

PREPARING BUDGETS

Each year, boards are required to prepare a [pro forma](#) budget for conducting the operations of their associations. [Civ.Code 1363\(b\)](#)

As nonprofit organizations, associations must budget so that revenues do not exceed expenses, i.e., total income minus expenses should equal \$0.

There are two techniques for preparing budgets: (i) zero base budgeting and (ii) incremental budgeting.

1. **Zero Base Budgeting.** This approach starts each year's budget from a zero base, i.e., at the beginning of the budgeting process, all budget line items have a value of \$0.

a. *Advantages.* Since each line item starts at zero, the budget committee must justify each item in the budget. This should bring to light and wastage and obsolete operations.

b. *Disadvantages.* This approach can be very time consuming.

2. **Incremental Budgeting.** In incremental budgeting, the current year's budget serves as a basis for next year's budget and is simply adjusted. The most common methods of adjustment are: (i) CPI adjustments and (ii) variance projections.

a. *CPI Adjustment.* The easiest and least effective method is to simply take the Consumer Price Index (the measure of inflation published by the government) and apply it to all line items. The disadvantage is that not all items in a budget are affected by the CPI. This results in some line items being over budgeted and others being under-budgeted.

b. *Variance Adjustments.* This is the method used by most associations. Since most line items in an association's budget are necessary rather than discretionary (utilities, insurance, maintenance, etc.), the budget committee starts with the current year's budget and looks at variances projected through the end of the fiscal year. This gives the committee an estimate of actual expenses for the year for each line item so it can adjust expenses up or down, as needed.

Dues Increases. If the board plans to increase dues for the following year, it must publish the budget 30 to 90 days in advance of the new fiscal year. [Civ.Code 1365\(a\)4](#) Failure to meet this requirement nullifies the increase and requires membership approval of the dues increase. [Civ.Code 1366\(a\)](#)