

Financial Statements and Budgeting Tips for Managers and Community Leaders

REALMANAGE
FAMILY OF BRANDS



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THE FINANCIAL STATEMENTS



What is a variance? A budget variance is an **accounting term that describes instances where actual costs are either higher or lower than the standard or projected costs**. An unfavorable, or negative, budget variance is indicative of a budget shortfall while a favorable, or positive, budget variance is indicative of a budget surplus.

What are line items made up of? Line items contain income and expenses that have been assigned to that line item. If there is activity within a line item, it is the result of:

- Realized income – Income that has been received for the current period (month) and has been assigned to that line item.
- Accrued income – Income that is generated in the current period (month) but may not yet have been received.
- Realized expense – Expenses that have happened during the current period (month) and have been assigned to that line item.
- Accrued expense – Expenses that have happened during the current period (month) but we have not yet paid the bill. That expense will be reflected in the current line item as an expense that will soon be paid. This is reflected in a journal entry and is reversed out at the end of the month to make way for the expense being paid.

Additional Information for ongoing reference

What are line items made up of? Line items contain income and expenses that have been assigned to that line item. If there is activity within a line item, it is the result of:

- Realized income – Income that has been received for the current period (month) and has been assigned to that line item. (For instance, the clubhouse was rented on July 4th and we're producing the July financial statements. The income that we received for that rental will be reflected in Clubhouse Rental Income.)
- Accrued income – Income that is generated in the current period (month) but may not yet have been received. (For instance, the clubhouse was rented on July 4th and we're producing the July financial statements. The income that we have not yet received for that rental will be reflected in Clubhouse Rental Income for July through a journal entry.)
- Realized expense – Expenses that have happened during the current period (month) and have been assigned to that line item. (For instance, the clubhouse was rented on July 4th and we're producing the July financial statements. The clubhouse is cleaned after every event and that expense is reflected in Clubhouse Rental Cleaning Expense.)
- Accrued expense – Expenses that have happened during the current period (month) but we have not yet paid the bill. That expense will be reflected in the current line item as an expense that will soon be paid. This is reflected in a journal entry and is reversed out at the end of the month to make way for the expense being paid. (For instance, the clubhouse was rented on July 4th and we're producing the July financial statements. The clubhouse is cleaned after every event. We have not yet paid the expense, but the invoice for that expense is reflected in Clubhouse Rental Cleaning Expense for July. The journal entry is automatically reversed at the end of the month so that the paid expense can then be reflected in that line item.)

- A reclass - In accounting, the term **reclassification** is often used to describe moving an amount from one general ledger account to another.
- What is a journal entry?
 - A journal is a concise record of all transactions a business conducts; journal entries detail how transactions affect accounts and balances.
 - Adjusting journal entries, for example, are used to accrue or defer revenue and expenses, change or correct previous entries or estimate non-cash transactions, like allowances for debt that has been written off.

Responsibility for the information – THE BOARD. They have the right and the duty to understand the information and request additional information and/or changes to their financial statements.

The first step to analyzing financial statements is to be sure that you and your community manager are communicating.

- What variances does your manager want to talk about?
- Are there line items that the manager wonders whether the expense might be better for the capital reserves?
- Are there some re-classes from various line items that might explain some of the variances?



THE THREE DIFFERENT TYPES OF FINANCIAL STATEMENTS

- **Modified** (Revenue recognized when billed and expenses when approved for payment)
- **Accrual** (Revenue recognized when earned and expenses in month occurred)
- **Cash** (Revenue recognized when cash received, and expenses when payments are cut)

If you wrote your paychecks in your checkbook each month, and wrote expenses when you paid the expense.

If you wrote your paychecks in your checkbook each month, and wrote all of the expenses you incurred each month, that would be accrual.

Your checkbook

THE THREE DIFFERENT TYPES OF FINANCIAL STATEMENTS

Thank you to board member Melanie Gover for taking the time to email this wonderful suggestion!!

Compare accrual vs. accounting to giving and receiving IOUs vs. cash.

Under accrual accounting, when an IOU leaves or enters your hand, it goes on the books.

Under cash accounting, when cash leaves or enters your hand, it goes on the books.

For example...

