

Preparing a Budget

When a property is in the process of being built, a budget is prepared by the developer and approved by the initial board of directors for the newly formed association. This budget covers all of the components that the association will be responsible for (i.e., operating and reserve expenses). The initial board normally does not change this budget as this is the one that should be used as the property is built out. The intent of a developer's budget is to ensure that the association is adequately funded when the developer leaves. Once the property is built out and the association is transitioned from declarant to homeowner control, the board may consider other budget preparation methods when performing this yearly task.

Budget Preparation with the Association's Treasurer

Most associations will have their Treasurer or a separate Budget Committee prepare the budget for the board of directors to review and approve prior to it being mailed to all members in accordance with the governing documents or state law. When the Treasurer prepares the next fiscal year's budget, the board of directors should consider the following early on:

- Review of all contracts to make sure the association is getting what it wants and is paying the correct price for the services that are being rendered. Boards may want to start the budget process early with regard to contract and pricing review, as the board may consider going out to bid to see what other vendors have to offer. (However, an association should take into consideration all facets when doing this type of bidding, i.e., quality of the workmanship, the established professional relationship, etc.)
- Review of the financial statements (both the income statement as well as the balance sheet) to get a very clear picture of the association's financial position at that moment. This means including a review of the comparative budget for the current fiscal year. Determine where there are excesses and shortages with respect to the current working budget. Adjustments should be made given what is being presented. Also, one must look at the previous year-end to see if the association ended with a positive balance or in a deficit. This, too, should be factored into the figures. If an association is new and does not have a complete year's historic figures to work from, the treasurer and the board should do its best to determine the figures by analyzing the association's known expenses. Having one full year of actual numbers is very valuable since it shows how the association is trending.
- Contact all utilities to see if they can give you an idea of how much their services are anticipated to increase in pricing for the coming year. Calculate this into the working budget.
- Review the most recent reserve study performed. It is important to make sure that an association's reserves are properly funded so that when a reserve component requires the necessary maintenance, there is money on hand to perform the work. Make sure to allocate the monthly reserve expenses as directed by the professional reserve study analyst in its reserve study report. When boards do not fund the reserves in accordance with the reserve study, there is always the strong possibility that members will be specially assessed for a maintenance requirement. A growing number of states now require that associations have on sight reserve study inspections done at regular intervals.
- Upon gathering all the above information, the Treasurer can prepare the budget for the

next fiscal year for the board to review. Sometimes, this will mean a raise in the assessments so that the association can operate in a solvent manner. If the board is in agreement, then the board may approve the budget for the next fiscal year and mail it to all the members for their perusal.