Gold Coast Professional Schools

# BUDGET BASICS OR ARE THEY?

This Course is approved by the DBPR Council of Community Association Managers, for 4 hours of continuing education credit in the area of:

**Insurance Financial Management (IFM) or Additional Instruction (ELE)**

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## INTRODUCTION

### Course Description

This course describes the process by which member-controlled community associations properly create and adopt an annual budget that conforms with statutory requirements. It discusses a wide range of the issues that challenge associations and their managers, including those that must be resolved during the budget process. Given the almost limitless number of problems that can arise in any given association, this course has, by necessity, limited its scope to a selection of some of the most frequently occurring issues.

There are many different methods for effectively developing a realistic budget. An association is best served by selecting a method that is most conducive to its particular circumstances and management objectives. The methods presented here can be successfully applied to almost any community association. As a student, you will participate in exercises that are designed to improve your budgeting skills.

This course is designed for new, as well as, experienced community association managers.

### Outline

The following topics are covered in this course.

- Resources
- Definitions
- The budget
- The operating section
- The proposed budget
- The insurance section
- Repairs and maintenance
- Salaries and benefits
- Utility costs
- Operating capital
- Reserve basics
- Adopt the budget
- Conclusion

## RESOURCES

In this course, we will use many examples, tools, and references to assist you with formulating an annual budget.

These resources can be found by visiting www.GoldCoastSchools.com/camcedownloads under the Budget Basics or Are They? section. Although we will footnote the applicable tool throughout the course, this is an opportunity for you to see, download, and print them ahead of time, if you prefer.

- Appendix A - Income and Expense Report
- Appendix B - Budget Worksheet
- Appendix C - Past Years Income and Expense Report
- Appendix D - Balance Sheet
- Appendix E - Salaries and Benefits Schedule
- Appendix F - Allocation of Reserve Interest
- Appendix G - Capital Expenditure Reserves
- Appendix H - Next FY Reserve Schedule
- Appendix Ia - Segregated Reserve Worksheet Exercise
- Condominium Act
- Cooperative Act
- F.A.C. 61B-40.004 Timeshare Budgets
- F.S. 501.165 Automatic Renewal of Service Contracts
- F.S. 718.111 Association Insurance
- F.S. 720-306 Meetings of Members
- HOA Act
- Reserves According to Florida Statutes
- Revenue Estimation Worksheet
- The Budget Documents Checklist
- Timeshare Act

## DEFINITIONS

In this section, we'll look at the definitions for the following:

- Account (line item)
- Asset
- Balance sheet
- Balanced budget
- Budget
- Capital expenditure
- Common expenses
- Deferred maintenance
- Deficit
- Expense (expenditure)
- Fiscal year
- Income
- Limited common elements
- Operating section
- Reserve section
- Revenue

### Account (line item)

An account or line item is created and used in a budget to define each class of items for which money or the equivalent is spent or received. It is used in balance sheets, budgets, and other financial reports to organize the finances of the entity and to segregate expenditures, revenue, assets, and liabilities in order to give interested parties a better understanding of the organization's financial health. The complete list of such accounts is referred to as a Chart of Accounts.

| Acct # | Subaccount #/Subaccount Name | |
|---|---|---|
| 7330 | Pool/Spa/Fountain | |
| | 7331 | Maintenance Contract |
| | 7332 | Repairs |
| | 7333 | Furniture |
| | 7334 | Equipment |
| | 7335 | Improvements |

## Asset

Any item of economic value owned by an individual or other entity, especially that which could be converted to cash.

## Balance Sheet

A statement of a company's financial position at a particular moment in time. It shows the two sides of a company's financial situation, the monetary value of what it owns and what it owes. What the company owns, called its assets, is always equal to the combined value of what the company owes, called its liabilities, and the value of its shareholders' (or association member's) equity.

## Balanced Budget

The annual budget for condominiums, cooperatives, and timeshares should be balanced. That is, the amount budgeted for revenue and the amount budgeted for expenses must be equal.

## Budget

A budget is an estimate of revenue and expenses for a specific period of time. The association should develop the budget to meet its objectives as they relate to its primary functions of protecting, preserving, and enhancing the property and its assets, enhancing the lifestyle of the community, and providing a harmonious community.

## Capital Expenditure

A capital expenditure is any disbursement of funds for the purchase or replacement of an asset, the useful life of which is greater than one year, or for the repair of an asset that will extend its useful life for a period greater than one year.

## Common Expenses

Community associations are required to budget for all common expenses. Common expenses are the expenses related to the operation, maintenance, repair, replacement, or protection of the common elements and association property, and the costs of carrying out the powers and duties of the association.

## Deferred maintenance

Deferred maintenance is any maintenance or repair that is performed less frequently than yearly and results in maintaining the useful life of an asset.

## Deficit

Deficit is a status of financial health in which expenditures exceed revenue.

## Expense (expenditure)

An expense or expenditure is an outflow of money to another person or entity to pay for an item or service.

## Fiscal year

A fiscal year (FY) is the twelve-month period that an organization uses for budgeting and financial reporting. It differs from a calendar year since its beginning and end dates may encompass any twelve-month period including, but not limited to, January 1 to December 31. The association's bylaws state its fiscal year. Community associations, with the exception of mobile home

associations, are required, by statute, to create an annual budget, based on the association's fiscal year.

### Income

In strict accounting terms, income refers to the profit or the money that remains after deducting expenses from revenue. However, community associations typically use revenue and income interchangeably, as we will in this course.

### Limited common elements

Some associations have limited common elements, such as a penthouse swimming pool or a garage, that are restricted to the use of specific members. If the association's governing documents identify those elements as the financial responsibility of those members, the association is required to create a separate proposed budget that estimates revenue and expense for those limited common areas. That budget will identify the amount of the additional maintenance assessment for those members and will appear as an attachment to the basic budget.

### Operating and Reserves

Condominium, cooperative, timeshares, and homeowners' association budgets have two major sections, **operatin**g and **reserves.**

Condominiums, cooperatives, and timeshares are required, by statute, to include funds for reserves in the proposed budget. HOAs must include reserves under certain conditions that will be discussed later in the course.

### Operating section

The operating section typically identifies routine, regularly occurring, expenses of the association. It effectively functions as the association's annual financial plan.

### Reserve section

The reserve section appears in the budget as a single account or line item that shows the cost of funding the reserve for the next fiscal year. It is based on a schedule, attached to the budget that estimates expenses for capital expenditures and deferred maintenance over a multi-year, long-term period. The reserve section functions as the long-term financial plan of the association.

### Revenue

Revenue is the amount of money that a company receives during a specific period.

## BUDGET

In this section, we'll look at the following topics regarding the budget:

- The budget
  - Who develops the budget
  - Role of the CAM
  - Statute and administrative code guidelines
  - Selection and organization of accounts
  - Budget preparation
  - Budget development
  - Summary

## The Budget

When used properly, the budget serves the association as a guide to compare its actual revenue and expenses to its budgeted revenue and expenses throughout the year.

It provides a basis to make necessary changes to ensure that the association is staying within budgetary limits. Regardless of the effectiveness of the budgetary process, unanticipated events will occur resulting in variances from the budgeted amounts of both revenue and expenses. Sometimes those variances are favorable, less monies expended than budgeted in a specific account or more revenue generated.

Other times the variances are unfavorable, more money spent or less revenue realized.

What is of importance is that the total of actual revenue and expenses be within budgetary limits, so as not to produce a budget deficit.

In the event of a budgetary deficit, the board will need to either reduce expenses, increase revenue, or expend surplus monies accumulated in its cash accounts.

## Who Develops the Budget?

The board of directors is responsible for the development of the proposed annual budget, unless the bylaws specify another entity. The association treasurer is responsible for all financial matters of the association, including coordinating the development of the proposed annual budget. The board may choose another officer or director, the manager, the management firm, its accountant, a consultant, or a volunteer or group of volunteers (typically referred to as a budget or finance committee) to coordinate its development. The board should make its determination based upon a comparison of expertise, cost, and availability of each alternative, to achieve its objective of effectively completing the budget within the required timeframe.

The simplest and least time consuming method is to assign one qualified person to develop the budget, and have it reviewed by the board.

A budget committee can be the preferred choice when a substantial assessment increase is anticipated. The inclusion of respected community members on the committee can provide legitimacy to the increase and foster understanding of the proposed budget by members. A budget committee can often be helpful when the manager has the primary role but requires assistance to meet the deadline because of his or her workload.

A committee can gather information on planned improvements, research regulatory requirements, or cost out anticipated repairs. It could also be assigned to develop certain parts of the budget, for example, the reserve schedule, or review existing contracts for landscaping, janitorial, security, pool maintenance, and other services.

## Role of the CAM

Typically, the community association manager (CAM) has the lead role in development of the budget. Even when the CAM doesn’t have a prominent role, they should monitor the process and advise the board, verbally, and in writing, of the budget development status.

Not infrequently, budgets are developed with certain preconditions set by the board. These preconditions may include a limit on the amount of total expenses (for instance, a board directive to “keep assessments at the same level,” or “reduce expenses by 10%”).

If the CAM observes that the board’s preconditions will result in insufficient funds to properly maintain the property and meet the association’s other objectives, the CAM has a fiduciary responsibility to inform the board. If potential statutory violations are observed, the manager is responsible for recommending to the board that it seek legal guidance.

However, there may exist circumstances in which such communication may, for political as well as other reasons, be unwelcome, and could result in placing the manager in an uncomfortable position, even to the point of jeopardizing their employment. Under these circumstances, the CAM should, at the very least, verbally express those concerns to the association president and/or treasurer, and create a memorandum to file.

If the CAM is employed by a management firm, a written report, describing and explaining their concerns, should be forwarded to their supervisor.

Practicing CAMs, with some exceptions, are typically required by their employers to be able to properly develop a budget. Creating an effective budget requires knowledge of budget related statutes and administrative rules, as well as relevant provisions within the governing documents.

A CAM who prepares an improper budget, as a result of their lack of knowledge, does a disservice to the association, and risks disciplinary action by the DBPR should it receive of a complaint from an association.

The basic rule for CAMs is… *Don't perform any task that you lack the skill to do properly.*

One of the most important functions of managers is to constantly be looking for ways to reduce costs without sacrificing quality. The process of developing the budget focuses the manager on the cost of labor, products, and services. It might be an ideal time to consider alternative, less expensive means to achieve the goals of the association. Managers should be looking at such issues as employee productivity, the cost of contracts, and the possibility of outsourcing services (or bringing outsourced services in-house).

The course material to follow is based on a CAM having the primary role in the development of the budget. It should be understood that, even when the CAM has the primary role, they would need to consult with the association president and/or treasurer, attorney, accountant, insurance agent, maintenance director, and service providers to obtain information and guidance during the budget process.

### *Fictional Association*

Del Boca Bleu Condominium is a 217-unit property located in south Florida. Leon LeBoeuf, the CAM for this association, has been employed six months. This is Leon's first CAM job, so it's also his first attempt at drafting a proposed budget.

Leon LeBoeuf

His task is to draft a proposed annual budget that will be submitted for final approval at the November 15th budget meeting.

Our job throughout the course is to help Leon get the job done properly.

## Statute and Code Guidelines

Florida Statutes (F.S.) and the Florida Administrative Code (F.A.C.) describe the legal requirements for budgets.

The following describes some of the important requirements for each type of community association. Other requirements are best understood within the context of other topics that will be discussed subsequent to this section.

### *Condos and Coops*

The Condominium Act[1] and the Cooperative Act[2] require certain expenses be included in the proposed budget, unless the service is not offered by the association. For example, if the association does not have a manager or management company, it is not required to include a management fee account (line item) in their budget.

Required Budget Accounts

- Administration of association
- Fees payable to the division
- Insurance
- Management fees
- Maintenance
- Operating capital
- Other expenses
- Rent for recreational and other commonly used facilities
- Reserves
- Security provisions
- Taxes on association property
- Taxes on leased areas

### *HOAs*

F.S. 720.306[3] requires an HOA to prepare an annual budget that reflects the estimated revenues and expenses for that year and the estimated surplus or deficit as of the end of the current year. The budget must set out separately all fees or charges paid by the association for recreational amenities, whether owned by the association, the developer, or another person. The statute does not require any specific accounts to be included in the budget.

### *Timeshares*

F.S. 721.07(5)(t), F.S. 721.13(3)(c), and F.A.C. 61B-40.004[4] mandates that an estimated operating budget for each timeshare plan include the following accounts:

- Administration of the managing entity
- Management fees
- Maintenance
- Rent for facilities
- Taxes on timeshare property
- Taxes on leased areas
- Insurance
- Security provisions
- Other expenses
- Operating capital
- Reserves for deferred maintenance and reserves for capital expenditures

### *Mobile Homes*

Since mobile home parks are owned by the mobile home park owner and not the association, the association is free of any statutory requirements relating to the development of an annual budget for the park.

If a mobile home association has converted to a condominium, cooperative, or homeowners' association, it is then subject to the requirements of the respective statute and administrative codes.

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[1] To read these statutes and rules for a condominium F.S. 718.112(2)(e), F.S. 718.112(2)(f), and F.A.C. 61B-22.003 and .005, please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Condo Act"

[2] To read these statutes and rules, F.S. 719.106, and F.A.C. 61B-76.003 and 005, please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Coop Act"

[3] To read F.S. 720.306, please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "HOA Annual Budget"

[4] To read F.S. 721.07(5)(t), F.S. 721.13(3)(c), and F.A.C. 61B-40.004, please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Timeshare Budgets"

## Selection and Organization of Accounts

In addition to the accounts identified above, associations may create and use other budget accounts. They can also create sub-accounts to provide more specific information about certain expenditure or revenue categories.

For example, condominium associations are required to have an account for maintenance. An association may determine that it wants to track specific types of maintenance expenses. Therefore, it creates sub-accounts for electrical, plumbing, air conditioning, heating, and other types of maintenance activities.

## Budget Preparation

**Note**

The governing documents might require longer notice

The board, with the manager's input, should determine the date it intends to hold the budget meeting. The date of the meeting should be scheduled to permit sufficient time for the manager to develop the budget, review it with the president, treasurer, and/or board members, and to allow for the required minimum fourteen-day notice to members.