Scenario	Accrual accounting	Cash accounting
Neighbor's daughter mows your lawn on Monday. You give her an IOU saying you'll pay her Wednesday, but actually pay her on Friday.	Entered in books on Monday as Accounts Payable (AP) when IOU is issued. Removed from AP when payment is made.	Entered in books on Friday as expense when payment is made.
You sell your bike to Bob on Tuesday. He gives you an IOU saying he'll pay on Saturday and pays on Saturday.	Entered in books on Tuesday as Accounts Receivable (AR) when IOU is issued. Removed from AR when payment is received.	Entered in books on Saturday as revenue when payment is received.
Per landscaping contract, which requires landscaper to trim bushes once a month and requires HOA to pay monthly.	Entered in books on 1st of month as AP. Removed from AP when payment is made.	Entered in books as expense when payment is made.
HOA residents are required to pay monthly assessments.	Entered in books on 1st of month as AR. Removed from AR when payment is received.	Entered in books as revenue when payment is received.

HOW ACCRUAL ACCOUNTING WORKS

- The general concept of accrual accounting is that economic events are recognized by matching revenues to expenses (the matching principle) **at the time when the transaction occurs rather than when payment is made or received**. This method allows the current cash inflows and outflows to be combined with future expected cash inflows or outflows to give a more accurate picture of a company's current financial position.
- Accrual accounting is considered the standard accounting practice for most companies except for very small businesses and individuals. The Internal Revenue Service (IRS) allows qualifying small businesses (less than \$25 million in annual revenues) to choose their preferred method. The accrual method does provide a more accurate picture of the company's current condition, but its relative complexity makes it more expensive to implement.

<https://www.investopedia.com/terms/a/accrualaccounting.asp>

THE CHART OF ACCOUNTS

This is where the community's line items are established.

All line items have a corresponding category and number system assigned to them.

We can add or delete line items as the board may see fit.

Expenses		Major Maintenance Expenses	
Operating Expenses		Major Maintenance Expenses	5620
Direct Operating Expenses		Roof Repairs	5620
Lawn/Tree Maintenance Expenses		Exterminating Repairs	5620
Lawn/Tree Maintenance Expenses	5210	Drywall Repairs	5620
Mulching Program	5210	Repairs - Plumbing	5620
Large Tree Maintenance	5210	TOTAL of Direct Operating Expenses	
Repairs - Landscaping	5210	General and Administrative Expenses	
Landscape Replacement	5210	Administrative Expenses	
Lawn and Snow Contract	5210	Administrative Expenses	6410
Foundation Back Fill/Mulch	5210	Management Contract	6410
General Maintenance Expenses		Printing/Postage	6410
General Maintenance Expense	5420	Storage	6410
Ext. Light Inspections/Replace	5420	Insurance Premium Expense	6410
Electrical Repairs	5420	Legal Fees	6410
In-House Maintenance Services	5420	Miscellaneous Expense	6410
In-House Supplies	5420	Bank Fees/Check Printing	6410
Geese Control	5420	Website Expense	6410
De-ice Roofs	5420	Recording Secretary	6410
Scavenger Contract	5420	Offset-Delinquent Account Fees	6410
Interior Hallway Cleaning	5420	TOTAL of General and Administrative Expenses	
Hallway Carpet Cleaning	5420	TOTAL of Operating Expenses	
Water/Sewer Billing-all units	5420	TOTAL of Expenses	
Ext.Light Inspection/Replace	5420	Net Surplus (Deficit)	
General Repairs	5420		
Common Area Electricity	5420		

	Month Ending 07/31/2021		
	\$ Actual	\$ Budget	\$ Variance
Revenues			
Assessments			
Regular Assessments			
Full Rate	67,788	67,788	0
Assessment Allocation			
Assessment Allocation	(13,529)	(13,529)	0
Interest Additions to Reserves	(168)	(168)	0
Landscape Beautification Fund	(1,375)	(1,375)	0
Mulch Reserve Fund	(1,861)	(1,861)	0
Painting Reserves	(4,028)	(4,028)	0
TOTAL Assessment Allocation	(20,961)	(20,961)	0
TOTAL Assessments	46,827	46,827	0
Other Income			
Late Payment Charges	175	83	92
Lien Filing	0	0	0
Late Payment Charges Waived	(25)	0	(25)
Comcast Agreement Income	0	33	(33)
Miscellaneous Income	0	0	0
Reimbursements	0	0	0
Returned Check Fees	0	0	0
Fines	0	0	0
Clubhouse Rental Fees	0	21	(21)
TOTAL Other Income	150	137	13
TOTAL Revenues	46,977	46,964	13
Expenses			
Operating Expenses			
Direct Operating Expenses			
Landscape Maintenance			
Contract	8,670	8,670	0
Lakes / Ponds / Water Features	0	75	75
Landscape - General	0	0	0
Landscape Repairs	0	3,000	3,000
Tree Maintenance	0	1,583	1,583
TOTAL Landscape Maintenance	8,670	13,328	4,658

