Seeing Your Community Association Through Good and Bad Financial Weather

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Community associations play a vital role in fostering vibrant neighborhoods and creating a sense of belonging among residents. They facilitate shared amenities, maintain common areas, enforce community standards and protect each owner's investment.

For community associations, like the weather, there will be sunny times and stormy times — financial prosperity and financial challenges. Let's review best practices for thriving in good and bad financial weather, navigating financial storms, and avoiding common financial mistakes.

"Pretty much all costs are going up, and insurance is skyrocketing."

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The Good Weather: Monitoring and maintaining your community's financial health

- **Build realistic budgets.** Pretty much all costs are going up, and insurance is skyrocketing. Don't fool yourself or your community. Build those assumptions into your budget, and then adjust the budget in-year if variances become too large.
- **Maintain accurate financial records.** One advantage of having a property manager is that they produce monthly reports. If you don't have a property manager, or don't get monthly reporting, find an expert who can produce them for you.
- **Conduct regular financial reviews.** Whether or not you're required by covenants or statutes, audits or less expensive alternatives will identify mistakes and financial irregularities before they become major issues. Stop waving them.
- **Be proactive and transparent.** This includes the board and community. If your board isn't reviewing monthly financial results, review it with them or find someone who will. Then provide at least summary results to the community so everyone understands the (financial) weather.

The Bad Weather: Don't make these financial mistakes

- **Failure to plan.** We see this mistake more with smaller, independent communities, but all community associations are businesses. You can't run a business by the checkbook balance. Getting financial help is pretty inexpensive and can help you avoid catastrophes.
- **Overlook long-term planning.** Your reserve fund is your savings account for planned, major future capital expenditures. A proper (engineering firm) reserve study tells you the amount to fund. Invest in a new reserve study, if yours is more than 3 years old, and then fully fund it.
- **Kick the can down the road.** "But these folks are my neighbors!" is a reason often listed for not making tough financial decisions, like raising the dues. As mentioned above, your community association is a business, and sometimes that requires tough decisions. Don't cut corners to cut costs. It will typically make things worse in the future.

Navigating Storms: Tips for avoiding or minimizing financial challenges

- Create a new budget every year
- Stick to the budget, documenting variances
- Honor thy reserve fund
- Maintain adequate operating cash
- Review financials every month
- Maintain adequate insurance coverage — including Directors & Officer's insurance for the board
- Follow financial covenants and statutes — confirm sound financial procedures and controls
- File annual tax returns

You can impact your community's financial weather forecast

While we can't turn clouds into sunshine, your actions can have a big impact on your community association's financial forecast. Community associations, like all businesses, need proactive, diligent financial management to thrive. Like the weather, financial management is a never-ending cycle. In this case, the cycle includes planning, reporting, and adapting to change. The good news is that you don't have to be a financial expert, although some familiarity with business accounting is a real advantage. When you need help, or just want answers to tough questions, contact a CPA or accounting professional. ■