

# **BUDGETING**

## **Basics**



**Are we having fun  
yet?**

# Outline of slides



- Budget: Are we having fun? (3)
- Two Definitions of Budget (4)
- Why don't people budget? (5-6)
- Why should people budget? (7-8)
- Budget Exercise (9-10)
- Who's responsibility, is it? (11)
- In order to have fun: (12-13)
- Skills needed to budget. (14)
- Oakes' Three Budget Axioms (15)
- Budget pieces: Income (16-20)
- Budget pieces: Expenses (21-23)
- Budget pieces: Reserves (24-26)

# Budget Basics: Are we having fun?



- Putting together an annual budget for your cooperative is a tedious task that is usually one of the last things that people look forward to doing.
- How can you turn this process around so that you actually enjoy budget time every year instead of trying to run away the moment someone mentions the word?

# Two Definitions of Budget



- The budget is a formal financial plan that determines the annual assessment. It can also be used as a tool to measure actual performance and activity.
- A budget is a plan for getting, spending and saving money. For the cooperative this is income, expenses, and reserves.
- Isn't talking about money fun?

# Why don't people budget?



- One survey found that 60% of Americans have no budget
- Another survey found that 90% of Americans, ***regardless of income***, report not having money to meet expenses.

# Why don't people budget?



- It is time consuming
- Too many other things to do
- It takes a lot of information
- It is hard
- It is difficult to stay focused
- Too often, people don't know how to do a budget and they believe all of the above.

# Why should people budget?



- To establish goals and objectives
- To save for future goals while meeting present needs.
- To avoid costly mistakes
- To improve communications between members, board, lenders, staff and mngt
- To establish a way to measure and update results and goals.

# Why should people budget?



- Experience has proven without a doubt, better co-ops have a plan.
- The best co-ops are the ones with the best plan.
- Wouldn't it be fun to be the best co-op with the best plan?



# Budget Exercise

- Get in groups of 3, 4 or 5 take 10 minutes
- Do a budget for the following
- You have a six year old son in the first grade. You want him to go to college. He is the oldest of three. You and your spouse can barely make “ends meet.”
- Tell us what you decided and how you decided what you decided.

# Budget Exercise



- What did we learn from this exercise?
  - There are as many different ideas as there are people
  - There are as many different ways of solving a problem as there are people
  - Try don't to judge each others' ideas or ways. Try to find the best idea or way!

# Who's responsibility, is it?



- Members
- Management
- Board
- Accountant
- Consultant
- Staff
- Lender (HUD, NCB,  
or ...)

# **In order to have fun:**



- Choose a time to budget when you are not tired (Saturday morning or all day)
- One possibility is to hire a facilitator with expertise in the planning process
- Start early to give yourself enough time (Start in July or August for Dec. plan)
- Prepare a schedule to do the budget.

# **In order to have fun:**



- Find a site that is open with lots of sun light and fresh air to plan (library, public school, community college or university)
- Get the people with the knowledge to input the data needed for the plan
- Plan breaks and food
- Give the budget committee recognition and possible gift (dinner, certificate or ...)

# Skills needed to budget.

- Integrity
- Arithmetic – adding, subtraction, multiplication, and division
- Reading
- Writing
- Thinking
- If you need additional skills then get someone with those skills to input (accountant, attorney, banker or ...)

# Oakes' Three Budget Axioms



- 1. Words are as important if not more important than the numbers.
- 2. The money that you spend will be different than the money you planned to spend. Don't worry about the planning being 100% correct. We are not God!
- 3. Tear the budget into pieces and put it back together again and again and again.

# Budget pieces: Income



- Look at Current Income
- Record from every source
- Look at it by month and by year
- After you have looked at your expenses, you will have to see if you have enough income to do what you want to do.
- Always write down your assumptions.