Period to Date Information = “Current”

Month = the previous month-end which includes accounting adjustments with accurate payables (this is the reason that we cannot just press a button and produce financials)

“Actual” Income and Expenses = monies assigned to the “current month” + adjusting journal entries

THE STATEMENT OF REVENUES AND EXPENSES PERIOD TO DATE

	Month Ending 07/31/2021		
	\$ Actual	\$ Budget	\$ Variance
Revenues			
Assessments			
Regular Assessments			
Full Rate	67,788	67,788	0
Assessment Allocation			
Assessment Allocation	(13,529)	(13,529)	0
Interest Additions to Reserves	(168)	(168)	0
Landscape Beautification Fund	(1,375)	(1,375)	0
Mulch Reserve Fund	(1,861)	(1,861)	0
Painting Reserves	(4,028)	(4,028)	0
TOTAL Assessment Allocation	(20,961)	(20,961)	0
TOTAL Assessments	46,827	46,827	0
Other Income			
Late Payment Charges	175	83	92
Lien Filing	0	0	0
Late Payment Charges Waived	(25)	0	(25)
Comcast Agreement Income	0	33	(33)
Miscellaneous Income	0	0	0
Reimbursements	0	0	0
Returned Check Fees	0	0	0
Fines	0	0	0
Clubhouse Rental Fees	0	21	(21)
TOTAL Other Income	150	137	13
TOTAL Revenues	46,977	46,964	13
Expenses			
Operating Expenses			
Direct Operating Expenses			
Landscape Maintenance			
Contract	8,670	8,670	0
Lakes / Ponds / Water Features	0	75	75
Landscape - General	0	0	0
Landscape Repairs	0	3,000	3,000
Tree Maintenance	0	1,583	1,583
TOTAL Landscape Maintenance	8,670	13,328	4,658

Published budget income and expenses to the residents

Variances = the difference between the actual income and expenses and the budgeted income and expenses

	Month Ending 07/31/2021		
	\$ Actual	\$ Budget	\$ Variance
Pool Operating Expenses			
Contract - Pool Maintenance	4,485	7,000	2,515
Pool Passes/Rules	(757)	300	1,057
Pool Permits	0	0	0
Pool Repairs	0	250	250
TOTAL Pool Operating Expenses	3,728	7,550	3,822
Repairs & Maintenance			
Building Repair & Maintenance	0	833	833
Carpet Cleaning	0	500	500
Drywall unit repairs	0	167	167
Electrical Repairs	0	167	167
Gutters & Downspouts	0	542	542
Intercom Repairs	0	333	333
Interior Hallway Contract	1,333	1,500	168
Nameplate Expense	(4)	6	10
Roof Repairs	0	167	167
Sewer/Plumbing Repairs	0	100	100
TOTAL Repairs & Maintenance	1,329	4,315	2,987
Repair & Maint - Amenity Center			
Clubhouse Cleaning	0	58	58
Clubhouse Gas	324	542	218
Clubhouse Supplies	0	33	33
Clubhouse/Pool Telephone	214	25	(189)
TOTAL Building Expenses	539	658	119
Exterminating			
Exterminating	0	167	167
TOTAL Exterminating	0	167	167
Trash Removal			
Contract	5,214	5,250	36
TOTAL Trash Removal	5,214	5,250	36

We have a variance in all of the Total Categories - Total Pool Operating, Total Repairs & Maintenance, Total Building Expenses, Exterminating, and Trash Removal.

Why? Are we under or over budget? By how much? What's the story that these numbers tell?

Month Ending 07/31/2021			
	\$ Actual	\$ Budget	\$ Variance
Pool Operating Expenses			
Contract - Pool Maintenance	4,485	7,000	2,515
Pool Passes/Rules	(757)	300	1,057
Pool Permits	0	0	0
Pool Repairs	0	250	250
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Repairs & Maintenance			
Building Repair & Maintenance	0	833	833
Carpet Cleaning	0	500	500
Drywall unit repairs	0	167	167
Electrical Repairs	0	167	167
Gutters & Downspouts	0	542	542
Intercom Repairs	0	333	333
Interior Hallway Contract	1,333	1,500	168
Nameplate Expense	(4)	6	10
Roof Repairs	0	167	167
Sewer/Plumbing Repairs	0	100	100
TOTAL Repairs & Maintenance	1,329	4,315	2,987
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TOTAL Trash Removal	5,214	5,250	36

What line items will change when they are accrued?

