

Operating Budgets: Strategies for Addressing Significant Budgeting Issues

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Operating Budgets: Strategies for Addressing Significant Budgeting Issues

Abraham I. (Avi) Horwitz, CPA
Czarnowski & Beer LLP
New York, New York

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Disclaimer

- This session is being recorded for future use.

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Our Agenda

- Introduction
- The Budgeting Process
- Preparing A Budget
 - Sources of Information
 - Working with the Numbers
 - Other Considerations and Tips
- Long Term Capital Budget / Useful Life / Reserve Study

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Why Budget?

- Indicator of adequate financial management
- Tool for cash management
- Guide to follow for finances
- Yardstick to measure performance
 - Highlights unusual items and unexpected discrepancies

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Types of budgets

- The Operational Budget
- The Long Term Capital Budget

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The Budgeting Process

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Property Manager - Responsibilities

- Prepare a draft budget
- Review the draft with the Treasurer, Finance Committee and/or Board
- Revise the draft budget for changes made

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Property Manager - Responsibilities

- Distribute to unit owners:
 - Proposed budget for approval - if required
 - Approved budget
- Maintain copies on hand for their prospective purchasers

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Board of Directors/Managers - Responsibilities

- Establish budget
- Approve budget
- Monitor budget
- If unit owner vote required, entire board needs to coordinate

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Treasurer - Responsibilities

- Facilitate preparation and review process
 - May be done through a finance committee
 - Generally delegates the initial preparation of the budget
- Consult all committee chairs
 - Consider inviting owners to comment
- Generally delegates the initial preparation of the budget

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Communication

- Communication is the key
- Consider unit owner involvement in process
 - Especially if a large required increase in:
 - Monthly assessments
 - Most special assessments
 - Major improvement projects
 - Reserve funding

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Presentation to Unit Owners

- Present proposed Board approved budget to the owners:
 - Open community meeting
 - In a mailing
 - Notification to view on website may be sufficient
- Request feedback by a specific date
- Open meeting may be required before the Board adopts the budget

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Preparing A Budget – Sources of Information

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Obtain Current Budget with Variance Analysis

- Confirmation of adequacy of past budget
- Insight into the thoughts of others
- Review significant variations

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Annualize Current Year

- Utilize year-to-date information to project an estimate of current year
- Expand current year's estimated results into a working model for next year's budget
- Opportunity to:
 - Review current year
 - Forecast cash flow through year end

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Review Financial Statements

- Preferably more than one year
- Compare to estimated current year results and budget

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Review History

- If you are new to the process:
 - Have a discussion with past year's property manager
 - Review board minutes
 - Review important correspondence

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Other Helpful Information

- Report of expected repair work
- Current year maintenance roll
- Heating consumption for past two years
- Schedule of insurance with estimate of next year's premiums

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Other Helpful Information

- Current year income tax returns
- Real estate tax and other escrow account analysis
 - Calculation of adequacy of expected year end balance

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Preparing A Budget – Working with the Numbers

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Revenue

- Current year carrying charges
 - Scan for chronic non-payers
 - Possible collection of arrears
 - Provision for delayed or uncollectible amounts

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Revenue

- Other revenue
 - Rental income
 - Convenience fees
 - Miscellaneous fees
 - Additional wear and tear fees
 - Transfer fees

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Revenue

- Capital assessments
 - Designation of restricted / unrestricted funds
 - Corresponding use

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CB **Easily Determined Fixed Expenses**

- Loan payments
- Insurance
 - Obtain a schedule of policy coverage and premiums from

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CB **Easily Determined Fixed Expenses**

- Contractual obligations
 - Managing agent
 - Elevator
 - Exterminator
 - Boiler/HVAC
 - Maintenance or service agreements
 - Monitoring service

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CB **Easily Determined Fixed Expenses**

- Income taxes - as some properties incur:
 - Significant income taxation issues
 - State and local minimum taxes

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CB **Easily Calculated Expenses**

- Payroll and benefits
 - Current salaries
 - Possible increases
 - Overtime, vacation, sick and severance pay
 - Payroll taxes as percentage of above
 - Union and/or other benefits

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CB **Easily Calculated Expenses**

- Utilities
 - Electric and natural gas
 - Heat
 - Municipal
 - Water & sewer
 - Real estate taxes (Coop only)

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CB **Easily Calculated Expenses**

- Professional fees
 - Lawyer
 - Accountant
 - Engineer

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Repairs, Supplies and Maintenance

- Detailed information a must
- Compare as many years as possible to ascertain a trend
- Utilize building comparisons
- Plans for new year
- Consider ways to save
 - Paying employees to do repair work
 - Note: Will increase supplies expense

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Preparing A Budget – Other Considerations and Tips

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Review of Proposed Budget

- Consider:
 - State statutes / requirements of governing documents
 - Unit owners' needs and feedback
 - Is budget appropriately balanced
 - Prior budgets, forecasts and other analyses
 - Long term capital budget / reserve study requirements

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Tips

- Budget vs. the actual categories is rarely on target
- Consider monthly budgeting

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Tips

- Consider lump-sum escrow accounts for:
 - Real estate taxes
 - Insurance
 - Water & sewer
 - Heat
 - Major improvements

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Enhancing the Budgeting Process

- Monthly budgeting
- Budget to the month items are expected to be incurred
 - Rather than simply dividing total yearly budget amount by 12

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Enhancing the Budgeting Process

- Require Board approval for checks in payment of:
 - Non-budgeted expenses
 - Non-recurring expenses in excess of established limit
- Adequate monitoring
 - Comparison of actual results to the budget - at least quarterly

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Long Term Capital Budget Useful Life/Reserve Study

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Major Repairs and Replacements

- AICPA included requirements in the CIRA Accounting Guide
 - Requirement for reserve study
 - State statute or governing document requirements to accumulate funds
 - Compliance with those requirements
 - Funding policy, if any
 - Compliance with policy
 - Assessments for major repairs or replacements in current period, if any
 - Information on special assessments

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- Operating Budgets: Strategies for Addressing Significant Budgeting Issues
- Board Member Responsibilities
- Detecting and Preventing Fraud and Kickbacks
- What to Expect from a Management Report and How to Use It
- Long Range Planning
- Local Law 11
- Understanding Financial Statements – Condo
- Roles of the Players (officers and the board)
- Understanding Financial Statements – Coop
- Refinancing
- Internal Control

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- Please complete the short survey
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Questions?

- Send an email to: info@czarbeer.com
- Put "Significant Budgeting Issues" in the subject

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