

# “The Ins & Outs of Preparing a Condominium Association Budget,” FCAP Managers Report

June 3, 2021

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In many ways, the managing and operating of a condominium association is akin to operating a business. A primary similarity is the importance of careful and accurate financial planning and budget preparation. The board of directors of an association has fiduciary duties to its members. By paying close attention to the legal and technical requirements of condominium association budget preparation, the association can better assure its members of a smooth-running fiscal year ahead.

The legal and technical requirements of condominium association budgets can be found in Chapter 718, Florida Statutes (the “Condominium Act”) and Section 61B-22 of the Florida Administrative Code. An association’s bylaws may also contain certain financial requirements to which a board and/or budget committee should pay attention. Although the statutory and code requirements apply to all condominium associations, there is no one-size-fits-all for budget preparation. The intricacies of the budget will differ based on a number of factors, such as the size of the condominium, ongoing and upcoming projects, various maintenance obligations, etc.

The budget will cover one fiscal year, which typically tracks the calendar year. However, the association’s bylaws may indicate a different twelve-month period as its fiscal year. The important part is knowing when the fiscal year begins so that the board can ensure plenty of time for planning. For example, many associations which have a fiscal year that follows the calendar year begin planning their budget in the summer months in order to have a proposed budget by November. An additional time requirement to be aware of is that any meeting at which the proposed budget will be considered requires 14 days statutory notice.

However, your association bylaws may require a longer notice, such as a 30 days' notice of a budget meeting. If your bylaws require a longer notice (such as 30 days) rather than the statutory 14 days' notice, you must follow the bylaw notice requirement. The notice must include the date, time, and location of the budget meeting as well as a copy of the proposed budget. The completed notice must also be posted in a conspicuous location on the property at least 48-hours before the meeting. Although the budget meetings must be opened to all members, the board is generally authorized to adopt the budget without a vote of the owners.

As for what goes in the budget, it is divided into two main sections: an operating budget and a reserves budget. Again, similar to a business, an association's operating budget displays the costs of the day-to-day operations of the association. This means that this section reflects reoccurring monthly and annual expenses. The operating budget may include, for example, expenses for management fees, recreational facilities rent, insurance, and taxes. There are certain items that must be contained in the budget pursuant to Section 61B-22 of the Florida Administrative Code, such as the beginning and ending dates of the period covered by the budget, all estimated common expenses or expenditures of the association including the categories set forth in Section 718.504(21)(c), Florida Statutes, and other items.

The total assessment for each unit type according to the proportion of ownership should also be included in the operating budget, either on a monthly basis or for the period for which assessments will be due (e.g., if the association collects quarterly assessments). A key point to remember about the operating budget is that the money budgeted is not restricted to the particular purpose specified on the adopted budget. If necessary, the association board may use its business judgment to spend money designated for one purpose for other purposes.

The second section of the association's budget is the reserves budget. The Condominium Act requires the association to maintain reserve accounts for capital expenditures and deferred maintenance. A capital expenditure is the purchase or replacement of an asset whose useful life is greater than one year. Deferred maintenance is any maintenance that is performed less frequently than a year or results in maintaining the useful life of an asset. This is distinguishable from routine maintenance, which needs to be included in the operating section of the budget.

The Condominium Act also specifies that the reserves must include roof replacement, building painting, and pavement resurfacing, regardless of the amount of the maintenance or replacement cost. The association is also obligated to include any other item that has a deferred maintenance expense or replacement cost that exceeds \$10,000. Unlike the operating funds which are not restricted to a particular purpose, reserve funds must be used for their intended purpose, unless a majority vote of the members is obtained to use the funds for other purposes. This means that the board cannot use reserve funds

designated for one purpose to cover an unexpected expense without an approval vote.

Although as stated above, a board generally has the authority to adopt the budget without a vote of the membership, the Condominium Act does provide the members with two exceptions. First, the members can vote to waive reserves or partially fund reserves. The board can put the reserves question up to a vote if it so chooses. If no vote to waive or partially fund reserves is taken or not enough members vote to do so, the board must adopt the budget with fully funded reserves.

The second time at which a membership's vote may be taken is if the board adopts an annual budget which requires assessments exceeding 115 percent of the assessment. At least 10 percent of the members must submit a written request for a special meeting of the owners to consider a substitute budget within 60 days after the adoption of the annual budget. A proper meeting notice must be sent out, and a membership meeting will be held. If there is not a quorum present at the meeting, or if the substitute budget is not adopted, the previously adopted annual budget remains in effect.

The ins and outs of preparing a condominium association budget can be complex, and association counsel should be consulted when needed. The board should begin early to assess the current financial picture of the community as well as its long-term financial needs and goals.

To read the original article, please [click here](#).

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