# Budget pieces: Income from Coop Fees per unit

	Unit	Unit Type	Unit Sqft	Monthly Coop Fee	Annual Coop Fee
1	M70-101	21flat	918	\$ 672	\$ 8,064
2	M70-102	21flat	918	\$ 713	\$ 8,556
3	M70-104	21flat	918	\$ 596	\$ 7,152
4	M70-201	21flat	918	\$ 393	\$ 4,716
5	M70-202	2+d1flat	1,033	\$ 766	\$ 9,192
6	M70-203	21flat	918	\$ 695	\$ 8,340
7	M70-204	21flat	918	\$ 702	\$ 8,424
8	M70-303	21flat	918	\$ 702	\$ 8,424
9	M70-304	21flat	918	\$ 607	\$ 7,284
10	M72-001	11flat	682	\$ 572	\$ 6,864
11	M72-101	11flat	682	\$ 572	\$ 6,864
12	M72-103	11flat	682	\$ 572	\$ 6,864
13	M72-104	11flat	682	\$ 564	\$ 6,768
14	M72-202	1+d1flat	805	\$ 633	\$ 7,596
15	M72-203	11flat	682	\$ 564	\$ 6,768
16	M72-301	11flat	682	\$ 423	\$ 5,076
17	M72-302	1+d1flat	805	\$ 565	\$ 6,780
18	M74-001	11flat	682	\$ 564	\$ 6,768
19	M74-002	11flat	682	\$ 564	\$ 6,768
20	M74-102	11flat	682	\$ 555	\$ 6,660
21	M74-104	11flat	682	\$ 564	\$ 6,768
22	M74-201	11flat	682	\$ 564	\$ 6,768

# Budget pieces: Income Coop Fees per unit

	Unit	Unit Type	Unit Sqft	Monthly Coop Fee	Annual Coop Fee
23	M74-203	11flat	682	\$ 421	\$ 5,052
24	M74-204	11flat	682	\$ 324	\$ 3,888
25	M74-301	11flat	682	\$ 572	\$ 6,864
26	M74-303	11flat	682	\$ 564	\$ 6,768
27	M74-304	11flat	682	\$ 601	\$ 7,212
28	M76-002	2+d1flat	1,033	\$ 848	\$ 10,176
29	M76-003	21flat	918	\$ 658	\$ 7,896
30	M76-004	21flat	918	\$ 757	\$ 9,084
31	M76-101	21flat	918	\$ 463	\$ 5,556
32	M76-102	2+d1flat	1,033	\$ 766	\$ 9,192
33	M76-103	21flat	918	\$ 702	\$ 8,424
34	M76-201	21flat	918	\$ 463	\$ 5,556
35	M76-202	2+d1flat	1,033	\$ 728	\$ 8,736
36	M76-203	21flat	918	\$ 464	\$ 5,568
37	M76-204	21flat	918	\$ 702	\$ 8,424
38	M76-301	21flat	918	\$ 757	\$ 9,084
39	M76-302	2+d1flat	1,033	\$ 766	\$ 9,192
40	M76-303	21flat	918	\$ 702	\$ 8,424
41	M76-304	21flat	918	\$ 702	\$ 8,424
			34,211	\$ 25,082	\$300,984

# Budget pieces: Income from Rentals per unit

	Unit	Unit Type	Unit Sqft	Monthly Rent	Annual Rent
42	R70-001	21flat	918	\$ 710	\$ 8,520
43	R70-02	21flat	918	\$ 655	\$ 7,860
44	R70-103	21flat	918	\$ 655	\$ 7,860
45	R70-301	21flat	918	\$ 803	\$ 9,636
46	R70-302	31flat	1,033	\$ 950	\$ 11,400
47	R72-002	11flat	682	\$ 644	\$ 7,728
48	R72-102	11flat	682	\$ 650	\$ 7,800
49	R72-201	11flat	682	\$ 628	\$ 7,536
50	R72-204	11flat	682	\$ 700	\$ 8,400
51	R72-303	11flat	682	\$ 546	\$ 6,552
52	R72-304	11flat	682	\$ 602	\$ 7,224
53	R74-101	11flat	682	\$ 546	\$ 6,552
54	R74-103	11flat	682	\$ 628	\$ 7,536
55	R74-202	1+d1flat	805	\$ 470	\$ 5,640
56	R74-302	1+d1flat	805	\$ 602	\$ 7,224
57	R76-104	21flat	918	\$ 825	\$ 9,900
			12,689	\$ 10,614	\$127,368