The association also needs to take into consideration that, once the budget is adopted, management needs to notify members of the assessment for the new fiscal year. Some members will need time to inform their financial institutions of changes in the assessment amount.

If the association prints and distributes coupons, it will need sufficient time to perform these functions.

The amount of time needed to prepare a budget depends on its complexity, the workload of the manager, and the involvement of directors, officers, committees, and others.

Some managers, especially ones who prepare budgets for multiple associations, have, by necessity, established methods in which they can rapidly produce budgets, almost on an assembly line basis. For many associations, however, it is common to begin the process three to four months prior to the date of the budget meeting. Ultimately, each association must make its own determination when to begin the process.

## Budget Development

All community associations have three basic statutory obligations. They are:

- Preserve, protect, and enhance the value of the community and its assets
- Enhance the lifestyle of the community
- Provide a harmonious community

The budgetary process should begin by determining the specific objectives that must be achieved to fulfill each of the statutory requirements. The objectives should be described in terms of actions that need to be accomplished. Examples of budget related objectives for each statutory obligation are outlined next.

**Note**

HVAC is the abbreviation for heating, ventilation, and air conditioning.

### *Preserve, Protect, and Enhance*

- Ensure an annual **HVAC** inspection and maintenance
- Ensure adequate insurance coverage
- Maintain landscaping based upon guidelines created by the landscaping committee

### *Enhance Lifestyle*

- Renegotiate cable TV and Internet bulk contracts
- Replace lobby furniture

*Provide Harmonious Community*

- Provide legal services for enforcement of use restrictions and rules

## Summary

Each objective, and the cost in dollars to accomplish it, must be linked to a specific account(s) or sub-account(s). The total cost of all accounts equals the total cost of the operating section expenses.

Condominium and cooperative budgets are, by statute, required to have a reserve budget. Under certain circumstances, HOAs must include a reserve in the proposed budget. In the annual budget, the reserve appears as a single line item. We will discuss this later in the course.

Boards have a fiduciary responsibility to budget and expend sufficient funds to accomplish the association's budgetary objectives that, when performed, result in compliance with Florida statutes and maintain the property so that it stays comparable to its condition when received by the developer.

## THE OPERATING SECTION

In this section, we'll look at the following topics regarding the operating section of the budget:

- Required documentation to develop an operating section
- Organize the operating section
- Estimate the association's operating expenses

## Required Documentation

To estimate revenue and expenses accurately and properly develop the operating section, the following documentation is required: [5]

- Current year's most recent financial reports including the income and expense statement and balance sheet
- End of year financial reports for the past three years
- Invoices for the past 12 months
- **Aging reports** for the past twelve months
- All current contracts and retainer agreements
- Contract summary chart[6]
- All current insurance policies
- Insurance policies summary chart[7]
- Most recent property appraisal
- Manager's reports for the past 12 months
- Most recent legal status report
- Equipment maintenance records
- Minutes of board resolutions relating to any planned capital projects, as well as other budget related issues
- Warranties

**Note**

An aging report is a periodic report of the accounts receivable that lists the amount owed by the delinquent members by the length of time the money has been outstanding (e.g., 30, 60, 90, 180 days, and more.)

The use of many of these documents will be discussed in the section describing methods of estimating the cost of selected expenses.

[5] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "The Budget Documents Check List"
[6] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Contract Summary Chart Sample"
[7] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Insurance Policies Summary Chart"

## Organize the Operating Section

The operating section of the budget is divided into two major sections, **revenue** (or income) and **expenses.**

We'll look at the expenses section now and the revenue section later.

### *Expenses Section*

**Expenses** are often subdivided into major groups, such as

- Administration
- Contracts
- Insurance
- Repairs and maintenance
- Salaries and benefits
- Utilities

Sometimes an association decides to include a one-time expense, such as an expensive piece of equipment, in the annual budget.

It may list the item, and other such planned purchases, under a section titled ***Capital Expenses***, to differentiate them from the regularly recurring expenses typically referred to as ordinary expenses.

### *Account Creation*

There is no hard and fast rule here. For example, an association may choose to include a contracts section because it permits management to easily identify certain fixed costs. Alternatively, it may choose to simply include the cost of a contract, such as landscaping, with other non-contractual and variable landscaping related costs, such as plant or flower replacement, pest control, and tree trimming, under a landscaping account.

Management may also decide to create sub-accounts, such as lawn maintenance, pest control, tree trimming, and plant replacement, under the landscaping account. This type of organization would provide easily identifiable cost information regarding all landscape related services.

<u>Contract Services</u>

Managers need to know and understand the provisions of service contracts. They especially need to be aware of expiration dates and automatic renewal clauses. The budget process, if begun early enough, may provide an opportunity to review such contracts, determine the board's satisfaction with each vendor, and consider whether to re-negotiate the terms of a contract or seek competitive bids. At the very least, managers should contact each service provider, whose contract will expire during the next fiscal year to determine if there will be any cost increases or changes in the scope of service. Vendors should be asked to provide this information in writing.

Receipt of a renewal contract is even better since it may provide an opportunity for the board to negotiate and formally approve or reject a service provider's proposal prior to adopting the budget. Even if there is insufficient time to bid out a service prior to submission of the proposed budget, most contracts can be terminated with a thirty-day written notice. A post-budget change can prove helpful in keeping the association within budgetary limits during the next fiscal year.

All contracts should be reviewed on an annual basis, with the objective of renegotiating the cost and/or scope or soliciting competitive bids. CAMs should always maintain a current contract summary chart that provides information on expiration dates and automatic renewal clauses, as well as other pertinent information.

**Pool Service Contract:** Some contracts contain provisions for additional services to be provided at a fixed hourly rate plus the cost of material. For example, a pool services contract, which provides for service on a three-day per week basis, may have a provision for non-routine repairs to be performed at a set rate per hour plus the cost of material. The actual costs of the services performed under such hybrid contracts would be more difficult to estimate since they are a mix of fixed and variable costs.

Since the objective of an association with a Contracts section in its budget is mainly to identify fixed costs, to accomplish this objective would require two separate pool related accounts, one for the fixed costs and the other for the variable costs, which would be typically included within the "Repairs and Maintenance" category.

If the association seeks to budget for, and monitor, the total cost of pool services, it has the option of creating a comprehensive pool account with sub-accounts for contractual services, repairs, furniture, equipment, and improvements as discussed earlier.

| Acct # | Subaccount #/Subaccount Name | |
|---|---|---|
| 7330 | Pool/Spa/Fountain | |
| | 7331 | Maintenance Contract |
| | 7332 | Repairs |
| | 7333 | Furniture |
| | 7334 | Equipment |
| | 7335 | Improvements |

## Estimating the Operating Expenses

Creating an effective budget is an art, not a science. The process relies on logical thinking, good judgement, and attention to detail. However, no matter how effective the process, the future always holds surprises, some of which can result in outcomes very different from those projected.

All too often, CAMs discover that the actual income or expense of specific accounts varies from the amounts projected in the annual budget. This is unavoidable. The CAM's job is to apply a rational methodology in estimating revenue and expense accounts. This section of the course will demonstrate how such a methodology is applied to selected budgetary accounts.

### THE PROPOSED BUDGET

In this section, we'll look at the following topics regarding the proposed budget:

- Accrual vs cash method
- The budget documents
- Estimate annual costs

## Accrual vs Cash Method

The development of the budget typically begins with the common expenses of the association. Our fictional association, Del Boca Bleu Condominium, uses **accrual based accounting** for its financial reports.

Let's look at the difference between accrual and cash method accounting.

**Accrual based accounting** recognizes income when it is earned and expenses when they are incurred, regardless of whether cash or cash equivalents were actually disbursed or received.

In contrast, the **cash method** recognizes revenue and expenses at the time cash is actually received or paid out.

The importance of knowing that an association uses accrual based accounting will become apparent later in our discussion. **Del Boca Bleu's fiscal year is January 1 through December 31 and it has 217 units.**

| Required by Statute | Accrual Accounting | Cash Accounting |
|---|---|---|
| Condo Assoc. (Revenue ≥ $150,000) | ✓ | |
| Coop Assoc. (Revenue ≥ $150,000) | ✓ | |
| HOA (Revenue ≥ $150,000) | ✓ | |
| Condo/Coop/HOA (Revenue < $150,000 | | ✓ |
| Condo/Coop/HOA (< 50 units regardless of revenue) | | ✓ |
| Timeshare Assoc. (All revenue amounts) | ✓ | |

## The Budget Documents

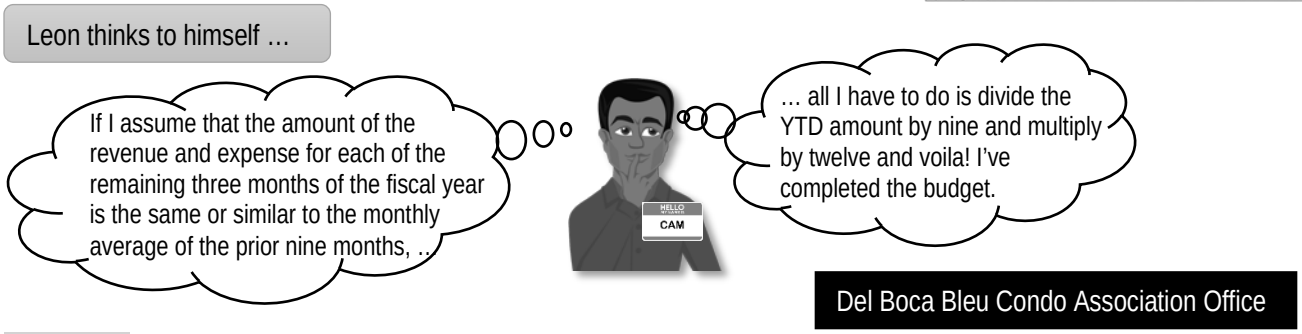
Leon has gathered, or has access to, all of the necessary documents to draft the budget.[8]

He begins with the most recent income and expense report that covers the first nine months of the fiscal year.[9]

| INCOME AND EXPENSE REPORT | |
|---|---|
| **Contents** | **Column(s) on Report** |
| Account name and number | 1 and 2 |
| Current year (CY) budget for each account | 3 |
| Year to date (YTD) pro-rated budget for nine months | 4 |
| Actual YTD revenue and expense | 5 |
| Amount of the surplus or deficit for each account (variance) | 6 |
| Note that numbers in parentheses represent deficits or shortfalls in revenue accounts and under spending in expense accounts | |

### *Income and Expense Report*

While reviewing the income and expense report, Leon makes note of the contents presented in this report. (Please refer to Appendix A.)




Question:

So, what do you think? Is Leon correct?

Can he use this method to create an accurate budget proposal for the next fiscal year?

Answer:

This method can prove useful for accounts for which budgeted amounts are based on fixed rate contracts that require equal periodic payments. It's also useful for those in which spending is roughly the same each month and can serve as the basis for projecting spending for the remainder of the fiscal year with a reasonable degree of accuracy.

However, there are accounts for which this method cannot be used. An association that pays for its annual audit in a lump sum in March every year, will find its prorated budget column distorted, both for the accounting line item and for the entire budget. The same applies to an expensive one-time capital expense, and accounts such as licenses, fees, taxes, and fees to the Division, usually paid on an annual basis.

If Leon is to use the strategy he is currently pondering successfully, he will simply need to know the accounts in which expenses occur on an irregular basis. For those accounts, he will have to project the total year's expense based upon his knowledge of when, and in what amount, expenses will be accrued.

### *Estimate Annual Costs*

Let's work with Leon to estimate the annual cost of specific accounts.

Here's the information for Account 7155, Contract Services, Elevator found on the income and expense report.

The annual budget amount is $14,000.

The pro-rated amount for nine months (YTD budget) is $10,500.

| 1 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|
| **Acct # - Account Name** | **CY Budget** | **YTD Budget** | **YTD Actual** | **Variance** |
| **Contract Services** | | | | |
| 7155 - Elevator | 14,000 | 10,500 | 10,500 | |

The YTD actual budget amount, in Column 5, shows that $10,500 in expenses has actually been accrued, totally in line with expectations.

[8] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "The Budget Documents Check List."
[9] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix A - Income and Expense Report."

Question:

Can Leon simply assume that the expenses for the final quarter of the year will be the same as the previous payments for each three-month period?

Perhaps he should take a look at the elevator contract.

### *Elevator Account*

Leon notices that the association has a service contract with an elevator vendor. It is a three-year contract and has a termination date of September 30 of this year. He also sees that there is clause in the contract that provides for an automatic contract renewal for one year at a 5% increase, unless the association sends a written termination notice by certified mail to the vendor a minimum of sixty-days before the contract termination date. He remembers that the office had received a notice from the vendor advising of the pending automatic renewal, within the statutory time frame (no earlier than thirty days and no later than sixty days prior to the expiration date).[10]

He also knows that a termination notice was never sent to the vendor. He realizes that it's now too late for the board to terminate, re-negotiate, or re-bid the contract in order to avoid the increase.

Leon will have to project the current year's annual cost of the elevator account (to include the 5% increase) at $14,175 on his budget worksheet. This entry is highlighted on the worksheet.[11]

| | | CY Projected | | FY Proposed |
|---|---|---|---|---|
| **Elevator** | 1/1/CY - 9/30/CY | 10,500 | 1/1/FY - 9/30/FY | 11,025 |
| | 10/1/CY - 12/31/CY | 3,675 | 10/1/FY - 12/31/FY | 3,859 |
| | **Total CY** | **14,175** | **Total next FY** | **14,884** |
| | | | **Rounded** | **14,900** |

Since the purpose of projecting the current year's expense is to serve as a guide for accurately projecting the next fiscal year's cost, Leon realizes that he has a problem. Since the elevator renewal contract expires on September 30, he only knows the contractual cost of elevator services for the first nine months of the next year. He does not know if there will be another increase effective on that date that will impact the final three months. At this point, he decides to fund elevator services at $14,900 (5% increase for the first 9 months, plus an assumed 5% additional increase for the last quarter, rounded to the nearest $100).

