

A Review of the Budget Process:

Which of the following statements as it relates to association budgets is correct?

1. Every association must have a financial plan setting forth expenditures of funds for the management, maintenance and the operation of the association.
2. The budget is the first important step in implementing the association's assessment authority.
3. The adopted annual (12 months) budget must provide detailed expenses that the community believes will be incurred during the coming fiscal year.
4. The budget is the foundation for an association's financial stability and operation.
5. All of the above.
6. None of the above.

Peter Dunbar, author of *The Management Concept*, states: The budget is the initial step in implementing the association's assessment authority. When it is adopted, it imposes upon each unit the responsibility to contribute to the operation of the association and the condominium of which the unit is a part. The budget of the association is adopted for a twelve-month (12) period 718.504 (20)(d), F.S., and it must provide a detailed listing of expenses that the community reasonably believes will be incurred during the coming fiscal year.

One practice of some associations is to under- fund or to not fund reserve items. Although this practice may keep the current maintenance low, eventually someone has to pay. This is usually handled by passing a special assessment in order to have, for example, the buildings painted or the pool resurfaced. This could certainly create a hardship for families on fixed incomes.

The homeowner, along with the Board of Directors, in each association has the responsibility to budget properly.

In summary, sound budgeting practices are the backbone of an association's financial health and also aid in avoiding unnecessary special assessments. In addition, they play a major role in maintaining and improving property values.

Most associations are not-for-profit corporations and should be accounted for on a "Fund" basis of accounting. This simply means you should have a *Fund and Budget* for the Annual Operations of your association (e.g. lawn cutting, electric, etc.). This is called your Operating Fund.

Associations must also have a *Fund and Budget* for Reserves or Deferred Maintenance, such as Roofs, Roads and Painting. The state of Florida has set up guidelines for Condominiums on how to calculate the yearly amount to be placed in these funds. In this month's article we are only going to deal with the operating portion of the budget.

Budgets consist mainly of three elements: Uncontrolled Expense, Controlled Expense, and Contracts.

Uncontrolled expenses are those yearly expenditures, over which the Association and Board of Directors have very little control. These would include expenses such as Electric, Water/Sewer, Trash Collection, and any other expenses, which you must base on past experience and then estimate rate increases.

Controlled expenses would include maintenance items, which could be budgeted for. Examples would be Vent stack cleaning, Replacing pool furniture, Planting new trees or shrubs, and normal maintenance of the property throughout the year. Normal maintenance can be estimated based on past experience, and for the new items, bids can be obtained.

The third item is Contracts, which is the simplest of the three. Bids are solicited on items such as Lawn Care, Irrigation, Tree trimming, Pool maintenance, and Insurance. These are items, which, once a contract is obtained, the expenses are fixed for the year.

It is essential that the Board of Directors budget fairly on all of the above expenses. This will create harmony within the association, and, most importantly, maintain and increase the value of your property.

The correct answer for the above question is answer #5.

THIS INFORMATION CONTAINED HEREIN IS NOT INTENDED AS LEGAL ADVICE, WHICH IS APPLICABLE TO SPECIFIC SITUATION AND IS BASED UPON LEGAL CRITERIA, WHICH ARE SUBJECT TO CHANGE.

Walt Hammerling is a CAM and not an attorney. Please contact your Association attorney for information dealing with your Association. Walt Hammerling is the President of Argus Property Management, Inc. and the Broker of record for Argus Realty Group, Inc. He may be reached at either (941) 927-6464 or at Argusmgmt.com