# Budget pieces: Income from all Sources

	2000	2001	2002	2003	2004
	ACTUAL	ACTUAL	ACTUAL	ESTIMATED	PROPOSED
<b>INCOME</b>					
Member Fees	\$ 347,519	\$ 299,328	\$ 287,448	\$ 300,000	\$ 300,984
Rental Income		\$ 89,991	\$ 123,175	\$ 120,000	\$ 127,368
Laundry Machine	\$ 1,800	\$ 3,600	\$ 3,693	\$ 3,600	\$ 3,600
Interest	\$ 16,545	\$ 7,506	\$ 14,423	\$ 10,000	\$ 10,000
Late Fees	\$ 1,637	\$ 1,550	\$ 1,360	\$ 2,000	\$ 1,500
<b>NET INCOME</b>	<b>\$ 367,501</b>	<b>\$ 401,975</b>	<b>\$ 430,099</b>	<b>\$ 435,600</b>	<b>\$ 443,452</b>

# Budget pieces: Expenses

- Further divide expense into manageable sections:
  - Look at those expenses that stays the same each month, like, mortgage, insurance, trash removal, reserves, etc.
  - Look at variable expenses - utilities, phone, repairs, management fee, etc.
  - Look at what they currently are, then project what they will be.
- Always write down your assumptions.

# Budget pieces: Expenses

EXPENSES	2000	2001	2002	2003	2004
Direct Expenses	ACTUAL	ACTUAL	ACTUAL	ESTIMATED	PROPOSED
Improvements			\$ -	\$ -	\$ -
Repair	\$ 13,470	\$ 13,869	\$ 12,644	\$ 35,000	\$ 20,000
Plumbing	\$ 209	\$ 750	\$ 6,634	\$ 5,000	\$ 5,000
Exterminating Svc	\$ 122		\$ -	\$ 3,000	\$ 3,000
Painting	\$ 1,926		\$ -	\$ -	\$ -
Cleaning	\$ 7,360	\$ 9,322	\$ 7,044	\$ 13,000	\$ 13,000
HVAC	\$ 13,580	\$ 12,849	\$ 6,050	\$ 6,000	\$ 12,000
Building Supplies	\$ 4,889	\$ 7,148	\$ 2,915	\$ 4,500	\$ 5,000
Grounds Maint.	\$ 6,153	\$ 6,742	\$ 8,242	\$ 9,000	\$ 9,000
Management	\$ 15,545	\$ 18,654	\$ 22,807	\$ 17,784	\$ 17,784
Bank Charges	\$ 353	\$ 15	\$ 7,820	\$ 31,000	\$ 200
Refrigerator Repl.	\$ 435	\$ 239	\$ 439	\$ 1,500	\$ 1,500
Range replacement	\$ 696	\$ 110	\$ -	\$ -	\$ -
Electrical		\$ 382	\$ 1,520	\$ 1,000	\$ 1,000
Telephone		\$ 1,660	\$ 1,572	\$ 1,000	\$ 1,000
Electricity	\$ 3,462	\$ 4,533	\$ 2,853	\$ 5,000	\$ 5,000
Gas	\$ 23,516	\$ 31,409	\$ 24,594	\$ 34,000	\$ 38,000
Water & Sewer	\$ 47,468	\$ 16,237	\$ 20,988	\$ 23,000	\$ 26,000
Insurance			\$ 3,000	\$ 4,500	\$ 5,000
Trash Disposal	\$ 6,285	\$ 7,535	\$ 8,010	\$ 10,000	\$ 12,000
Misc. Expense			\$ 1,417	\$ 2,000	\$ 3,000
Replacement Res.		\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 145,469</b>	<b>\$ 131,454</b>	<b>\$ 138,549</b>	<b>\$ 206,284</b>	<b>\$ 177,484</b>