On his budget spreadsheet, Leon inserts a brief written comment describing the basis for his estimate. He will follow this practice for each account to make it easier for board members to understand his justification for each budgeted amount.

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Contract Services** | | | | |
| 7155 - Elevator | 14,000 | 14,175 | 14,900 | 5% increase 10/1/CY to 9/30<br>Additional 5% 10/1 - 12/31/FY |

### *Rounding*

A brief digression is necessary to discuss rounding. Projections and formulas will almost always result in an unrounded number, such as the unrounded projection for elevator services, discussed above, which is $14,883.75. There is no hard and fast rule on rounding. Associations may round to the nearest $10, $25, $50, $100, or more. Some may not round at all, except to the nearest dollar. To some degree, the level of rounding is dependent upon the size of the budget. Some boards and managers want to see the exact numbers. The manager should seek guidance as to the rounding method preferred by the board.

Del Boca Bleu rounds its budget numbers to the nearest hundred dollars.

[10] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "F.S. 501.165 Automatic Renewal of Service Contracts."

[11] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix B - Budget Worksheet."

### *Legal Account*

Let's assist Leon with another expense account: Legal

Legal (Acct # 7505), under Administration. The cost of legal services is typically determined by the firm's hourly rate, plus expenses, and the number of billable hours charged for the attorney and/or paralegal's services. The hourly rates can be found in the association's retainer agreement with the law firm. The retainer agreement will also reveal whether the firm is charging the association for its demand letters and other lien related collection services upfront or whether such expenses are to be collected from the delinquent member.

Del Boca Bleu's agreement is the latter type. Its legal bills will primarily consist of foreclosure related collection services (of which it may be partially or wholly reimbursed), responses to questions on a wide range of subjects from the manager or board, contract review, special projects, such as amending association documents, and hours spent in dispute resolution and litigation. A review of Appendix A shows that the YTD budget for legal services is $3,000 and the association has spent over $11,000.[12]

Question:

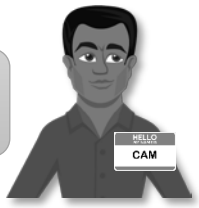
Should Leon simply assume that the cost of legal services will continue at the same rate during the final quarter of the fiscal years?

Leon decides to do some research…


He reviews the past three years' legal expenses (illustrated on Appendix C - Past Years' Income and Expense Report and sees that the association averaged $3,450 annually, with a narrow difference between the highest and lowest year. [13]

He then compares the current accounts receivable amount with the year-end amounts from the past three years' balance sheets and observes that the receivables have remained stable.

Leon continues his research…




| Acct # - Account Name | Past Year 3 | Past Year 2 | Past Year 1 | 3 Yr Average Past Years | CY Projected |
|---|---|---|---|---|---|
| **Administrative** | | | | | |
| 7505 - Legal | 2,922 | 3,675 | 3,753 | 3,450 | 12,007 |

Finally, Leon reviews the most recent legal status report and billing. He notices that, in February, a dispute with a contractor over the board's claim of shoddy workmanship, was resolved in mediation (the current legal status report from the association's attorney is cumulative, in that it describes all relevant events regardless of when they occurred). The association received an invoice from its attorney in March that included $8,000 in charges for services and expenses related to that dispute. Leon looks at the income and expense statement and notices that the overage is just about equal to the legal cost of resolving that dispute.

[12] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix A - Income and Expense Report."

[13] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix C - Past Years' Income and Expense Report."

Question:

How much should Leon include for legal services?

Let's look at the calculations Leon uses for this account.

**Note**

There is no one correct answer. You may arrive at a different number. It is the rationale for your number that's important. Leon concluded that he could omit consideration of the mediation costs, because it was a one-time in three years occurrence.

Answer:

Leon concludes that he can project the current year's expense at $12,007. Leon decides to ignore the cost of the mediation in estimating next year's legal expenses.

| Legal Costs | |
|---|---|
| Average Past 3 Years | 3,450 |
| CY YTD | 11,005 |
| (less mediation) | (8,000) |
| Subtotal 9 months | 3,005 |
| Projected Final 3 months | 1,002 |
| Total Projection CY (less mediation) | 4,007 |
| Total Projection CY (with mediation) | 12,007 |
| **Proposed for next FY** | **4,000** |

Leon should not simply assume that the cost of legal services will continue at the same rate. It's important to know that these costs are subject to increase and decrease based on the association's need for legal advice and assistance.

Legal Reimbursement

There is another factor to consider when estimating legal expenses. When a legal action, especially a lien or foreclosure, is settled in favor of the association, expended legal fees are typically reimbursed in part or whole. Some associations create a revenue account, name it Legal Expense Reimbursement or something similar, and credit that account upon receipt of the funds.

Others, simply debit the legal expense account, effectively reducing the amount of such expense by the amount of the reimbursement.

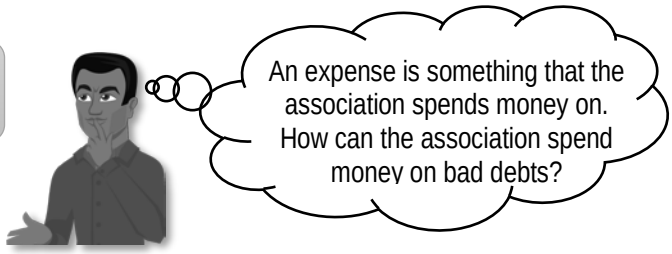
Accurately Estimate Legal

It is difficult to estimate legal expenses accurately. Reviewing prior years' information is of limited usefulness. Managers must be knowledgeable of the status of existing legal actions, be aware of potential or pending litigation, insurance claims, and accounts receivable trends. Associations have limited control of the number of billable hours their legal counsel expends on a lawsuit. Note that legal fees arising from insurance claims typically, but not always, are covered by the association's insurance policies. Essentially, once an association refers a matter to its attorney, it must trust that the attorney is using those hours efficiently and effectively. Associations do, at times, change or use multiple law firms in efforts to produce better results and/or reduce legal expenses. Sometimes it works.

### *Bad Debt*

Let's move on to another expense account: 7515 Bad Debt.

Leon is perplexed because he doesn't have a clue what it means.




Let's help Leon understand how delinquent monies are accounted for.

**STEP 1** When a member is determined to be delinquent, their amount of unpaid maintenance fee is credited to the accounts receivable (AR) [account #1015] on the asset side of the balance sheet.[14]

[14] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix D – Balance Sheet."

**STEP 2**

Del Boca Bleu policy is that any amount uncollected after 365 days is determined to be uncollectible. That amount is debited from AR account 1015 and credited to account 1020 (allowance for Uncollectible debt), as a negative number

| Current Assets | |
|---|---|
| 1010 - Checking - Operating | 558,123 |
| 1015 - Accounts Receivables | 90,101 |
| 1020 - Allowance for Uncollectible Debt | (30,018) |
| 1312 - Prepaid Insurance | 87,292 |
| **Subtotal Current Assets** | 705,498 |

**STEP 3**

When the board (and attorney) decide that a debt is no longer collectable, account 1020 on the balance sheet is debited and the bad debt expense account (account #7515) on the income and expense statement is increased (credited) the same amount.

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| **Acct # - Account Name** | | **CY Budget** | **YTD Budget** | **YTD Actual** | **Variance** |
| **Administration** | | | | | |
| 7515 - Bad Debt | | 26,000 | 19,500 | 2,202 | (17,298) |

Bad debt is a difficult account to accurately estimate since it's dependent on many variables, including delinquent members' ability and willingness to pay what they owe, the effectiveness of collection activities, the rate at which banks or finance companies and the courts process foreclosures and bankruptcies, and the health of the economy. Additionally, associations are often reluctant to adequately budget for bad debt since it increases overall expenses, and of course, maintenance assessment fees.

Boards of directors like to show surpluses on their income and expense statements rather than deficits. It's not uncommon for such boards to maintain Bad Debt on their balance sheet rather than write it off on the income and expense statement. This practice can result in a distortion of the financial statement. Boards should adopt, and adhere to, a reasonable policy that provides guidelines as to when an unpaid amount is to be debited from allowance for uncollectible debt and credited to bad debt.

Question:

How much should Leon budget for bad debt?

**Note**

There is no correct answer or particular calculation. Often the board decides on an estimated bad debt amount, in consultation with its attorney and/or accountant.

While struggling with how much to budget for bad debt, the association president, Luisa von Flake, enters Leon's office and asks to see the worksheet.

Leon, I see that you have $30,000 allocated to bad debt on your worksheet. Please amend that to $20.000.



Yes, Luisa. I'll change the bad debt to $20,000 based on your instructions.

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Administration** | | | | |
| 7515 · Bad Debt | 26,000 | 2,936 | 20,000 | As directed by president, based upon attorney's recommendation |

### *Administration, Fees to Division*

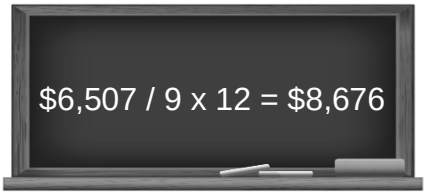
Leon has struggled with the bad debt account; let's give him an easier one - account 7570, Administration, Fees to the Division.

Leon remembers that the Condominium Act requires a condominium association to pay the Division of Florida Condominiums, Timeshares, and Mobile Homes $4 per unit. Del Boca Bleu has 217 units, so 217 units multiplied by $4 per unit equals $868. Leon rounds this to the nearest hundred, so $900 is due to the Division.

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Administration** | | | | |
| 7570 - Fees to Div. of Condominiums | 900 | 868 | 900 | $4/unit annual fee |

Leon also reviews account #7530, office supplies.

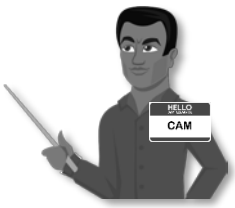
Account 7530, administration, office supplies, should be relatively simple. The association has expended $6,507, an under-expenditure of $243 of the YTD budget. Leon divided $6,507 by nine and multiples by twelve to come up with a projected CY expenditure of $8,676.


| 7530 - Office Expenses | |
|---|---|
| YTD Actual | 6,507 |
| Projected 3 months | 2,169 |
| Estimated EOY | 8,676 |

He also reviews the past three years of financial reports that reveal that the average annual expense for office supplies was $13,341, which is $4,665 higher than this year's projected amount.

| Acct # - Account Name | Past Year 3 | Past Year 2 | Past Year 1 | 3 Yr Average Past Years | CY Projected |
|---|---|---|---|---|---|
| **Administration** | | | | | |
| 7530 - Office Expenses | 13,069 | 14,155 | 12,800 | 13,341 | 8,676 |




Leon then reviews the individual invoices for those years and the current year. He notices that, in each of the preceding years, the association had spent money on office furniture, replacing desks, chairs, a sofa, a computer, and filing cabinets. In contrast, during the current year, expenditures were limited to items that would most appropriately be considered supplies, such as copier paper and ink, as opposed to capital items.

In future years, Leon may want to split out capital office expenses from routine office supplies. Leon looks around his office and observes that the furniture appears to be in good condition and the computer and other electronic equipment are relatively new. He decides to budget $8,700 for the next fiscal year.

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Administration** | | | | |
| 7530 - Office Expenses | 9,000 | 8,676 | 8,700 | Prior years included capital items. No capital expense in CY or projected for next FY. Recommend charging capital office expense separately in future. |

Question:

Do you agree with Leon's assessment of the office supplies account?

Many managers find it useful, in the process of projecting an account's expenses, to perform a review of its YTD invoices, as Leon did with Office Supplies. It is not uncommon to discover duplicate or incorrect billings, at which time the manager can require a vendor to issue a credit or a refund. It can also reveal unusual or one-time expenses that will not typically recur in the next fiscal year.

### *Estimating Cost Approach*

Leon uses essentially the same approach to estimate the costs of the other administration accounts.

He investigates to determine if the U.S. Postal Service is planning a rate increase, or if there is any planned increase in the cost of licenses, taxes, and permits.

He consults with the association's accountant, payroll administrator, and screening provider to discover whether any of them are planning a rate increase.

He also reviews the copier lease to determine whether there is an automatic increase clause and the date of expiration. He notices that the lease will expire October 31 of next year. Leon realizes that the lease should be re-negotiated, re-bid, or perhaps the association might be better off purchasing the existing copier or a new one. He budgets the copier at the same level for next year and makes a note to discuss the issue with Luisa.

Leon proceeds to estimate the remaining accounts in the budget.

### *Pest Control*

Let's help Leon with one more account - #7090, pest control

In reviewing trend data related to the pest control contract, Leon observes that the cost of the treatment of whitefly infestation of ficus hedges over the past few years has increased the pest control costs. Leon thinks that the board could save money, over time, by replacing the ficus hedges with another type of hedge, that is unaffected by whitefly or other infestation.

He consults with the landscaper who recommends arboricola trinette.

He discusses this issue with Luisa, who, in turn, consults with the landscape chair, Petunia Crow.

They agree with Leon's recommendation, and budget $11,000 in account 7354, landscape improvements, for the replacement. Leon informs the pest control contractor that whitefly treatment will no longer be required as of January 1.

