>0.00</b>
Anticipated Reserve Balance, 12/31/2014	26,800.00



(continued from page 4)

So, there it is. That wasn't so bad, was it? Although we just went over the basics, you're off to a good start if this is new to you. So go ahead, create a new spreadsheet and use the following for reference.

Even if you don't create or maintain the budget, since your community manager may, this will be a good exercise to go through to better understand your association's budget.

In closing, remember that the budget is an estimate and a tool. Communication is key, so keep the collaboration between the community manager, Board members and homeowners going at all times.

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