



Budget

Board Training Series

Chapter 3: Budgets and Financial Reporting

Financial Responsibilities

- Adoption of the annual operating budget
- Collect assessments and special assessments
- Fiduciary responsibility to manage the accounts and disburse funds
- Distribute an association "income and expense statement" and "balance sheet"
- Provide upon request of a lot owner, a statement of account
- Conduct an annual financial "review" or "audit" as required and according to GAAP
- Maintain an adequate reserve fund
- File Annual Tax Returns

Steps in Developing the Annual Budget

- Start Early! (3-6 months) - Review budget line items, expense history and contracts.
- Estimate operating expenses for the next fiscal budget year
- Estimate non-assessment revenues (if applicable)
- Review reserves for future major capital expenditures and develop a 5-10 year budget estimate
- Total the operating expenses and subtract any offsetting revenues to determine the annual operating budget
- Add the amount required for annual reserve fund. A reserve study can assist the board in establishing reasonable reserves
- Total the operating budget and reserve budget estimates
- Divide the total budget among the members of the association to determine the annual assessment (oftentimes the association's legal documents restrict the amount of dues increases annually)
- Review the association documents regarding annual meeting budget review and approval by members, and notice of annual assessment and or special assessments

Negotiate or Sign Contracts

Practically all association's have contracts with vendors for services such as landscaping, management, pool maintenance, legal and accounting services, security, snow removal, garbage collections and more.

- Contract negotiation/renewal should be a part of the budget process. This protects the association by locking in projected expenses and avoiding cost increases after the budget is approved
- Make a list of all contacts, length and renewal dates. Adjust contract expiration/renewal dates if necessary to conform to the budget calendar
- Consider the bid processes, discounts for multi year contracts, termination options, board/committee conflicts of interest, and in some state disclosure requirements

Budget Adoption and Ratification

State laws and the association's governing documents vary widely. Consult with your management company or HOA attorney.

- Responsibility for preparing the budget rests with the board
- Members must ratify the budget (make it official)
- The budget is considered ratified unless a majority of the total votes in the association (not just a majority of those present) reject the budget
- Budget ratification does not need a quorum to be present

To learn more, or to access other documents, please visit: www.yourhoahelp.com/board-members