Why? These are contracted line items and we incurred the expenses for the month, but we simply haven't billed yet.

These are expenses that are predicted by contract, and if there is a variance once the financials are issued, that would be a line item that you may want to dig into.

REALMANAGE

FAMILY OF BRANDS

THE STATEMENT OF REVENUES AND EXPENSES YEAR TO DATE

	YTD 07/31/2021		
	\$ Actual	\$ Budget	\$ Variance
Pool Operating Expenses			
Contract - Pool Maintenance	15,249	17,500	2,251
Pool Passes/Rules	0	750	750
Pool Permits	285	0	(285)
Pool Repairs	891	625	(266)
TOTAL Pool Operating Expenses	16,425	18,875	2,450
Repairs & Maintenance			
Building Repair & Maintenance	10,150	6,664	(3,486)
Carpet Cleaning	120	4,000	3,880
Drywall unit repairs	3,343	1,336	(2,007)
Electrical Repairs	1,667	1,336	(331)
Gutters & Downspouts	2,340	4,336	1,996
Intercom Repairs	2,382	2,664	282
Interior Hallway Contract	10,660	12,000	1,340
Nameplate Expense	85	48	(37)
Roof Repairs	0	1,336	1,336
Sewer/Plumbing Repairs	333	800	467
TOTAL Repairs & Maintenance	31,080	34,520	3,440
Repair & Maint - Amenity Center			
Clubhouse Cleaning	0	464	464
Clubhouse Gas	6,239	4,336	(1,903)
Clubhouse Supplies	0	264	264
Clubhouse/Pool Telephone	1,666	264	(1,402)
TOTAL Building Expenses	7,905	5,264	(2,641)
Exterminating			
Exterminating	185	1,336	1,151
TOTAL Exterminating	185	1,336	1,151
Trash Removal			
Contract	40,062	42,000	1,938
TOTAL Trash Removal	40,062	42,000	1,938
Water and Wastewater			
Water and Wastewater	99,510	83,336	(16,174)

Year to Date Information = 1st month of the fiscal year through the current period to date

The fiscal year is the 12-month period that covers the community's year.

“Actual” income and expenses = monies assigned for the year to date + adjusting journal entries

THE STATEMENT OF REVENUES AND EXPENSES YEAR TO DATE

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Why? Are we under or over budget? By how much? What's the story that these numbers tell?

Detailed Balance Sheet

(Amounts rounded to nearest dollar)

	(1) Operating Fund	(2) Replacement Fund	All Funds
	As of	As of	As of
	07/31/2021	07/31/2021	07/31/2021
	Actual	Actual	Actual
ASSETS			
Current Assets			
Cash - Operating Fund	47,887	0	47,887
Cash - Operating Petty Cash	50	0	50
Cash Liquid Investment	0	496,194	496,194
Cash CD #1	0	105,307	105,307
Cash CD #2	0	101,906	101,906
Cash CD #3	0	158,759	158,759
Cash CD #4	0	119,278	119,278
Accounts Receivable	3,415	0	3,415
Accounts Receivable - Other	1,578	0	1,578
Allowance for Bad Debts	(1,100)	0	(1,100)
Prepaid Expenses	2,691	0	2,691
Prepaid Insurance	12,948	0	12,948
Interfund Assets (Liabilities)	4,471	(4,471)	0
Total Current Assets	71,940	976,973	1,048,913
Other Assets			
Deposits - Other	(2,562)	2,562	0
Total Other Assets	(2,562)	2,562	0
TOTAL ASSETS	69,378	979,535	1,048,913

Assets = Where is our money, specifically?

What is this community's story? Do they have too much money? Or are they about to replace their roofs?

LIABILITIES AND FUND BALANCES				
LIABILITIES				
Current Liabilities				
Accounts Payable	18,810	0	18,810	
Prepaid Assessments	27,340	0	27,340	
Other Current Liabilities	613	0	613	
Other Accrued Expenses	25,095	0	25,095	
Other Deferred Revenue	9,026	0	9,026	
Total Current Liabilities	80,883	0	80,883	
TOTAL LIABILITIES	80,883	0	80,883	
FUND BALANCES				
Fund Transfers	(18,360)	18,360	0	
Prior Years Surplus (Deficit)	(35,267)	1,224,156	1,188,889	
YTD Net Surplus (Deficit)	42,121	(262,981)	(220,859)	
TOTAL FUND BALANCES	(11,506)	979,535	968,029	
TOTAL LIABILITIES AND FUND BALANCES	69,378	979,535	1,048,913	

Liabilities = Where is our money committed?