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Contract Services** | | | | |
| 7090 - Pest Control | 8,000 | 9,673 | 8,100 | Reduce cost of contract by replacing ficus hedges and eliminating whitefly treatment. |
| **Repairs & Maintenance** | | | | |
| 7354 - Landscape Improvements | 5,500 | 5,633 | 11,000 | Planned replacement of ficus hedges with arbicola trinette |

## THE INSURANCE SECTION

In this section, we'll look at the following topics regarding the insurance section of the proposed budget:

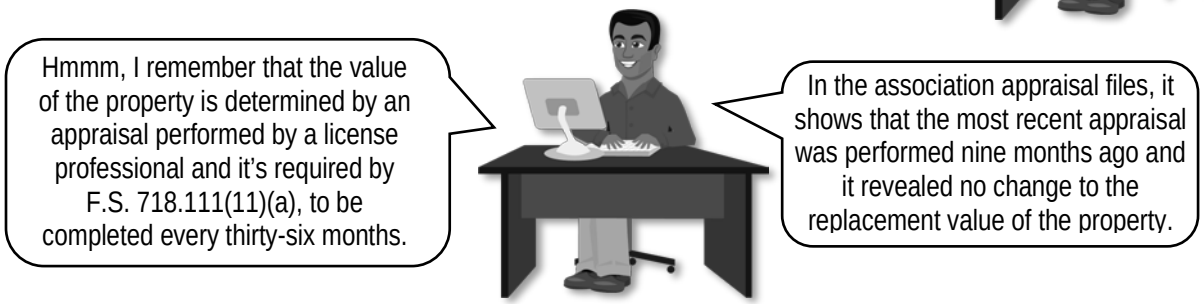
- Adequate coverages
- Definitions
- Budgeting for insurance

## Adequate Insurance

Leon now arrives at the insurance section of his budget. He clearly understands that the board has a fiduciary and statutory[15] responsibility to ensure that the association is adequately insured, and in compliance, with its governing documents.

He proceeds to review the association's current policies and finds that the declaration page of the property policy (which includes multi-peril and windstorm coverage) shows a renewal date of January 1 and a replacement value of approximately $50,000,000.

## Property Appraisal




There is no comparable statutory requirement for cooperatives, homeowners', and timeshare associations. However, the association's insurance carrier may require appraisals to be performed on a regular basis. The state sponsored, Citizens Insurance Protection Corporation, requires an annual appraisal for multi-peril and wind-only policies for community associations.

## Definitions

In this section, we'll look at the following definitions related to insurance budgeting:

- Co-insurance
- Deductible

**Co-insurance:** This is an insurance policy provision under which the insurer and the insured share costs incurred after the deductible is met, according to a specific formula.

**Deductible:** The deductible is the amount that the insured must pay out of pocket before an insurer will pay any expenses for an insured loss.

[15] F.S. 718.111(11)

## Budgeting for Insurance

Budgeting for insurance is difficult. Rates are dependent upon the cost of insurance that's affected by many factors including:

- The level of losses paid out by insurers internationally
- The number of insurers competing for an association's business (typically extremely limited or non-existent)
- The association's past claims history
- The appraised value of the property
- The amount of co-insurance
- The deductibles
- The federal policy with respect to flood insurance rates

### *Shop the Market*

Some associations can only obtain multiperil (excluding wind) or windstorm coverage from Citizen's Property Insurance Corporation, the state sponsored carrier that provides property insurance to associations that cannot obtain it elsewhere.

The ability and willingness of agents to shop the market to obtain competitive bids is very important, especially for those associations that are considered favorable risks. Additionally, agents can assist by providing guidance as to the proper levels of coverage required for each type of insurance.

The Condominium Act requires the board to determine the amount, or percentage of co-insurance and deductibles, at a properly noticed and quorumed meeting. This requirement does not apply to other types of community associations.

Del Boca Bleu will include these items on the budget meeting agenda.

### *Insurance Premium Entry*

It is important for managers to understand that, when utilizing an accrual based accounting system (when an insurance premium is paid in a single lump sum), the total premium will not appear on the income and expense statement when the association actually issues the check. Instead, the sum will be divided by twelve, and each month one-twelfth of the amount will be charged off to the insurance expense account. The balance will appear on the balance sheet as pre-paid insurance**.**

The total of the YTD expense plus the pre-paid amount will equal the total annual premium (See the *italicized* numbers in charts below.)

<u>Total Insurance Expenses</u>

| Income & Expense<br>Acct # - Account Name | CY Budget | YTD Budget | YTD Actual | Variance |
|---|---|---|---|---|
| **Insurance** | | | | |
| 7555 - Multiperil/Wind | 300,000 | 225,000 | 220,784 | (4,217) |
| 7556 - Flood | 11,000 | 8,250 | 11,773 | 3,523 |
| 7557 - General Liability | 15,800 | 11,850 | 11,946 | 96 |
| 7558 - D & O | 4,000 | 3,000 | 2,907 | (93) |
| 7559 - Umbrella | 7,500 | 5,625 | 5,496 | (129) |
| 7560 - Fidelity Bond | 2,500 | 1,875 | 1,752 | (123) |
| 7570 - Plate Glass | 9,500 | 7,125 | 7,220 | 95 |
| **Total Insurance** | 350,300 | 262,725 | ***261,877*** | (848) |

| Balance Sheet | |
|---|---|
| **Current Assets** | |
| 1010 - Checking - Operating | 558,123 |
| 1015 - Accounts Receivables | 90,101 |
| 1020 - Allowance for Uncollectible Debt | (30,018) |
| *1312 - Prepaid Insurance* | *87,292* |
| **Subtotal Current Assets** | **705,498** |

The actual amount of insurance is not usually the budgeted amount. In this case, it is slightly less than the budgeted amount. In this example, the actual amount is $349,169. The YTD Actual reflects the payment through nine months: $261,877.

### *Insurance Premium Financed*

If the insurance premium has been financed, a separate insurance loan repayment (principal) expense account and an insurance interest expense account will be required.

### *Insurance Premium Estimating*

Leon contacts the association's insurance agent, Manfred Pricey, and asks him for an estimate of the total premium cost for all policies, including general liability, directors and officers, crime, plate glass, umbrella, and flood, as well as multi-peril property and windstorm. Manfred informs Leon that, since all the policies renew on January 1 and the underwriters will not provide a quote before mid-December, he cannot provide an accurate estimate.

He recommends that, to be safe, Leon should project a 10% premium increase for property and windstorm and a 25% increase for flood, based upon proposed congressional action impacting the National Flood Insurance Program (NFIP). Manfred also recommends a 5% increase in general liability, as Del Boca Bleu has experienced several slip and fall claims in the past five years. He further suggests that the other policies' premiums will likely remain unchanged.

When finished with his research and cost comparison, Leon's worksheet entries for insurance look like this[16] …

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Insurance** | | | | |
| 7555 - Multiperil/Wind | 300,000 | 294,378 | 323,800 | 10% increase per insurance agent |
| 7556 - Flood | 11,000 | 15,697 | 19,600 | 25% increase per insurance agent |
| 7557 - General Liability | 15,800 | 15,928 | 16,700 | 5% increase per insurance agent |
| 7558 - D&O | 4,000 | 3,876 | 3,900 | No change per insurance agent |
| 7559 - Umbrella | 7,500 | 7,328 | 7,300 | No change per insurance agent |
| 7560 - Fidelity Bond | 2,500 | 2,336 | 2,300 | No change per insurance agent |
| 7570 - Plate Glass | 9,500 | 9,626 | 9,600 | No change per insurance agent |
| **Total Insurance** | **350,300** | **349,169** | **383,200** | |

## REPAIRS AND MAINTENANCE

Leon completes the Repairs and Maintenance accounts by using the primary method of projecting the total cost for the current year

- Using the information on the income and expense statement ending on September 30th
- Evaluating spending and inflation patterns over the past three years
- Identifying one time or extraordinary expenditures
- Reviewing and evaluating any applicable contracts
- Determining whether any special services or products are being planned for purchase during the next year

He also consults with the association's maintenance director and service providers for information relating to special problems with the buildings, facilities, equipment, and grounds that need to be funded in next year's budget.

Leon also reviews the past three years of maintenance records to identify recurring problems that may require additional funding from the operating section.

[16] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Insurance Policies Summary Chart."

Question:

In reviewing the trend data on the past years' income and expense report (Appendix C) and the most recent income and expense report (Appendix A)[17], do you see any accounts that have been under or over budgeted?

Which accounts have you identified and, based on this limited information, how much would you budget for the next fiscal year?

Appendix C
Repairs and Maintenance

| Past Years<br>Acct # - Account Name | Past Year 3 | Past Year 2 | Past Year 1 | 3 Yr Average | CY Projected |
|---|---|---|---|---|---|
| **Repairs & Maintenance** | | | | | |
| 7110 - Fire/Life Safety | 19,367 | 24,177 | 4,523 | 16,022 | 6,583 |
| 7115 - Generator | 1,109 | 967 | 1,201 | 1,092 | 1,336 |
| 7130 - Building | 52,001 | 52,798 | 55,689 | 53,496 | 58,576 |
| 7160 - Plumbing | 10,562 | 11,477 | 13,587 | 11,875 | 15,963 |
| 7165 - Supplies | 42,577 | 51,271 | 45,205 | 46,351 | 36,736 |
| 7180 - Front Gate | 1,125 | 1,345 | 1,350 | 1,273 | 1,304 |
| 7305 - Pool/Spa/Fountain | 3,953 | 4,211 | 4,632 | 4,265 | 4,888 |
| 7310 - Pool Furniture/Equipment | 3,113 | 5,396 | 186 | 2,898 | 157 |
| 7340 - HVAC | 9,682 | 10,112 | 10,021 | 9,938 | 11,025 |
| 7345 - Radios | 873 | 1,187 | 345 | 802 | 0 |
| 7350 - Uniforms | 639 | 638 | 671 | 649 | 828 |
| 7352 - Motorized Cart | 5,000 | 0 | 375 | 1,792 | 0 |
| 7354 - Landscape Improvements | 4,792 | 5,102 | 5,621 | 5,172 | 5,633 |
| **Total Repairs & Maintenance** | **157,794** | **168,681** | **143,406** | **150,455** | **143,030** |

Appendix A
Income and Expense Report

| Income & Expense<br>Account # - Account Name | CY Budget | YTD Budget | YTD Actual | Variance |
|---|---|---|---|---|
| **Repairs & Maintenance** | | | | |
| 7110 - Fire/Life Safety Equipment | 5,500 | 4,125 | 4,938 | (188) |
| 7125 - Generator | 1,000 | 750 | 1,002 | 252 |
| 7130 - Building | 60,000 | 45,000 | 43,932 | (1,068) |
| 7160 - Plumbing | 15,000 | 11,250 | 11,972 | 722 |
| 7165 - Supplies | 40,000 | 30,000 | 27,552 | (2,448) |
| 7180 - Gate Maintenance | 1,400 | 1,050 | 978 | (72) |
| 7330 - Pool/Spa/Fountain Repairs | 4,000 | 3,000 | 3,666 | 666 |
| 7335 - Pool Furniture | 3,000 | 2,250 | 118 | (2,132) |
| 7340 - HVAC | 15,000 | 11,250 | 10,131 | (1,119) |
| 7345 - Radios | 500 | 375 | 0 | (375) |
| 7350 · Uniforms | 1,000 | 750 | 621 | (129) |
| 7354 - Landscape Improvements | 5,500 | 4,125 | 4,225 | 100 |
| **Total Repairs & Maintenance** | **151,900** | **113,925** | **109,135** | **(5,791)** |

Question:

Let's see what Leon has decided, based on his review of this information. Look carefully at the highlight items on the next slide. Do you agree with Leon's decisions?

Remember, there is no right answer. Managers may arrive at different decisions from examining the same data. It is important that the proposed budget figures are supported by sound explanations and logical thinking.

## Appendix B – Repairs and Maintenance

Look carefully at the highlighted items in the section below.

| Repairs & Maintenance | | | | |
|---|---|---|---|---|
| 7110 - Fire/Life Safety Equipment | 5,500 | 6,583 | 4,700 | Capital Expenses charged in PY 2 & 3. Average PY 1 & CY is $4,700. |
| 7125 - Generator | 1,000 | 1,336 | 1,100 | 3-year average. |
| 7130 - Building | 60,000 | 58,576 | 61,500 | 5% increase from CY, based upon trend over last 3 years plus projected CY. Recommend creating subaccounts in FY |
| 7160 - Plumbing | 15,000 | 15,963 | 18,000 | Approximate average annual 12.6% increase over past 3 years plus projected CY, due to increasing water leaks. |
| 7165 - Supplies | 40,000 | 36,736 | 36,700 | Implemented inventory system; tighter controls in CY. Maintain CY level. Recommend creating subaccounts in FY. |
| 7180 - Front Gate | 1,400 | 1,304 | 1,300 | 3-year average |
| 7330 - Pool/Spa/Fountain Repairs | 4,000 | 4,888 | 5,200 | Trend of approximately 7% annual increase over 3 years plus projected CY. |
| 7335 - Pool Furniture/Equipment | 3,000 | 157 | 500 | Pool furniture in good condition |
| 7340 - HVAC | 15,000 | 11,025 | 11,300 | Approx. 2.5% annual increase over last 3 years plus projected CY |
| 7345 - Radios | 500 | 0 | 0 | Radios purchased 2 years ago; in good condition |
| 7350 - Uniforms | 1,000 | 828 | 700 | 3-year average |
| 7354 - Landscape Improvements | 5,500 | 5,633 | 11,000 | Planned replacement of ficus hedges with arbicola trinette |
| **Total Repairs & Maintenance** | **151,900** | **143,030** | **152,000** | |

[17] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix C" and "Appendix A."

