



Budget Preparation Guide

For the Board of Directors





Established in 1999 by principals William and Margaret Huettner, Prospect Management Company is one of the largest residential property management firms in Wisconsin and one of the only management firms in the state to specialize in condominium and homeowners association management. Managing condos and HOAs throughout the Milwaukee, Madison and Racine/Kenosha areas, we provide full management or financial management services for community associations of all types and sizes.

Our goal is to provide the communities we serve with the highest level of customer service and professional management services that will promote the preservation of the property and enhance the lifestyle of the association members while increasing the value of the assets the members have invested into.



What is a budget?



- Guideline
- Forecasting income and expenses for a set period of time
- Budgeting methodology
 - Historical
 - Zero based
- Understand the difference between “fixed” and “variable” expenses and income.
 - Fixed costs
 - Variable costs
 - Fixed income
 - Variable income
- Best practices
 - Be prepared
 - Have Year-end numbers for previous two fiscal years
 - Have 2 previous years shown in GL expense report
 - Know your fixed costs (Contracts)
 - Reserve study
 - Have a plan
 - Review governing documents for budgetary requirements
 - Identify budgeting goals with BOD prior to drafting
 - Know your expenses
 - Keep it simple
 - Budget is income v. expenses. Balance to \$0

Drafting a budget.....

Before you start: Weeks/months before your manager starts to draft your communities' budget they will.....

- Review reserve study
- Identify if a special assessment will be needed.
- Identify all service contracts (utilities included)
- Identify all capital improvements
- Identify non-capital improvement work
 - Landscape improvements
 - Concrete
 - Lighting upgrades
 - Siding repairs
 - Roof repairs
 - Painting
 - Etc.
- Identify all anticipated contractual increases (utilities included)
- Account for the unknowns
- Review historical data
- Request budget shell from Accounting
 - YTD numbers will be the month before or possibly two months before



Drafting a budget.....

Do the expenses first.....be conservative

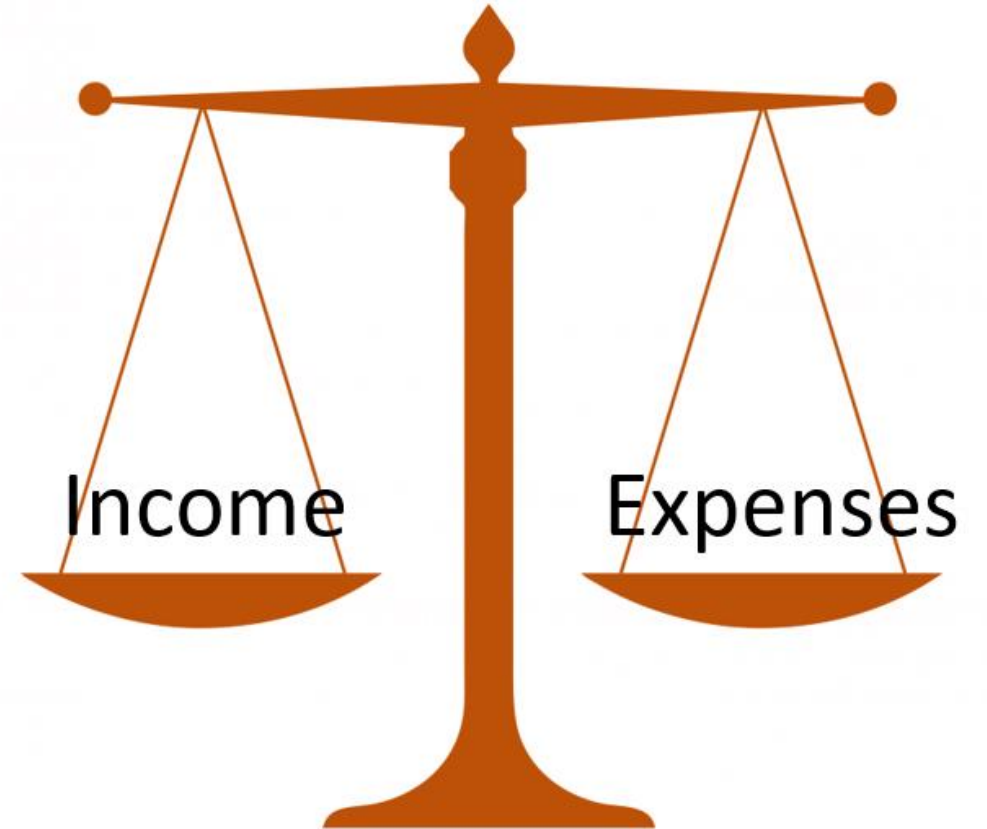
- Determining expenses: Do expense first – Be conservative
 - Enter in all fixed costs which include expected increases. (Utilities included)
 - Management Fee
 - Insurance
 - Lawn and snow removal contracts
 - Utilities – Based on historical data
 - Fire protection contracts
 - Cleaning services
 - Gutter cleaning
 - Painting
 - Employee expense – Based on historical data
 - Any contract or agreement is a fixed expense
 - Enter in all variable costs
 - Reflect expected increases or decreases based on your knowledge of property
 - Maintenance general
 - Landscape improvements
 - Plumbing
 - Electrical repairs
 - Employees – Based on historical data
 - Office services
 - Roof repairs
 - Dock repairs
 - Deck repairs
 - Siding repairs
 - Etc
 - Enter in reserve contribution --Based on reserves study if available
 - Enter in capital improvements -- Based on reserves study if available
 - What if I do not know some variable expenses?
 - Work with your Boards to ID projects.
 - Review work done in previous years and ID trends
 - Ask for help



Drafting a budget.....

The income (last step)

- HOA Fee is based on expenses
- Forecast expected interest on investments (Historical review... HOWEVER)
- Historical data
 - Fines
 - Moving fees
 - New owner transfer fees
 - Marketing/wiring/infrastructure agreements (AT&T, Spectrum,
 - Pet fees
 - Any other source of income



Drafting a budget.....

Review...last step before submitting to board for approval

- Does budget balance to \$0? You cannot show a loss or profit
- Review all expenses
 - Be able to explain all line items contained in budget
 - What composes of the line item annual expense
- What is proposed increase in HOA fee?
 - Is it a reasonable increase?
 - Do variable expenses need to be tweaked?
 - Does the reserve contribution need to be changed?
 - If increase is too much, what to reduce expenses on?
 - Painting?
 - Landscaping?
 - Concrete?
 - Other areas of opportunity
 - Is there a possibility of a special assessment?
 - Have discussion with Board – You will know this prior to starting that conversation



Drafting a budget.....

Recommend the budget for approval/adoption by the board

- Meet to discuss budget
 - Be mindful of how HOA fee increases impact the yourselves and owners
 - Be compassionate
 - Be objective
 - Stress importance of fee increase
 - Avoid discussing budget over email – removes emotions



Budget approved!

Now what?

Your manager will take care of the rest but here's a timeline of expectations.....



Your manager will now....

- Send to accounting
 - Have HOA fee and SA breakdown if not uniform across all units.
 - Inform accounting if you want reserves separate from the budget
- Pick a date when coupons need to be requested by
- Send to homeowners
- Upload to portal
 - For BOD: Full budget shell -- File name should include the word “Approved”
 - For owners: Remove line item numbers, any forecasting rows, and previous year end numbers. Budget should be YTD numbers (update will be needed), current annual budget, next fiscal year budget and line item names. Unless BOD says otherwise.
- Celebrate





Thank You

Prospect Management



414.540.0004



help@pmcwi.com



www.pmcwi.com