What money do we still owe or what money are we waiting for?

Reserves



YOU SHOULD HAVE A RESERVE STUDY. FULL STOP.

A reserve study for the community will identify the common elements, their useful life, their condition and required funding amount.

There are 3 different types of reserve studies:

- Full Reserve Study
- Physical Update
- Financial Update



A PROFESSIONAL REVIEW INCLUDES:

- Establish common elements
- Analyze current financials
- Interview manager
- Conduct a thorough site visit



4. RESERVE COMPONENT DETAIL.....

Exterior Building Elements.....

Balconies, Wood.....

Chimney Caps, Metal.....

Doors, Entrances.....

Doors, Garage.....

Gutters and Downspouts, Aluminum.....

Light Fixtures.....

Roofs, Asphalt Shingles.....

Shutters, Wood.....

Walls, Aluminum Siding.....

Walls, Paint Finishes.....

Walls, Masonry.....

Walls, Wood Siding.....

Interior Building Elements.....

Floor Coverings, Tile, Hallways.....

Intercom Panels.....

Lobbies, Renovations.....

Mailbox Stations.....

Property Site Elements.....

Asphalt Pavement, Crack Repair, Patch and Seal Coat.....

Asphalt Pavement, Repaving.....

Asphalt Pavement, Repaving, Walking Paths.....

Concrete Patios.....

Concrete Sidewalks.....

Component
Inventory Index

Things you might not
think about until it
leaks.

Things you may not
realize are your
responsibility.

Reserves Study

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		Costs, \$			
						Useful	Remaining	Unit (2017)	Per Phase (2017)	Total (2017)	30-Year Total (Inflated)
Exterior Building Elements											
1.120	8,600	2,867	Square Feet	Balconies, Wood, Phased	2023	15 to 25	6 to 8	41.00	117,533	352,600	394,072
1.140	110	16	Each	Chimney Caps, Phased	2030	to 25	13 to 19	400.00	6,284	44,000	56,735
1.180	55	18	Each	Doors, Entrances, Phased	2021	to 30	4 to 30+	1,100.00	19,965	60,500	75,430
1.200	220	73	Each	Doors, Garage, Phased	2031	to 25	14 to 16	1,000.00	73,330	220,000	279,155
1.240	12,150	1,736	Linear Feet	Gutters and Downspouts, Aluminum, Phased	2030	15 to 20	13 to 19	11.00	19,093	133,650	172,380
1.260	110	110	Each	Light Fixtures, Front	2040	to 25	23	74.00	8,140	8,140	11,727
1.261	220	220	Each	Light Fixtures, Rear	2020	to 25	3	74.00	16,280	16,280	42,465
1.280	162	162	Squares	Roofs, Asphalt Shingles, Buildings 10 and 11	2030	15 to 20	13	425.00	68,850	68,850	84,630
1.281	243	243	Squares	Roofs, Asphalt Shingles, Buildings 14, 21 and 29	2031	15 to 20	14	425.00	103,275	103,275	128,975
1.282	243	243	Squares	Roofs, Asphalt Shingles, Buildings 5, 18 and 30	2032	15 to 20	15	425.00	103,275	103,275	131,039
1.283	284	284	Squares	Roofs, Asphalt Shingles, Buildings 8, 23, 25 and 28	2033	15 to 20	16	425.00	120,700	120,700	155,599
1.284	446	446	Squares	Roofs, Asphalt Shingles, Buildings 17, 20, 22, 24, 26 and 27	2034	15 to 20	17	425.00	189,550	189,550	248,266
1.285	365	365	Squares	Roofs, Asphalt Shingles, Buildings 1, 13, 15, 16 and 19	2035	15 to 20	18	425.00	155,125	155,125	206,428
1.286	518	518	Squares	Roofs, Asphalt Shingles, Buildings 2, 3, 4, 6, 9, 12 and Clubhouse	2036	15 to 20	19	425.00	220,150	220,150	297,645
1.560	160	160	Pairs	Shutters, Wood	2040	to 20	23	100.00	16,000	16,000	23,050
1.620	40,070	8,014	Square Feet	Walls, Aluminum Siding, Phased	2031	to 40	14 to 18	6.75	54,095	270,473	348,764
1.621	11	10	Each	Walls, Aluminum Siding, Paint Finishes, Remaining Buildings	2018	4 to 6	1	4,950.00	49,500	54,450	110,974
1.760	30	6	Buildings	Walls, Paint Finishes, Phased Applications	2019	4 to 6	2 to 6	10,200.00	61,200	306,000	1,990,821
1.820	45,050	45,050	Square Feet	Walls, Masonry, Inspections and Repairs	2020	10 to 15	3	0.90	40,545	40,545	156,207
1.945	51,860	17,287	Square Feet	Walls, Wood Siding, Phased	2028	to 50	11 to 13	8.00	138,293	414,880	501,977

Component Inventory

What's the useful life of this component?