## Salaries and Benefits

Leon begins estimating the salaries and benefits accounts by conferring with Luisa, the president of the board, on whether there are plans for any of the following:

- Across the board or individual pay increases or decreases
- Bonuses
- Additions or reductions in the number and type of salaried positions
- Retirements or separations
- Changes in benefits

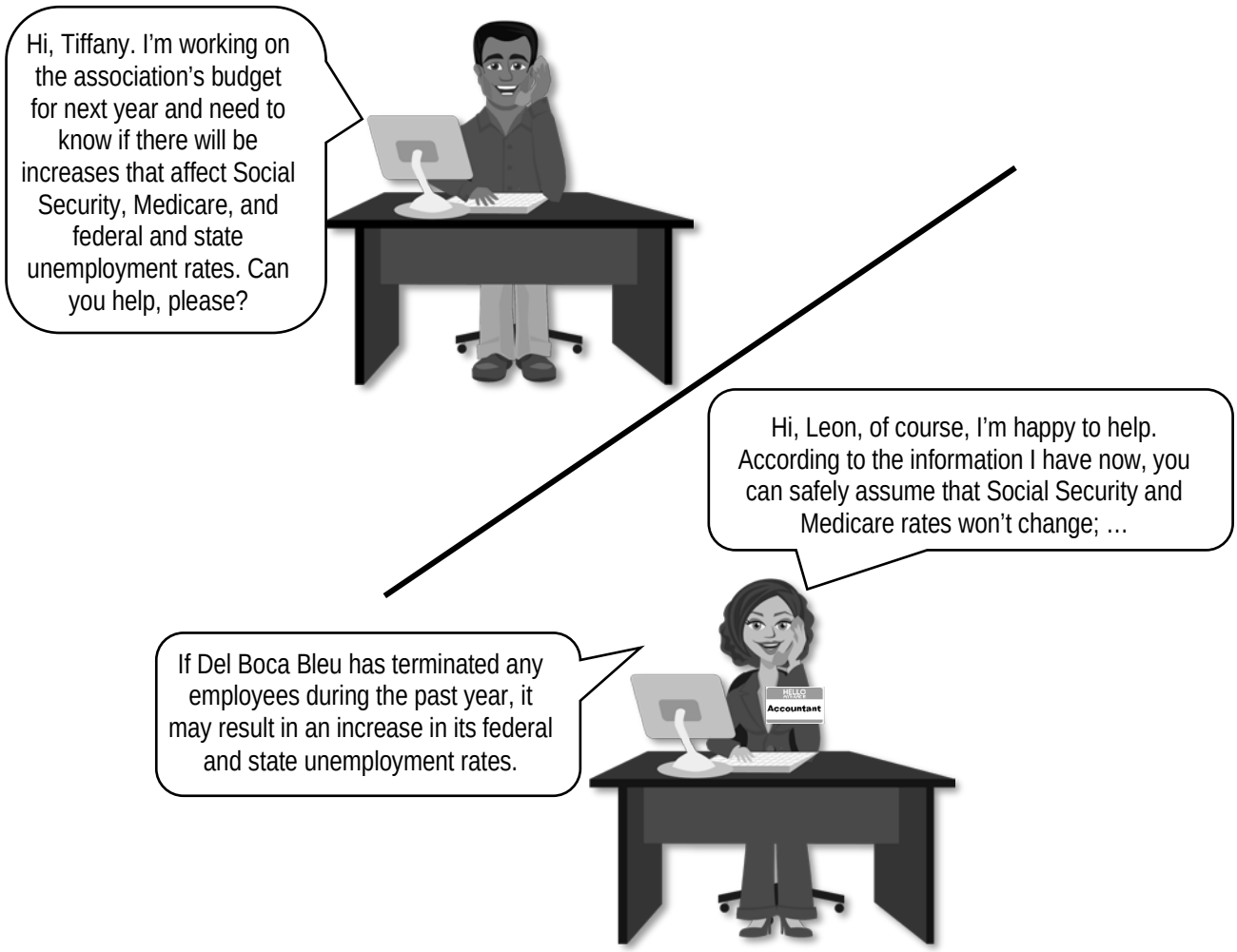
### Salaries

Realizing that salaries will be locked in when the budget is completed, he takes this opportunity to ask the president for a 10% salary increase, after describing his many accomplishments and cost savings initiatives.

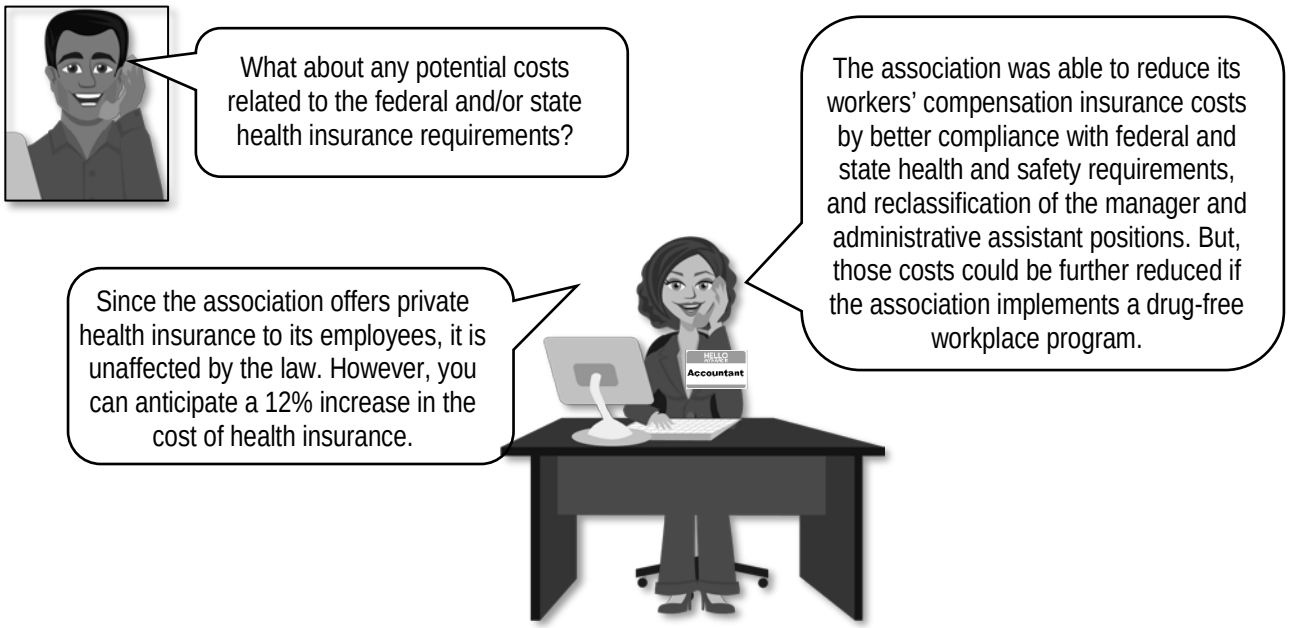
Luisa praises Leon for his good work and tells him that she will recommend the board approve a 5% increase.

### Taxes

Leon contacts the association's accountant, Tiffany Montero.



## Health Care




## Salaries and Benefits Worksheet

Leon consults with Luisa regarding the health insurance increase. She directs him to increase the association's share of health insurance by 5.6%.[18]

**Appendix E - Employee Salaries and Benefits**

**Del Boca Bleu Condominium Association**
**Employee Salaries & Benefits**

**Employee Salaries & Benefits**

| Projected CY | | Date of Hire | Salary | FICA/Medicare | FUTA | SUI | WC (e) | Health Ins. | Total |
|---|---|---|---|---|---|---|---|---|---|
| Manager | (a) | 5/1/CY | 38,750 | 2,964 | | | 3,712 | 1,304 | 46,730 |
| Former Manager | (b) | - - - | 24,500 | 1,874 | | | 2,347 | 1,304 | 30,025 |
| Admin. Asst. | (a) | 6/1/CY | 16,250 | 1,243 | | | 1,557 | 978 | 20,028 |
| Former Adm. Asst | (b) | - - - | 10,417 | 797 | | | 998 | 1,956 | 14,167 |
| Chief Engineer | | 3/1/XX | 40,147 | 3,071 | | | 3,846 | 3,911 | 50,976 |
| Pool Manager | | 3/21/XX | 22,818 | 1,746 | | | 2,186 | 3,911 | 30,661 |
| Maintenance | | 5/22/XX | 17,333 | 1,326 | | | 1,661 | | 20,320 |
| Maintenance | | 1/17/XX | 15,600 | 1,193 | | | 1,494 | | 18,288 |
| **Subtotal** | | | **185,815** | **14,215** | **940** | **1,750** | **17,801** | **13,363** | |
| | | | | **Total Taxes (f)** | | **16,905** | **9.58%** | | **231,194** |



## Utility Costs

In this section, we'll look at the following topics regarding budgeting for utility costs

- Electricity
- Telephone
- Consultant
- Projections

[18] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix E – Employee Salaries and Benefits Schedule."

## Electricity

Leon addresses utility costs by contacting each provider to determine if there are any planned or proposed rate increases. He also makes a similar inquiry to the state's Public Services Commission (PSC), regarding increases in the cost of electricity. Leon evaluates the past three years of cost information and notices significant increases in electricity.

| Past Years<br>Acct # - Account Name | Past Year 3 | Past Year 2 | Past Year 1 | 3 Yr Average | CY Projected |
|---|---|---|---|---|---|
| **Utilities** | | | | | |
| 7015 - Gas/Fuel Oil | 54,866 | 56,247 | 61,689 | 57,601 | 63,645 |
| 7020 - Water & Sewer | 242,581 | 239,416 | 234,628 | 238,875 | 226,668 |
| 7030 - Electricity | 226,320 | 231,978 | 234,298 | 230,865 | 239,000 |
| 7035 - Cable/Internet | 114,836 | 120,578 | 126,607 | 120,674 | 132,500 |
| 7540 - Telephone | 4,215 | 4,198 | 4,265 | 4,226 | 4,237 |
| **Total Utilities** | **669,559** | **652,417** | **661,487** | **652,241** | **666,051** |

### *FPL Inspection*

While speaking with FPL, they recommend methods to reduce expenses. The FPL representative schedules an inspection with an FPL consultant who will provide Leon with a report with recommendations to reduce electricity usage, along with an estimate of the projected savings derived from the implementation of each recommendation.

## Telephone

Leon also contacts the association's telephone service provider. Its representative submits a proposal that, Leon believes, will reduce telecommunications costs by approximately 10%.

## Consultant

Finally, Leon contacts a private consultant, recommended by a manager from a neighboring association, who is willing to perform a free evaluation of the association's utilities expenses in return for a percentage of any savings resulting from the implementation of his recommendations.

## Projections

Since Leon is working against a deadline, he decides to project utilities costs based on current year and historical trend information, as well as any relevant information he received from the previously named sources. He understands that the board should have the proposals available at the November 15 budget meeting and can make changes, if necessary, at that time.

Question:

Based on the Utilities section below, do you agree with Leon's budget for utilities cost? If not, how would you do it differently?

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| **Utilities** | | | | |
| 7015 - Gas/Fuel Oil | 65,000 | 63,645 | 65,600 | PY 2 includes cost of Hurricane fuel. Estimated 3 % increase over CY projection |
| 7020 - Water and Sewer | 250,000 | 226,668 | 232,300 | WASD projects 2.5% increase |
| 7030 - Electricity | 265,000 | 239,000 | 242,400 | 3-year average plus estimated 5% increase per Public Service Commission |
| 7035 - Cable and Internet | 132,500 | 132,500 | 139,100 | 5% increase per bulk contract |
| 7540 - Telephone | 4,200 | 4,237 | 4,200 | As per contract with AT&T |
| **Total Utilities** | **716,700** | **666,050** | **683,600** | |

## OPERATING CAPITAL

Our focus in this section is the following topics related to operating capital:

- Operating capital
- Budgetary income cushion
- Strategies
- Contingency account

### Operating Capital

Leon believes he has completed all the expense accounts that apply to Del Boca Bleu Condominium, with one exception, a statutorily required account listed as operating capital. He looks at the current year budget and he doesn't find an operating capital account. He asks himself, "What is operating capital?"

Leon goes to the definitions section in the statute and what does he find? Nothing, no definition of operating capital. He then remembers that the Division has a publication entitled *Budgets & Reserve Schedules, A Self-Study Manual*. The definition reads, "**Operating capital is simply a built in surplus to be included in the budget**."

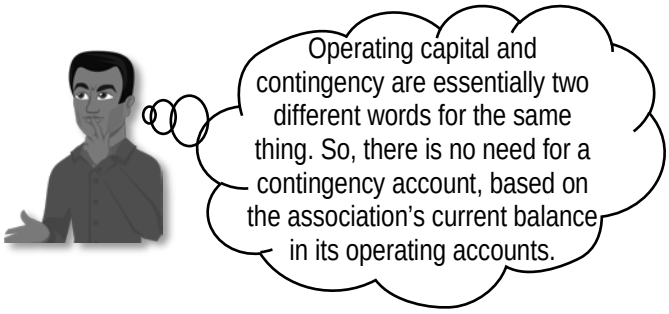
Leon contacts Tiffany to help him understand this concept.


### Budgetary Income Cushion

## Strategies


Leon knows that Del Boca Bleu has a surplus on its balance sheet and has almost three months of operating cash in its bank accounts. Therefore, he determines that there is no need for an Operating Capital account.

Leon recalls his discussion with Tiffany about the function of an operating capital account.




## Contingency Account

He returns to the current year's budget and notices that there is an Account 7105, titled Contingency, that has $5,000 budgeted for the current year, but nothing expended as of September 30. He checks the dictionary and discovers that contingency is defined as "a future event or circumstance that is possible but cannot be predicted with certainty." He understands that this account provides an opportunity for the association to budget funds if the total of estimated expenses exceeds that of estimated revenue, in other words a cushion.

## Reserve Basics

In this section, we'll find out about the following topics regarding reserve basics in our budgeting task.

- The reserve section
- The reserves according to Florida statutes
- The reserve schedule
- Prepare the applicable reserve schedule
- Calculate the reserves
- Exercises

**Note**

The reserve appears as a single limit item or account on the budget. However, each component of the reserve schedule, such as roof, will appear as a separate account on the balance sheet and will be referred to as accounts in the text.

## The Reserve Section

As previously discussed, the amount budgeted for reserves appear as a single line item, separate from the operating accounts. A reserve schedule is attached to the budget, which illustrates the method by which the amount is calculated. The method of developing the schedule will be discussed later in the course.

