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Budget Prep Tips

Budgeting is one of the most important things managers do on behalf of the corporation and the board. Although managers are not responsible for approving the budget, they do have to gather all the information and put together a document for the board of directors' consideration and final approval. It is important to understand that there is no such thing as a perfect budget as some of the items you are budgeting for are a projection of expenses that in some cases never really materialize. Creating a budget is not a simple task, although with preparation it is not an impossible one either. It is important for property managers to know what is required prior, during and after preparing a budget.

- **Information gathering:** Budgeting requires a lot of data. Pending invoices,

contract amounts, quotes, work orders, utility expenses, future projects, upcoming booked services, are some of the types of items that need to be listed when working on a new budget. It is crucial that expenses that have not made the books for the current fiscal year are accounted for and present at all times throughout the process.

- **General Ledger assignments:** Budgets are prepared for boards and owners, so they need to be clear and easy to understand. It is important once all the information has been put together that the manager selects the General Ledger (GL) codes and categories they will be using. Expenses allocated to the right category will help whomever is reading the budget to comprehend why specific amounts have been assigned by quickly looking at the code name.

- **Amounts/Costs:** The corporation has contracted amounts that do not change regularly. Those amounts are very straightforward and unless the board is considering switching contractors, those amounts should not change, which makes them predictable and fixed.

On the other hand, expenses such as utilities and general expenses (not contracted) are the ones to look out for. Those expenses may fluctuate based on the season, the one-off repairs or the regular service calls. Having data about the age of the building and previous year expenses comes in handy when figuring out those costs for the next budget.

- **Reserve Fund Study (RFS):** As per the *Condominium Act* all corporations must have an RFS done and make contributions towards it. Managers need to check that

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the right amount has been entered, the right contribution table has been reviewed and that any updates to the RFS have been done prior to the budget. Increases to the RFS contributions are significant and could have a big impact on the finances of the corporation if not done correctly.

- **Utilization of Surplus:** It is common for boards to use the prior year's surplus to reduce or avoid any increases on the upcoming year's budget. Managers need to remember that expenses only go up and rarely down. Using the accumulated surplus could eliminate increases, but could also result in a bigger increase the following year. Providing this type of information to the board is good practice from a disclosure perspective as the decisions the board makes could have long-term consequences that could end up in a bigger incremental in following budgets.

- **Increases:** Be cautious and mindful. Many managers think that the increase is the increase and nothing can be done. In some cases that is correct, but not always. Recommending new contractors, obtaining new quotes and further negotiating with vendors could benefit the corporation and reduce cost. Just because owners pay the bills does not mean everything can take place at the same time. Special projects, additions and changes that are not needed should be looked at and considered at length before adding them to the budget.

This article did not have as a main intention a step-by-step explanation of how to complete a budget. Its principal idea was to highlight some items I thought would be useful and could serve as a reminder of aspects we tend to forget when going through the process of budgeting.

A board's and manager's duty is to be conservative and diligent when working on the budget. Expenses are not fully predictable which means we can sometimes get it wrong and end up in a deficit. Deficits do happen and they are hard to explain, nevertheless owners will understand the difference between a special circumstance deficit and a mismanagement one. ■

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