What's the useful life of OUR components?

The total cost in a 30 year period

Reserve Balances, Contributions, Interest, and Expenditures over a 5-year period

Reserves at Beginning of Year	661,651	507,378	362,566	215,570	172,576
Total Recommended Reserve Contributions	304,200	309,100	314,000	319,000	324,100
Estimated Interest Earned, During Year	6,972	5,189	3,448	2,315	3,462
Anticipated Expenditures, By Year	(465,445)	(459,101)	(464,444)	(364,309)	(92,309)
Anticipated Reserves at Year End	<u>\$507,378</u>	<u>\$362,566</u>	<u>\$215,570</u>	<u>\$172,576</u>	<u>\$407,829</u>

Reserve dollars at the beginning of the year – Watch that balance go down when we spend money on component replacement.

Recommended reserve contributions for 5 years – Why 5 years?

Anticipated expenditures replacing common element components – This community does NOT have too much money.

“Reserve Studies sometimes recommend funding patterns that my community can never meet.”



Expenses for funding of the capital reserve requirements – RESERVES

Spending money from the reserves does NOT directly impact the assessments.
FUNDING impacts the assessments.

What?

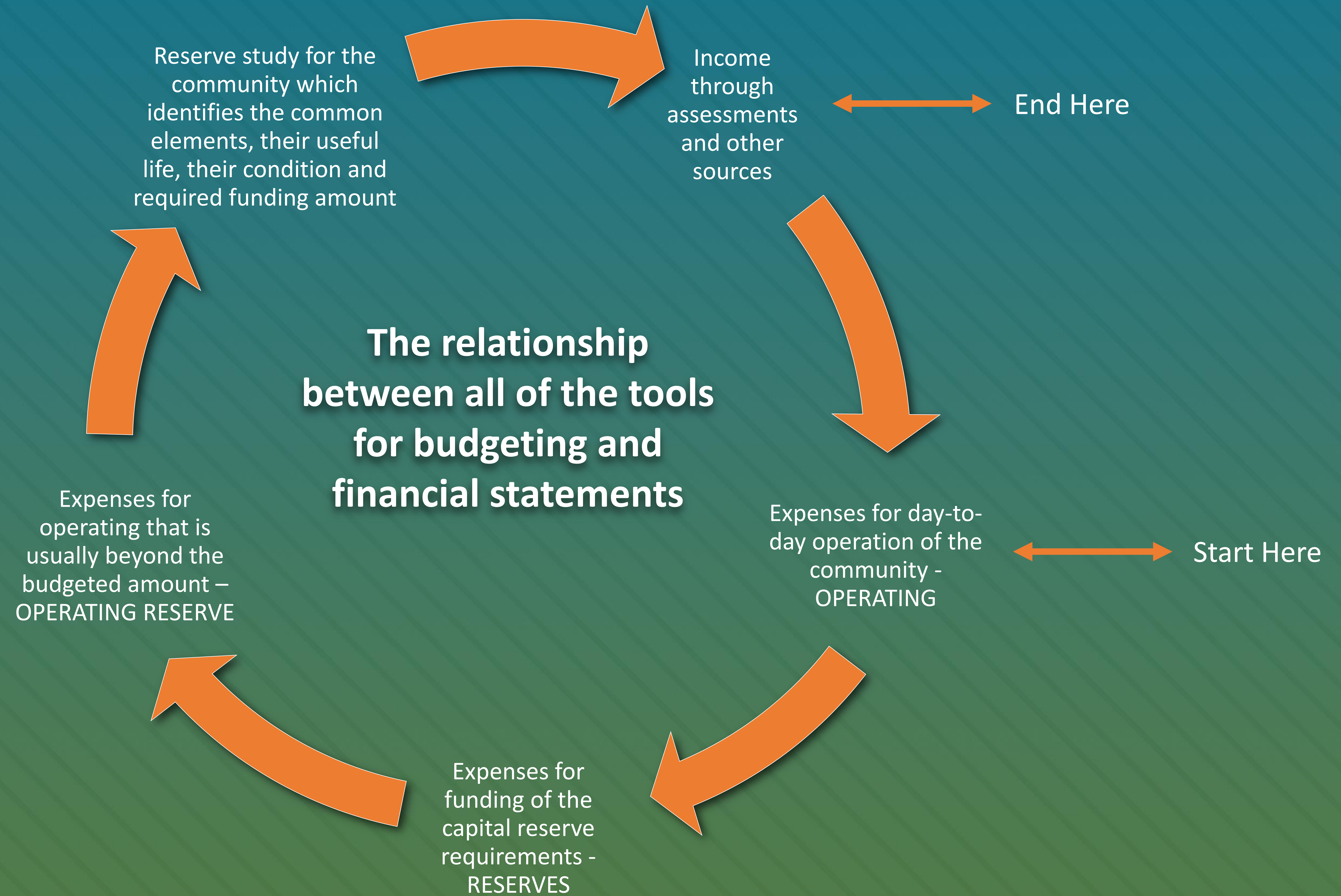
The capital reserves are a separate bucket of money. If you spend \$5 or \$500, you will still be contributing the same amount of money to the capital reserves. Your assessments will remain the same.