Leon has now completed the expense section of the budget, with the exception of Account 7610, Reserves. He has made sure that a written explanation of the basis for each of his projections appears next to each account on his spreadsheet. He now turns his attention to the reserve section of the annual budget

## The Reserve According to Florida Statutes

Before we proceed with the revenue section, please review this table to understand how the reserves[19] are handled according to the Florida statutes for each association type.

| | Reserves According to Florida Statutes | | |
|---|---|---|---|
| | **Condo and Coop Acts** F.S. 718.112(2)(f); F.S. 719.106(1)(j) | **HOA Act** F.S. 720.303(6) | **Timeshare Act** F.S. 721.13(3)(c) |
| **Accounts** | Require associations to have and fund reserve accounts for:<br>• Painting<br>• Pavement resurfacing<br>• Roof replacement<br>• Items that are estimated to cost $10,000 to replace or to perform deferred maintenance | Requires associations to fund any reserve that appears in the prior year | Requires accounts for:<br>• Roof replacement<br>• Building painting<br>• Pavement resurfacing<br>• Replacement of timeshare unit furnishing and equipment<br>• Any other component for which the useful life is less than the useful life of the overall structure |
| **Additions** | Boards may add and fund other reserve accounts, unless otherwise stated in their documents | Requires a majority of the total voting interests (TVI) at a duly noticed and quorumed membership meeting to add or delete reserve accounts | Managing entities may add and fund other reserve accounts, unless otherwise stated in their documents |
| **Transfers** | Prohibits funds in one reserve account from being transferred to another reserve account without an affirmative vote of the members at a properly noticed and quorumed membership meeting | Prohibits funds in one reserve account from being transferred to another reserve account without an affirmative vote of the members at a properly noticed and quorumed membership meeting | Managing entity is permitted to transfer funds without the consent of the board or the members |

## The Reserve Schedule

A reserve schedule must be prepared on an annual basis. The schedule is always based on "today's" dollars, with no projected inflation. That is, because the schedule is updated every year, any increases (or decreases) in a reserve account are reflected in that year's estimates.

The schedule is a required attachment to the proposed annual budget (based on the Reserves According to Florida Statutes). The schedule is used to determine the amount of reserve funding for each account for the next fiscal year. Associations must define each account in a footnote on the reserve schedule.

For example, the roofing replacement account could be defined as major repairs, roof replacement, replacement of fascia, flashing, and other roofing related materials, engineering costs for roof specifications preparation, cost of permits, and administrative overhead (such as notices, special financial record keeping, etc.).

### *Schedule Establishment Methods*

There are two methods that can be used by associations in establishing their reserve schedules;

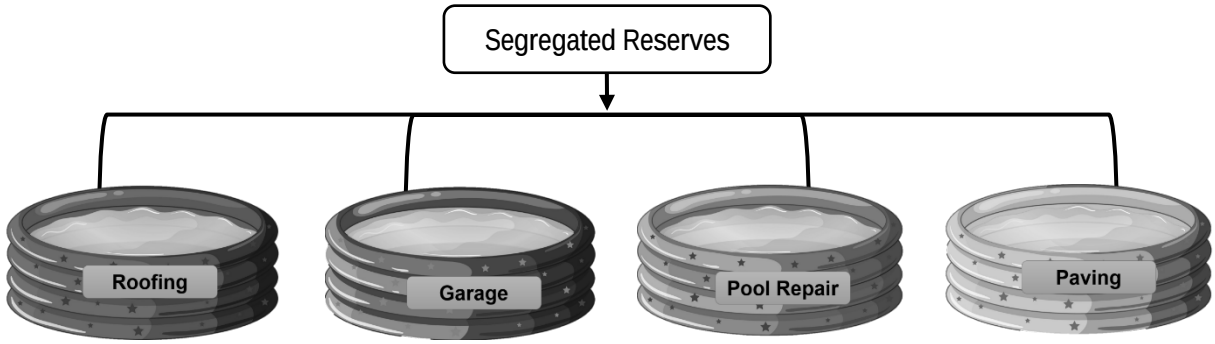
- Segregated
- Pooled[20]

[19] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Reserves According to Florida Statutes".

[20] The pooled method is beyond the scope of this CE course, so we only cover the segregated method.

Segregated

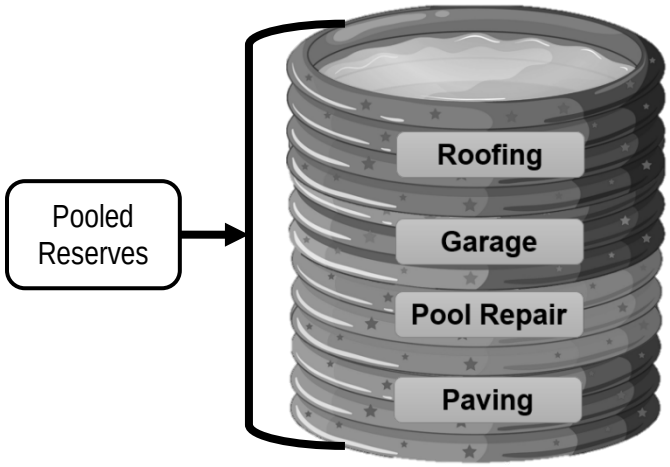
The first, and most common, is the **segregated** method (also known as the **straight-line** method), in which funding for each account is determined by a simple formula. The segregated method prohibits the use of funds allocated to a specific reserve account to be spent for any purpose other than the purpose defined by that specific account, without a vote of the members. For example, funds allocated to the roofing account cannot be used for paving roadways.




Pooled

The other method is referred to as **pooled** reserves (also known as the **cash-flow** method). Associations using pooled reserves are able to spend funds from a single reserve fund that includes all funds set aside for capital projects and deferred maintenance.

Pooled reserves have the advantage of flexibility, and frequently require less funding than the segregated method.




Changing Methods

All community associations must have an affirmative vote of the members to change from the segregated method to the pooled method.

The motion to adopt pooled reserves should include wording to the effect that the revision applies to the current reserve funds as well as future inflows.

### *Develop the Schedule*

To develop the reserve schedule properly, regardless of method, the manager needs to have the following:

- An accurate estimate of the useful life of each reserve account
- The estimated remaining useful life
- The current replacement cost

An individual reserve account might include multiple components.

For example, if an association has created an HVAC account, it will need to be able to estimate the useful life, remaining useful life, and replacement cost of each of its components.

HVAC components could include cooling towers, compressors, air handlers, and many other items, depending on the type and complexity of the system.

*The Reserve Study*

**Reserve study:** A reserve study is an in-depth evaluation of a property's physical components and an analysis of its reserve funds. It is based on a thorough on-site inspection by certified professional, including reserve specialists, engineers, CAM, and/or accountants. Associations should only utilize a professional has been certified to perform reserve studies. A custom reserve study details anticipated replacements or repairs to common area elements and recommends annual reserve funding to cover capital expenditures and deferred maintenance for the next thirty or more years.

The required information to complete the reserve section of the budget is most easily obtained from a reserve study that is prepared by a qualified specialist and updated on an annual basis.

Alternatively, the information could be obtained from authorized dealers or service providers.

The first approach can be expensive, especially for a cash strapped association. The second approach is time consuming.

**Note**

The complexity of calculating a multi-component reserve schedule is beyond the scope of this course. Interested students can obtain a sample multi-component reserve online at GCPS Student Resources, Downloads & Links (CAM).

## PREPARE THE RESERVE SCHEDULE

In this section, we'll study the following topics related to the preparation of the applicable (segregated or pooled) reserve schedule:[21]

- Overview
- Allocation of reserve interest
- Segregated reserve method
- Segregated reserve exercises
- How to estimate revenue

## Overview

The manager must project the balance in each reserve account as of the end of the fiscal year. In the case of our fictional property, Del Boca Bleu, the fiscal year ends on December 31st. It can initially be calculated by multiplying the monthly funding of each account by the remaining months in the fiscal year and by subtracting any anticipated expenditure.

If the reserve funds are maintained in an interest bearing account or accounts, the projected end of year interest must be allocated to each reserve account on the same proportional basis as currently budgeted.

[21] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix G - Capital Expenditure Reserves" to assist you throughout this section.

## Allocation of Reserve Interest[22]

The projected end-of-year balance, therefore, is the total of the remaining months of funding, less anticipated expenditures, plus the allocated interest.

**Del Boca Bleu Condominium Association**
**Allocation of Reserve Interest ***

| | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|
| **Acct # - Account Name** | **Est. Replacement Cost** | **Est. EOY Balance w/o Interest** | **% Replacement Cost of Total (a)** | **Est. Interest Allocation **** | **Total Est. EOY Balance w/Interest** |
| 2541 - Painting | 200,000 | 12,273 | 23.53% | 207 | 12,480 |
| 2542 - Paving | 112,000 | 26,701 | 13.18% | 116 | 26,817 |
| 2543 - Roof | 206,000 | 29,344 | 24.24% | 213 | 29,557 |
| 2544 - Pool resurfacing | 20,000 | 17,702 | 2.35% | 21 | 17,723 |
| 2545 - Elevators | 252,000 | 29,344 | 29.65% | 260 | 29,605 |
| 2546 - Plumbing | 60,000 | 10,424 | 7.06% | 62 | 10,486 |
| | | | | | |
| **Total** | **850,000** | **125,789** | **100%** | **878** | **126,667** |

**** Anticipated Interest for reserves** **$878**

(a) Percentage interest for each account is determined by taking the estimated replacement cost of the item, and dividing by the total replacement cost of each item. For instance, $200,000/$850,000 is 23.53% of the total
* The reserve schedules provided in this course are for illustration only, to demonstrate how interest is allocated among the reserve accounts.
** Using Interest for reserves from the balance sheet, divided by 9 months, times 12 months

Interest is allocated at the close of the CY books, to specific accounts, by % of estimated replacement cost for each account of total replacement cost.

Note: We have omitted definitions of reserve accounts in this example.

## Segregated Reserve Method

But first, Leon knows that Del Boca Bleu uses the segregated method. Lacking a reserve study with which he could enter the applicable information, he contacts the service providers and a structural engineer previously employed by the association to determine the condition of the structures and equipment, estimate the useful life and remaining useful life, and the replacement cost of each item.

### *Fully or Partially Funded*

As a rookie manager, Leon should be reminded that the reserve funding he enters must **fully fund the current replacement cost for all reserve accounts**.

This is referred to as **fully funding** the reserves.

**Del Boca Bleu Condominium Association**
**Next FY Reserve Schedule**
**Fully Funded and Optional 50% Funding**

| **Acct. # - Account Name** | **Estimated Life** | **Remaining Life** | **Estimated Replacement Cost** | **Estimated EOY Balance** | **Fully Funded** | **Rec. Funding (50%)** |
|---|---|---|---|---|---|---|
| 2541 - Painting | 7 | 7 | 200,000 | 12,480 | | |
| 2542 - Paving | 15 | 11 | 112,000 | 26,817 | | |
| 2543 - Roof | 30 | 8 | 206,000 | 29,557 | | |
| 2544 - Pool resurfacing | 10 | 1 | 20,000 | 17,723 | | |
| 2545 - Elevators | 25 | 5 | 252,000 | 29,605 | | |
| 2546 - Plumbing | 30 | 12 | 60,000 | 10,486 | | |
| **Total** | | | **850,000** | **126,667** | | |
| | | | | Rounded to nearest 100 | | |

For an association to partially fund or entirely waive funding for some or all of the reserve accounts, an affirmative vote of the majority of members at a duly called and quorumed member meeting is required. In the current year, Luisa has directed Leon to provide an alternative budget funding the reserves at a 50% level. Therefore, Leon must post a notice for a member meeting to consider partially funding reserves, immediately preceding the Board budget meeting.

[22] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix F – Allocation of Reserve Interest"

Failure to pass a motion to fund the reserves at 50% will result in reserves being budgeted at 100% of required funding (fully funded). On the proposed budget, Leon must show the ***fully funded*** reserves and ***50% funding*** of the reserves (two separate columns). Please note that the full funding requirement applies to condominiums, cooperatives, and timeshares. HOAs are required to fund their reserves at the same level as the current year, unless reduced or waived by vote of the members.

*Segregated Reserve Method*[23]

Let's proceed with the steps to prepare a single component, segregated reserve schedule.

**STEP 1**

Enter the reserve accounts in column 1.

| Column 1<br>Reserve Items | Column 2<br>Estimated Total Useful Life<br>(in years) | Column 3<br>Estimated Remaining Useful Life<br>(in years) | Column 4<br>Estimated Cost for Deferred Maintenance or Capital Expenditure<br>($) | Column 5<br>Estimated Fund Balance as of 01-01-FY<br>($) | Column 6<br>Annual Funding<br>($) |
|---|---|---|---|---|---|
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting*' | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

**STEP 2**

Enter the estimated total useful life in years for each account in column 2.

| Column 1<br>Reserve Items | Column 2<br>Estimated Total Useful Life<br>(in years) | Column 3<br>Estimated Remaining Useful Life<br>(in years) | Column 4<br>Estimated Cost for Deferred Maintenance or Capital Expenditure<br>($) | Column 5<br>Estimated Fund Balance as of 01-01-FY<br>($) | Column 6<br>Annual Funding<br>($) |
|---|---|---|---|---|---|
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting*' | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

[23] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix G"

**STEP 3**

Enter the estimated remaining useful life in years for each account in column 3.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life | Estimated Remaining Useful Life | Estimated Cost for Deferred Maintenance or Capital Expenditure | Estimated Fund Balance as of 01-01-FY | Annual Funding |
| | (in years) | (in years) | ($) | ($) | ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

**STEP 4**

Enter the replaceme nt cost in column 4.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life | Estimated Remaining Useful Life | Estimated Cost for Deferred Maintenance or Capital Expenditure | Estimated Fund Balance as of 01-01-FY | Annual Funding |
| | (in years) | (in years) | ($) | ($) | ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

**STEP 5**

Enter the estimated fund balance as of the end of the fiscal year in column 5.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life | Estimated Remaining Useful Life | Estimated Cost for Deferred Maintenance or Capital Expenditure | Estimated Fund Balance as of 01-01-FY | Annual Funding |
| | (in years) | (in years) | ($) | ($) | ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

**STEP 6**

Subtract the projected end of year balance (in column 5) from the replacement value (in column 4).

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life (in years) | Estimated Remaining Useful Life (in years) | Estimated Cost for Deferred Maintenance or Capital Expenditure ($) | Estimated Fund Balance as of 01-01-FY ($) | Annual Funding ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

450,000
-164,325
285,675

**Note**

The remainder will not appear on the reserve schedule.

