



COMMUNITY BUILDER

July 20, 2023, Volume 15, Issue 8

Budget Season: The Core of Financial Management in the Community

One of the most important hats a board member will wear is the financial management of the community. Budgeting is at the core of this responsibility. A well-researched budget can act as a playbook for community operations and set up the association for financial success. The question is then: what does the budgeting process look like, when should it start, and what kind of things should be considered?

Starting the budgeting process early is essential with June-July the best time to start

conversations about the upcoming year's budget. These initial conversations should focus on what the board wants to accomplish over the following year. Here are some of the key items to take into consideration in these initial conversations:



Vendor Maintenance Contracts – Boards should work with their Community Association Manager (CAM) to review the scope of these services, contract expiration, pricing, and quality of the delivery of services. agreements and their associated contract expirations. It will be important to determine the desired scope of work for the following year early so the manager can start obtaining bids if the agreement expires soon.

Future Projects – The board should discuss projects for the next budget year. This may come from a reserve study or as a result of strategic planning that has taken place. Once projects for the ensuing year are identified, the CAM may obtain estimated bids for the budgeting process. With fluctuating labor and materials prices, it will be important to communicate the project timeline to the vendor so they can assist in determining any inflationary increases that may need to be included in total pricing.

Insurance – The insurance market is currently in a volatile state. It will be essential to partner with the community's agent or broker to determine how the budget should be adjusted for the following year's renewal. While they won't be able to give firm estimates, the association's

claim history and trends can be used to help project what the renewal may look like. Unfortunately, insurance premiums are rising over 30% or more across the market in most cases. As one of the most significant expenditures a community may make, it is crucial to budget for these large increases.

Reserve Funding – Budgeting for monthly reserve transfers is vital to ensure the community has funds for large-scale capital projects as it comes time to complete them. A Reserve Study is an excellent tool for determining this budget figure. If the community does not have a Reserve Study or the study is dated, the board will also want to consider budgeting for the expense of obtaining the study.

Once the expenses for the following year are identified, it's time to look at the income side of the equation. Starting with the expenses is important to ensure realistic budget figures are used. Starting on the income side of the equation tends to lead boards in the direction of underbudgeting for expenses which can be detrimental to the community's financial health.

When determining the upcoming year's assessments, reviewing the association's governing documents and determining any caps on assessment increases will be necessary. The accounts receivable report should also be reviewed during this process. Suppose a community has a high rate of delinquency. In that case, it will be important to budget for an Allowance for Doubtful Accounts; this is a negative income line item designed to factor in assessments the association does not expect to receive and, as such, funds that won't be available for the associated expenses.

The Community Association Manager will help the board develop a draft budget based on the items above. The board will want to review and make any necessary revisions to the budget in August and September to reach a final budget in October. This will ensure plenty of time to schedule budget meetings with ownership and payment notices/coupons being sent before the first payment of the following year is due.

In summary, the keys to successful budgeting are starting early, being thorough, and, most importantly, being realistic. If this approach is taken, the association will be set up for success in the years to come.

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