(c) Prepared by Vernon  
Oakes, NAHC10/10/09

# Budget pieces: Expenses

<b>GENERAL &amp; ADM.</b>					
Training	\$ 1,558	\$ -	\$ 4,850	\$ 3,000	\$ 5,000
Advertising & Prom.	\$ 2,290	\$ 734	\$ 2,941	\$ 2,000	\$ 3,000
Legal & Accounting	\$ 11,672	\$ 14,155	\$ 7,817	\$ 8,000	\$ 4,000
Taxes, Licenses	\$ -	\$ 1,341	\$ 807	\$ 29,000	\$ 2,000
Miscellaneous Exp.	\$ 1,434	\$ 798	\$ -	\$ -	\$ -
<b>TOTAL G &amp; A</b>	<b>\$ 16,954</b>	<b>\$ 17,028</b>	<b>\$ 16,415</b>	<b>\$ 42,000</b>	<b>\$ 14,000</b>
<b>DEBT EXPENSE</b>					
1st Mortgage Int.	\$ 199,875	\$ 180,000	\$ 175,107	\$ 108,700	\$ 108,000
1st Mortgage Prin.	\$ -	\$ 25,484	\$ 28,317	\$ 33,000	\$ 54,000
Escrow				\$ 27,000	\$ 46,000
Property Tax				\$ 7,000	\$ 9,000
<b>TOTAL DEBT SERV</b>	<b>\$ 199,875</b>	<b>\$ 205,484</b>	<b>\$ 203,424</b>	<b>\$ 175,700</b>	<b>\$ 217,000</b>
<b>CASH FLOW</b>	<b>\$ 5,203</b>	<b>\$ 48,009</b>	<b>\$ 71,711</b>	<b>\$ 11,616</b>	<b>\$ 34,968</b>

# Budget pieces: Reserves

- Write down your future needs & wants-Capitol Reserve Study
- Hire an engineer to tell you what your future capitol needs will be (when will the roof need to be replaced and how much will it cost?)
- See if you have enough going into reserve (savings) to pay for your future needs.
- Always write down your assumptions.



# Reserves Needed for PROPOSED PROJECTS

	2000	2001	2002	2003	2004
			ACTUAL		PROPOSED
<b>CAPITOL EXPENSES</b>					
Balconies			\$ 74,814	\$ 46,000	
Architect/Engineer				\$ 6,000	\$ 15,000
Paving			\$ -		\$ 60,000
Roof Repair			\$ 6,845	\$ 5,000	\$ 10,000
Fence/Retaining Wall			\$ 450		\$ 120,000
Foundation Repairs			\$ -	\$ 6,000	\$ 60,000
Painting			\$ -		
Tuck Pointing			\$ -	\$ 4,000	\$ 4,000
Window Replacement				\$ -	\$ 30,000
Canopies				\$ 22,400	\$ -
<b>TOTAL CAPITOL</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 82,109</b>	<b>\$ 89,400</b>	<b>\$ 299,000</b>
<b>TOTAL CASH OUT</b>	<b>\$ 362,298</b>	<b>\$ 353,966</b>	<b>\$ 440,497</b>	<b>\$ 513,384</b>	<b>\$ 707,484</b>
<b>CASH FLOW AFTER PROJECTS</b>	<b>\$ 5,203</b>	<b>\$ 48,009</b>	<b>\$ (10,398)</b>	<b>\$ (77,784)</b>	<b>\$ (264,032)</b>

(c) Prepared by Vernon  
Oakes, NAHC10/10/09

# Reserves (Savings)

<b>Assets</b>		
City First checking account	as of 9/01/03	64,751.00
NCB money Market (loan reserve)	as of 7/31/03	\$340,100.00
NCB money Market (reserve)	as of 7/31/03	\$257,211.00
NCB CD	as of 12/31/03	\$20,271.00
NCB savings	as of 12/31/03	\$9,500.00
City First CD #1000122	as of 6/20/03	\$4,563.00
Industrial Bank CD	as of 8/15/03	\$8,748.00
<b>TOTAL ASSETS</b>		<b>\$705,144.00</b>
2004 Cash Flow after Projects		<b>\$(264,032.00)</b>
<b>TOTAL ASSETS AFTER 2004</b>		<b>\$441,112.00</b>