**STEP 7**

Divide that number by the number of years of the remaining useful life in column 3.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life (in years) | Estimated Remaining Useful Life (in years) | Estimated Cost for Deferred Maintenance or Capital Expenditure ($) | Estimated Fund Balance as of 01-01-FY ($) | Annual Funding ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

285,675
÷ 15
19,045

**STEP 8**

Enter the sum of annual funding in column 6.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life (in years) | Estimated Remaining Useful Life (in years) | Estimated Cost for Deferred Maintenance or Capital Expenditure ($) | Estimated Fund Balance as of 01-01-FY ($) | Annual Funding ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |
| Building Painting** | 8 | 2 | 200,000 | 202,000 | 0 |
| Elevator Repair & Modernization | 25 | 20 | 150,000 | 32,400 | 5,880 |
| Total | --- | --- | 825,000 | 393,590 | 30,952 |

285,675
÷ 15
19.045

**STEP 9**

Repeat steps 1 through 8 for each reserve account.

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 |
|---|---|---|---|---|---|
| Reserve Items | Estimated Total Useful Life | Estimated Remaining Useful Life | Estimated Cost for Deferred Maintenance or Capital Expenditure | Estimated Fund Balance as of 01-01-FY | Annual Funding |
| | (in years) | (in years) | ($) | ($) | ($) |
| Roof Repair & Replacement | 20 | 15 | 450,000 | 164,325 | 19,045 |
| Pavement Repair & Resurfacing* | 7 | 5 | 25,000 | -5,135 | 6,027 |

**Full equation:**

Estimated replacement cost - end of year balance / # of remaining years of useful life = annual funding.

*Segregated Method Review*

For this instruction, we'll use the painting reserve account.

1. Take the estimated replacement (or deferred maintenance) cost of each item in the pool
2. Subtract the estimated end-of-year (EOY) balance in the pooled account
3. Divide by the **remaining life** in the schedule
4. To calculate the next FY funding.

200,000 - 22,008 = 177,992

177,992 / 7 = 25,427

That amount appears as the annual reserve requirements for all of the years in the schedule.

**Del Boca Bleu Condominium Association**
**Next FY Reserve Schedule***

| Acct. # - Account Name | Estimated Life | ❸ Remaining Life | ❶ Estimated Replacement Cost | ❷ Estimated EOY Balance | ❹ Next FY Funding** |
|---|---|---|---|---|---|
| 2541 - Painting | 7 | 7 | 200,000 | 22,008 | 25,427 |
| 2542 - Paving | 15 | 11 | 112,000 | 13,277 | 8,975 |
| 2543 - Roof | 30 | 8 | 206,000 | 22,008 | 22,999 |
| 2544 - Pool resurfacing | 10 | 1 | 20,000 | 7,818 | 12,182 |
| 2545 - Elevators | 25 | 5 | 252,000 | 659 | 50,268 |
| 2546 - Plumbing | 30 | 12 | 60,000 | 95,001 | (2,917) |
| **Total** | | | **850,000** | **160,770** | **116,935** |

* The reserve schedule provided is for illustration only, to demonstrate how the formula for calculating annual reserve contributions. It is not intended to be inclusive of all required reserve items. See component reserve sample at GCPS online.
** Rounded to nearest 100.

Interest is allocated in December of every year to specific accounts, by each % estimated replacement cost of total replacement cost.

Now let's perform the reserve calculation for the paving account.

112,000 - 13,277 = 98,723

98,723 / 11 = 8,975

**Del Boca Bleu Condominium Association**
**Next FY Reserve Schedule***

| Acct. # - Account Name | Estimated Life | ❸ Remaining Life | ❶ Estimated Replacement Cost | ❷ Estimated EOY Balance | ❹ Next FY Funding** |
|---|---|---|---|---|---|
| 2541 - Painting | 7 | 7 | 200,000 | 22,008 | 25,427 |
| 2542 - Paving | 15 | 11 | 112,000 | 13,277 | 8,975 |
| 2543 - Roof | 30 | 8 | 206,000 | 22,008 | 22,999 |
| 2544 - Pool resurfacing | 10 | 1 | 20,000 | 7,818 | 12,182 |
| 2545 - Elevators | 25 | 5 | 252,000 | 659 | 50,268 |
| 2546 - Plumbing | 30 | 12 | 60,000 | 95,001 | (2,917) |
| **Total** | | | **850,000** | **160,770** | **116,935** |

* The reserve schedule provided is for illustration only, to demonstrate how the formula for calculating annual reserve contributions. It is not intended to be inclusive of all required reserve items. See component reserve sample at GCPS online.
** Rounded to nearest 100.

Interest is allocated in December of every year to specific accounts, by each % estimated replacement cost of total replacement cost.

## Segregated Reserve Exercise

Now that we know how to calculate the reserves, lets help Leon finish this task.

Review **Appendix F**[24] carefully. Note that Leon has included the estimated EOY interest in his calculations, pursuant to the Del Boca Bleu policy of allocating reserve interest proportionally to each reserve account.

112,000 – 26,817 = 86,813

86,813 / 11 = 7,744 * 50% = 3,872

*Exercise – Fully Funded Reserves*

Calculate the fully funded and 50% funded reserve amount for each account. (We've given you the first two.)

**Appendix Ia - Segregated Reserve Worksheet**

**Del Boca Bleu Condominium Association**
**Next FY Reserve Schedule**
**Fully Funded and Optional 50% Funding**

| Acct. # - Account Name | Estimated Life | Remaining Life | Estimated Replacement Cost | Estimated EOY Balance | Fully Funded | Rec. Funding (50%) |
|---|---|---|---|---|---|---|
| 2541 - Painting | 7 | 7 | 200,000 | 12,480 | 26,789 | 13,394 |
| 2542 - Paving | 15 | 11 | 112,000 | 26,817 | 7,744 | 3,872 |
| 2543 - Roof | 30 | 8 | 206,000 | 29,557 | | |
| 2544 - Pool resurfacing | 10 | 1 | 20,000 | 17,723 | | |
| 2545 - Elevators | 25 | 5 | 252,000 | 29,605 | | |
| 2546 - Plumbing | 30 | 12 | 60,000 | 10,486 | | |
| **Total** | | | **850,000** | **126,667** | | |

*Exercise – Fully Funded Reserves Answers*

Your answers should reflect those on the worksheet in yellow.

**Appendix H - Segregated Reserve Answers**

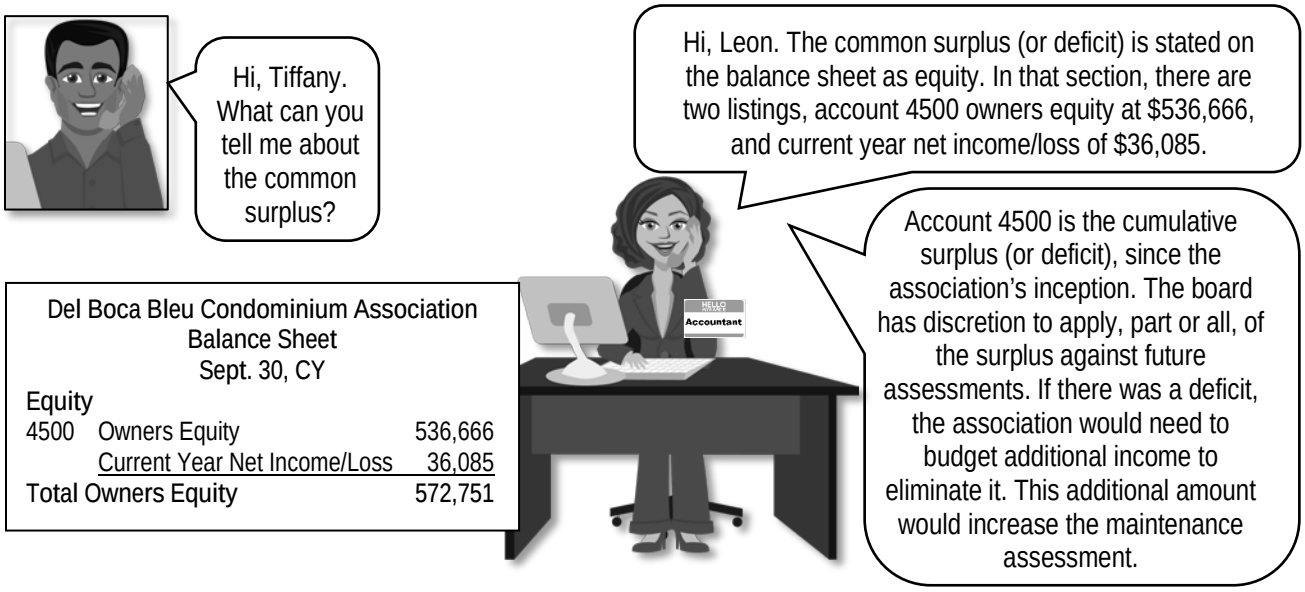
**Del Boca Bleu Condominium Association**
**Next FY Reserve Schedule**
**Fully Funded and Optional 50% Funding**

| Acct. # - Account Name | Estimated Life | Remaining Life | Estimated Replacement Cost | Estimated EOY Balance | Fully Funded | Rec. Funding (50%) |
|---|---|---|---|---|---|---|
| 2541 - Painting | 7 | 7 | 200,000 | 12,480 | 26,789 | 13,394 |
| 2542 - Paving | 15 | 11 | 112,000 | 26,817 | 7,744 | 3,872 |
| 2543 - Roof | 30 | 8 | 206,000 | 29,557 | 22,055 | 11,028 |
| 2544 - Pool resurfacing | 10 | 1 | 20,000 | 17,723 | 2,277 | 1,139 |
| 2545 - Elevators | 25 | 5 | 252,000 | 29,605 | 44,479 | 22,240 |
| 2546 - Plumbing | 30 | 12 | 60,000 | 10,486 | 4,126 | 2,063 |
| **Total** | | | **850,000** | **126,667** | **107,470** | **53,735** |

[24] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix F - Allocation of Reserve Interest" to assist you throughout this section.

## How to Estimate Revenue

Leon is ready to estimate the association's annual revenue. He remembers that there is something referred to as a **common surplus** or **carry-over** but he's not certain of this meaning. He knows that at the end of the fiscal year the association will have either a surplus or deficit. But does this affect the next year's budget?




Del Boca Bleu Condominium Association
Balance Sheet
Sept. 30, CY

| | | |
|---|---|---|
| Equity | | |
| 4500 | Owners Equity | 536,666 |
| | Current Year Net Income/Loss | 36,085 |
| Total Owners Equity | | 572,751 |

Leon discusses the options with Luisa, who advises him not to include the equity as a credit in the proposed budget. The surplus provides an adequate cushion in case of unanticipated expenses.

Leon then reviews each of the current year non-assessment accounts, projects end of year balances, and then estimates the next year's revenue, describing his rationale on the budget worksheet.

Question:

Here's Leon's revenue estimation worksheet. Do you agree with his calculations?

| Acct # - Account Name | CY Budget | Projected EOY | Proposed Budget FY Fully Funded Reserves | Comments |
|---|---|---|---|---|
| Income | | | | |
| 6010 - Maintenance Assessment | 1,987,600 | 1,987,600 | | |
| 6020 - Cable TV/Internet Assessment | 133,700 | 133,706 | | |
| 6031 - Storage Income | 12,000 | 10,135 | 10,100 | CY decrease from 3 year average. Maintain CY level. |
| 6050 - Screening Fees | 1,600 | 1,600 | 1,300 | 3-year average |
| 6055 - Estoppel/Quest. Fees | 900 | 1,600 | 1,600 | 11.9% CY decrease from 3-year average. Maintain CY level. |
| 6056 - Parking | 18,000 | 13,813 | 13,800 | CY decrease from 3-year average. Maintain CY level. |
| 6057 - Moving Fees | 1,000 | 2,333 | 1,500 | 3-year average |
| 6060 - Miscellaneous Income | 7,000 | 1,219 | 1,200 | CY decrease from 3-year average. Maintain CY level. |
| 6062 - Returned Check Fees | 100 | 75 | 100 | 3-year average |
| 6065 - Fines | 2,000 | 1,300 | 1,300 | 3-year average |
| 6070 - Vending Machine Income | 400 | 547 | 500 | 3-year average |
| 6095 - Clubhouse Rental | 500 | 550 | 600 | Decreasing revenue trend. Recommend review Clubhouse Rental Policies. |
| 6100 - Late Fees | 4,000 | 2,500 | 2,500 | CY decrease from 3-year average. Maintain CY level. |
| 7010 - Interest Income | 3,000 | 2,829 | 2,800 | .5% interest on operating cash accounts |
| **Total Income** | **2,171,800** | **2,159,807** | | |

## *How to Calculate Maintenance Assessments*

Leon is ready to calculate the maintenance assessments for next year.

Calculation:

Leon subtracts the amount of non-assessment revenue from the total amount of expenses, including reserves, to obtain the total maintenance assessment.

| Acct # - Account Name | Proposed Budget FY Fully Funded Reserves |
|---|---|
| Income | |
| Total Expenses | 2,202,900 |
| Less Total Other Income | (37,300) |
| Total Assessments Needed | 2,165,600 |
| Divided by 217 Units (Annual) | 9,979.72 |
| Divided 12 Months (Monthly) | 831.64 |
| **Monthly Assessment per Unit** | **831.64** |

Calculate the Maintenance Assessment

Calculation:

He then divides that number by the number of units to determine the annual cost for each unit.

2,165,600
÷ 217
9,979.72

| Acct # - Account Name | Proposed Budget FY Fully Funded Reserves |
|---|---|
| Income | |
| Total Expenses | 2,202,900 |
| Less Total Other Income | (37,300) |
| Total Assessments Needed | 2,165,600 |
| Divided by 217 Units (Annual) | 9,979.72 |
| Divided 12 Months (Monthly) | 831.64 |
| **Monthly Assessment per Unit** | **831.64** |

Calculation:

Finally, he divides that number by the required frequency of payments to determine the monthly maintenance payment for each unit.