Why do I point out this difference? If we save money on one roof replacement, we still can't justify spending more money on an operating expense.

The two are simply not related... until budget time!

Budgeting





WISH LISTS - ASK YOUR COMMITTEES!

As a manager, I had a folder that was entitled budgeting where I would put reminders and notes throughout the year.

For example - the Board is thinking about changing the pool entry system - what are the estimated costs? Do we want to upgrade?

We need to remove 6 crabapple trees and replace 10 trees in the community - what are the estimated costs? Do we need to replace all of the removed trees?

The assessments are \$155,848 through July 31st. From those assessments, the community has allocated \$35,000 to the capital reserve fund.

	Jul Actual	Jul Budget	Jul Variance	YTD Actual	YTD Budget	YTD Variance
Revenues						
Assessments						
Regular Assessments						
Full Rate	\$ 22,264.00	\$ 22,264.00	\$ -	\$ 155,848.00	\$ 155,848.00	\$ -
Other Assessments						
Initial Assessment	\$ -	\$ -	\$ -	\$ 1,452.00	\$ -	\$ 1,452.00
TOTAL Other Assessments	\$ -	\$ -	\$ -	\$ 1,452.00	\$ -	\$ 1,452.00
					\$	
Reserve Fund Allocation	\$ (5,000.00)	\$ (5,000.00)	\$ -	\$ (35,000.00)	(35,000.00)	\$ -
TOTAL Assessments	\$ 17,264.00	\$ 17,264.00	\$ -	\$ 122,300.00	\$ 120,848.00	\$ 1,452.00
Other Income						
Late Payment Charges	\$ 150.00	\$ -	\$ 150.00	\$ 900.00	\$ -	\$ 900.00
Late Payment Charges Waived	\$ -	\$ -	\$ -	\$ (100.00)	\$ -	\$ (100.00)
Penalties and Interest	\$ -	\$ -	\$ -	\$ 25.00	\$ -	\$ 25.00
Water & Wastewater Billings	\$ 2,345.57	\$ 3,169.00	\$ (823.43)	\$ 16,230.81	\$ 22,183.00	\$ (5,952.19)
TOTAL Other Income	\$ 2,495.57	\$ 3,169.00	\$ (673.43)	\$ 17,055.81	\$ 22,183.00	\$ (5,127.19)
TOTAL Revenues	\$ 19,759.57	\$ 20,433.00	\$ (673.43)	\$ 139,355.81	\$ 143,031.00	\$ (3,675.19)

Therefore, the community has \$122,300 to spend, through July 31st, on the operations of the community.

WHERE TO START WHEN BUDGETING?



There are several ways to budget, and typically the final budget is a combination of these analyses.

Perhaps we know that our insurance policy will be increasing by 8%. With that line item, we can simply allocate an additional 8% to that insurance line item.

If we were thinking of purchasing an umbrella policy, as an example, we would allocate 8% and add the cost of the umbrella policy.

WHERE TO START WHEN BUDGETING?



Now, with utility usage as an example, we need to consider both the usage and whether it is varying more or less (demographics and number of residents in the homes) AND the estimated increase.

Remember - often the increases are anticipated rather than fully decided so this can also account for unanticipated variances.