9,979.72
÷ 12
831.64

| Acct # - Account Name | Proposed Budget FY Fully Funded Reserves |
|---|---|
| Income | |
| Total Expenses | 2,202,900 |
| Less Total Other Income | (37,300) |
| Total Assessments Needed | 2,165,600 |
| Divided by 217 Units (Annual) | 9,979.72 |
| Divided 12 Months (Monthly) | 831.64 |
| **Monthly Assessment per Unit** | **831.64** |

Did Leon calculate the assessments correctly?

### *Determine the Assessment Allocation*

Leon is feeling pretty good about himself. He believes he has successfully prepared his first community association budget and is ready to present it to Luisa for her review and approval. But is he really ready? Leon decides to play it safe and review the legal statutes, administrative rules, and document requirements for allocating the assessment.

#### The Declaration

First, Leon reviews the association's declaration and finds that it apportions the annual assessment based on the proportional square footage of each unit. He finds a schedule that provides the percentage of the assessment for each type of unit.

Declaration

| Del Boca Bleu Condominium Association Assessment Percentage by Type Unit | | | |
|---|---|---|---|
| **Type** | **# of Units** | **%** | **Total %** |
| A | 55 | 0.42060% | 23.133% |
| B | 57 | 0.50000% | 28.500% |
| C | 55 | 0.35213% | 19.367% |
| D | 38 | 0.55000% | 20.900% |
| E | 12 | 0.67500% | 8.100% |
| **Total Units** | **217** | | **100.000%** |

#### The Statutes

Next, to determine the correct assessment allocation, Leon must find out the legal requirements.

He immediately discovers that F.S. 718.115(2) requires that the allocation of each unit's assessment amount be based upon the declaration of condominium.[25]

Leon then discovers that association owned units are excluded from the assessment calculation.[26] He remembers that the association had foreclosed on two units last April but both had been recently purchased by new residents.

Finally, he learns that F.S. 718.115(1)(d)2[27] provides that, if an owner is legally blind or hearing impaired and does not occupy the unit with a sighted or hearing person, or is receiving food stamps or supplemental security income under Title XVI of the Social Security Act, he or she may request an exclusion from receiving and being charged for television or internet service provided under a bulk service contract without penalty or charge.

The statute states that the expenses for the bulk telecommunication service contract are then to be shared by the remaining members of the association. Leon researches the files and determines that two members have invoked the statute and are not being charged for the service. He further discovers that if telecommunications services are provided for in the documents, the cost is allocated the same as all other common expenses.[28] If the documents are silent, the costs are allocated equally for each unit. Leon determines that La Boca Bleu's documents are silent. Let's help Leon with the assessment.

### *Calculate the Reserve Assessment*

Leon finds a chart for calculating the assessment for the CY. He uses that chart to develop a blank one on which he can calculate the FY proposed assessment, with a fully funded reserve, and a 50% reserve.

[25] Cooperatives: F.S. 719.106 (G); Homeowners: F.S. 720.308(1); Timeshares: F.S. 721.15 (1)(a) & (b)
[26] F.S. 718.116 (1) (a) 2
[27] Cooperatives: F.S. 719.107 (1) (b) 2; Homeowners: F.S. 720.309 (2) (b); Timeshares: F.S. 721 is silent.
[28] Condominiums: F.S. 718.115 (1) (d); Cooperatives: F.S. 719.107 (1) (b); Homeowners: F.S. 720.309 (2); Timeshares: F.S. 721 is silent.

Calculation:

Let's help Leon calculate the reserves, based on the information he has just learned. Please use the chart below.

| Proposed Budget FY - Fully Funded Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Per Unit | | | | |
| Type | # of Units | % | Operating FY | Cable/ Internet FY | Subtotal Operating FY | Reserve FY | Total FY |
| A | 55 | 0.42060% | | | | | |
| B | 57 | 0.50000% | | | | | |
| C | 55 | 0.35213% | | | | | |
| D | 38 | 0.55000% | | | | | |
| E | 12 | 0.67500% | | | | | |
| Total Units | 217 | | | | | | |

Let's start with Cable/Internet. This has been budgeted at $139,100. Leon divides the cost equally among the members (with the exception of two exempt members).

139,100 / 215 = 646.98 / 12 = **$53.91**

| Proposed Budget FY - Fully Funded Reserves | | | | |
|---|---|---|---|---|
| Type | # of Units | % | Operating FY | Cable/ Internet FY |
| A | 55 | 0.42060% | | **$53.91** |
| B | 57 | 0.50000% | | **53.91** |
| C | 55 | 0.35213% | | **53.91** |
| D | 38 | 0.55000% | | **53.91** |
| E | 12 | 0.67500% | | **53.91** |
| Total Units | 217 | | | |

Leon enters $53.91 for each type of unit.

Leon then calculates the amount per owner for reserves. In this case, he must use the % stated for each unit type. Let's help Leon with type A units:

Reserves = $107,500 x .42060% (.0042060) = $452.15 / 12 = **$37.68**

| Proposed Budget FY - Fully Funded Reserves | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Per Unit | | |
| Type | # of Units | % | Operating FY | Cable/ Internet FY | Subtotal Operating FY | Reserve FY |
| A | 55 | 0.42060% | | $53.91 | | **$37.68** |
| B | 57 | 0.50000% | | 53.91 | | |
| C | 55 | 0.35213% | | 53.91 | | |
| D | 38 | 0.55000% | | 53.91 | | |
| E | 12 | 0.67500% | | 53.91 | | |
| Total Units | 217 | | | | | |

Leon enters that amount in the reserve amount for Type A unit.

Lastly, Leon calculates the amount for the operating budget, without cable.

2,165,600 less cable 139,100 = 2,026,500 less reserves 107,500 = 1,919,000

1,919,000 x .42060% (.0042060) = $8,071.31 / 12 = **$672.61**

| Proposed Budget FY - Fully Funded Reserves | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Per Unit | | |
| Type | # of Units | % | Operating FY | Cable/ Internet FY | Subtotal Operating FY | Reserve FY |
| A | 55 | 0.42060% | **$672.61** | $53.91 | | $37.68 |
| B | 57 | 0.50000% | | 53.91 | | |
| C | 55 | 0.35213% | | 53.91 | | |
| D | 38 | 0.55000% | | 53.91 | | |
| E | 12 | 0.67500% | | 53.91 | | |
| Total Units | 217 | | | | | |

### *Determine Correct Assessment*

In Appendix L[29], we provide a chart of assessments that show:

- The calculation for the current year (CY) budget
- The calculation for the proposed budget year with fully funded reserves
- The calculation for the recommended budget, with reserves funded at 50% level

Appendix L - Proposed Assessments

Del Boca Bleu Condominium Association, Inc.
Proposed Assessments 1/1/FY - 12/31/FY

| CY Assessments | | | | Per Unit Per Month | | | | | Per Unit Annually |
|---|---|---|---|---|---|---|---|---|---|
| Type | # of Units | % | Total % | Operating CY | Cable/ Internet CY* | Subtotal Operating CY | Reserve CY | Total CY | |
| A | 55 | 0.42060% | 23.133% | 682.79 | 50.47 | 733.26 | 15.77 | 749.03 | 8,988.35 |
| B | 57 | 0.50000% | 28.500% | 811.69 | 50.47 | 862.15 | 18.75 | 880.90 | 10,570.83 |
| C | 55 | 0.35213% | 19.367% | 571.64 | 50.47 | 622.10 | 13.20 | 635.31 | 7,623.71 |
| D | 38 | 0.55000% | 20.900% | 892.86 | 50.47 | 943.32 | 20.63 | 963.95 | 11,567.36 |
| E | 12 | 0.67500% | 8.100% | 1,095.78 | 50.47 | 1,146.24 | 25.31 | 1,171.56 | 14,058.67 |
| Total Units | 217 | | 100.000% | | | | | | |

Here, you can see that Leon has also calculated the percentage difference between the operating assessment for the current year and the operating assessment for the proposed budget year. The operating assessment is actually 1.03% less.

The owners will not request an alternative budget, and Luisa will be very happy with Leon's budget.

## Conclusion

The board was very happy with the budget Leon prepared with your assistance. And, Leon received his 5% raise.

**Calculation of Percentage Increase over CY**

| | CY | FY | FY Rec. |
|---|---|---|---|
| Total Revenues | 2,171,800 | 2,202,900 | 2,149,150 |
| Less Other Revenues | (48,550) | (37,300) | (37,300) |
| Less Cable | (130,200) | (139,100) | (139,100) |
| Less Reserves | (45,000) | (107,500) | (53,750) |
| Operating Assessment | 1,948,050 | 1,919,000 | 1,919,000 |
| Operating Assessment (with Cable) | 2,078,250 | 2,058,100 | 2,058,100 |
| Difference % | | (20,150) | (20,150) |
| Increase/(Decrease) | | -1.03% | -1.03% |

[29] Please visit www.GoldCoastSchools.com/camcedownloads, then under "Budget Basics or Are They?" Click on "Appendix L"

## BUDGET BASICS OR ARE THEY? FINAL EXAM

**Use the answer sheet on page 145 to indicate your responses**

1. **What is a budget?**
   a. A financial plan in which the association estimates income and expenses for its next budget year
   b. A statement of revenues and expenses for the past year
   c. A requirement of the Internal Revenue Service
   d. A requirement of F.S. 207

2. **What might be the result of keeping the assessment lower than it should be?**
   a. It is a good budgeting strategy.
   b. It may result in the association's goals not being achieved.
   c. It is required by Florida statute.
   d. It is required in the bylaws of cooperative associations.

3. **What is required for effective budgeting for insurance?**
   a. A low deductible
   b. Knowing whether the treasurer is ethical
   c. A recent property appraisal
   d. An agent who has inside information on rate hikes

4. **In which Florida statutes are requirements for community association budgets found?**
   a. F.S. 718, F.S. 719, and F.S. 616
   b. F.S. 718, F.S. 719, and F.S. 720
   c. F.S. 718, F.S. 719, and F.S. 468
   d. There are no statutory requirements for association budgets

5. **Which statement best describes bad debt?**
   a. It is not as beneficial as good debt.
   b. It is debt that is owed by members who are protesting the amount of the assessment.
   c. It is a revenue account.
   d. It is the amount of accounts receivable the association does not expected to collect.

6. **Select the statement that best describes operating capital.**
   a. It is an expense account used to ensure that an association has cash equal to at least two or three months of expenses.
   b. It is a special reserve account.
   c. It is statutorily required to be included in a condominium budget.
   d. It is money that new members must pay to attend the association's social events.

7. **Which statement best describes the operating section?**
   a. It must be divided into quarters for presentation to members.
   b. It has specific restrictions for use of funds allocated for each account.
   c. It identifies costs to carry out routine operations of the association.
   d. It must always be prepared by an accountant.

8. **Reserve schedules in condominiums must include all except which of the following?**
   a. Painting
   b. Paving
   c. Roofing
   d. Hurricane insurance deductible

9. **In preparing the proposed budget, the manager must take into account all except which of the following factors?**
   a. Pending legal actions
   b. Contractual increases and termination dates
   c. Condition of facilities and equipment
   d. Members experiencing financial difficulties

**10. Some of the factors to be taken into account when preparing the reserves include all except which of the following?**
a. The estimated remaining life of capital equipment
b. The projected year-end balance in each reserve account
c. The costs of reserving a banquet hall for the holiday party
d. Current replacement cost of capital equipment

**11. What knowledge is required in order to budget for salaries and benefits?**
a. If the association plans to increase or decrease the number of employees to provide maintenance and janitorial services
b. Which employees are in poor health and likely to be less productive
c. Whether the manager can be replaced by an inexpensive robot
d. If the Federal Reserve intends to raise interest rates

**12. The operating section should include all except which of the following?**
a. Any non-assessment revenues
b. Management fees and costs, if appropriate
c. Maintenance costs
d. Major concrete restoration

**13. Which statement best describes cable and satellite TV fees?**
a. They may never be a common expense of an association.
b. They may be provided for on a per unit basis, if the association has a bulk contract pursuant to its documents.
c. They may be excluded from the assessment of a visually or hearing impaired member, upon request.
d. The must always be provided at an equal cost to members.

**14. What is deferred maintenance?**
a. Routine maintenance that the association has delayed due to insufficient funds
b. Preventive maintenance that the association has delayed due to insufficient funds
c. Maintenance repairs that will be performed less frequently than annually
d. Maintenance for which a member is responsible, pursuant to the documents

**15. What are pooled reserves?**
a. Reserved funds for the swimming pool and spa
b. A single source of funds to pay for multiple categories of reserve expenses
c. Reserved funds from segregated accounts, when added together and placed in the annual budget
d. Funds that members have pooled for the upkeep of their units or parcels

**16. Which statement best describes accrual based accounting?**
a. It recognizes revenues and expenses when they are earned or incurred, regardless of when cash is received or disbursed.
b. It recognizes income when it is deposited in the association's bank and expenses when the payment is issued.
c. It can only be performed by a CPA.
d. It is required for associations with annual revenues over $50,000.

**17. Which statement best describes surplus funds in an association?**
a. They must be returned to members if there is a surplus in the current year budget.
b. They may only be applied as a credit against assessments for the next year's budget upon a majority vote of the members.
c. They may be used to offset future assessments.
d. They may be used to fund social events for the directors of the association

**18. Select the statement that best describes assessments.**

a. They must always be collected monthly in an HOA.
b. They must be allocated based upon in the association declaration in a condominium.
c. They must always be collected quarterly in a condominium.
d. They must always be collected at the beginning of the fiscal year in a cooperative.

**19. Which statement best describes a balanced budget?**

a. It means that revenues equal expenses.
b. It is required when the federal government budget is balanced.
c. It permits a deficit but not a surplus.
d. It means the cost of operations and cost of reserves are equal.

**20. Del Boca Bleu Condominium has 217 units. The documents are silent regarding how bulk telecommunications services are to be allocated. This year's contract is $139,100 ($11,592/month). Two members of Del Boca Bleu are not charged for these services, due to visual or hearing disabilities, and two units are owed by the association. What is the monthly charge per member per month?**

a. $53.42
b. $53.92
c. $54.92
d. The assessment must be allocated per unit type, and, because 4 units will not pay for cable, the attorney must determine a new assessment percentage schedule.

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