WE NEED TO ESTIMATE THE INCOME AND EXPENSES THROUGH THE END OF THE CURRENT FISCAL YEAR.

It is then that we can forecast for the coming year, based on the data obtained for each line item.

Of special note:

Line items that contain several different types of expenses – General Repairs, as an example. If there are large variances, then we may consider breaking the line item into several line items. It needs to make sense and actually provide data because too many line items can also be problematic.



Reserve funding: Landscaping \$40,000 per year
Planned spending in CURRENT BUDGET

2020	2021	2022	2023	2024
(\$35,000)	(\$50,000)	(\$45,000)	(\$35,000)	(\$35,000)

Planned reserve spending for current year: \$35,000
Proposed bid for landscaping improvements for 2020: \$75,000

Can the board spend the landscaping money?
Do we have to spend less on something else?

First step – how much money do they have in the actual capital reserve fund. If the capital reserve fund is healthy, then the second step is to consider how to accommodate the additional spending and what future plans we may need to change, if any.

CASE STUDY CHOICE ONE:

Current Plan

2020	2021	2022	2023	2024
(\$35,000)	(\$50,000)	(\$45,000)	(\$35,000)	(\$35,000)

New Plan

2020	2021	2022	2023	2024
(\$75,000)	(\$25,000)	(\$35,000)	(\$30,000)	(\$35,000)

**This is Choice One –
Keep the FUNDING the same at \$40,000
but adjust the 5 year spending.**

CASE STUDY CHOICE TWO:

Current Plan

2020	2021	2022	2023	2024
(\$35,000)	(\$50,000)	(\$45,000)	(\$35,000)	(\$35,000)

New Plan

2020	2021	2022	2023	2024
(\$75,000)	(\$50,000)	(\$45,000)	(\$35,000)	(\$35,000)

**This is Choice Two –
Change the FUNDING to \$48,000 per year (average of 5 year
spend) so that the spending for the coming years will be the
same as planned.**

**What contracts are already in place?
We can plug in those numbers.**

**Do we know we want to improve our landscaping
contract? We should plan to spend more money, very
likely.**



Do we have bids for all necessary projects? If not, don't worry! We can always talk to trusted contractors to get a budget number. We will still bid the project when it is time to do so. And of course, we can ALWAYS refer to our reserve study.

Do we have quality contracts and plans for this project? If not, don't worry! Just time to bid out the project by starting with specifications.

Things to ask yourselves

Capital Expenditures	-	
Capital Expenditures	-	
Concrete	47,916.00	replcmt of sidewalks throughout the Community per reserve study for 2020
Foundations	-	repairs to foundation walls in TH
Capital Expenditures	124,572.00	fences \$17,142 pipes \$107,426
Common Area	130,805.00	gutter, masonry
Special Projects	-	
Asphalt Replacement	200,676.00	replcmt of driveways per reserve study
Roof	370,704.00	3rd year of a 10-year roof replcmt project
Landscape Improvements	-	
Miscellaneous Capital Expense	22,860.00	
TOTAL of Capital Expenditures	897,533.00	

This community has the following plans:

- Replacing sidewalks
- Repairing foundation walls
- Fences
- Pipes
- Gutters
- Masonry
- Driveways
- Roofs

Let's talk about it!



Communication is the key —
TOGETHER is always better.





What's new as of June of 2022?

**Interest rates are up. Considerably.
What's the good news about that?**

Banks will be looking to build up their deposits, which means they will be offering better rates on CDs. We are not financial advisers, but we do have our choice with banks in our industry that will start offering great rates. Any board that is building up its reserves substantially to do a large project in 3 – 5 years could consider how much money they can invest without the need for immediate liquidity. The board can talk with their banker or an investment adviser through the partner bank and receive some pretty great advice. Maybe even invite them in to talk at a board meeting. The boards will be able to offset some inflationary increases, potentially.

**Inflation is at its highest in some time.
What next?**

We may be able to offset some inflationary increases, potentially. Things cost more money. Supply chain issues, weather-related disasters, and food shortages can end up impacting community associations. It's smart to consider how much additional money to budget for all of the potentially significant inflationary issues. What are the estimates for gas heating in the coming year? What are the estimates for water increases? Is there a shortage of materials for a project that is coming next year? Does it make sense to buy the materials upfront? Will the contractor store them (with appropriate contracts) until the coming season's work?

Other Related Learning Opportunities



Investment Strategies for
Community Associations

Click on the pictures to access the classes!

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