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BUDGETS & RESERVE SCHEDULES

A Self-Study Training Manual
Division of Condominiums, Timeshares and Mobile Homes

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Table of Content

FIGURES & TABLES 4
GLOSSARY 4

PREFACE 8

1 GETTING STARTED 10

WHY DO ASSOCIATIONS HAVE A BUDGET? 10
WHEN TO BEGIN THE BUDGETING PROCESS 10
MEETINGS HELD WHILE DEVELOPING THE BUDGET 10
SAMPLE NOTICES 11
ACCOUNTING RECORDS 11
ACCOUNTING SOFTWARE 12
GOOD ACCOUNTING PRACTICES 12
PROVIDING ACCESS TO ACCOUNTING RECORDS 12
SUMMARY OF CHAPTER 1 13
PRACTICE EXERCISES 17
ANSWER KEY 18

2 THE BUDGET 19

SECTIONS OF THE BUDGET 19
USE OF RESERVES FOR OTHER PURPOSES 19
VOTING BY LIMITED PROXY 20
INVESTING ASSOCIATION FUNDS 21
FISCAL YEAR 22
SUMMARY OF CHAPTER 2 22
PRACTICE EXERCISES 28
ANSWER KEY 29

3 RESERVES 30

WHAT ARE RESERVES? 30
DEFERRED MAINTENANCE & CAPITAL EXPENDITURE RESERVES 30
DIFFERENT TYPES OF RESERVES 32
RESERVE FUNDING METHODS 32
STRAIGHT-LINE RESERVES 33
POOLED RESERVES 33
WHY ESTABLISH RESERVES? 34
WAIVING OR REDUCING RESERVES 35
ESTIMATING RESERVES 36
SUMMARY OF CHAPTER 3 36
PRACTICE EXERCISE 38
ANSWER KEY 39

4 RESERVE SCHEDULE 40

WHAT IS A RESERVE SCHEDULE? 40
RESERVE SCHEDULE DISCLOSURES 40
THE STEPS FOR
THE STRAIGHT-LINE METHOD 41
PREPARING THE POOLING SCHEDULE 45
THE STEPS FOR THE POOLING METHOD 45
ADJUSTING THE SCHEDULE 47

How To Fund Reserves 51
Summary of Chapter 4 51
PRACTICE EXERCISES 53
ANSWER KEY 54
5 OPERATING EXPENSES 55
The Budget 55
The Association's Accounting Information System 55
Accrual Basis of Accounting and Cash Basis of Accounting 57
Estimating the Association's Operating Expenses 57
Historical Data 58
Look to the Future 58
Involve the Whole Condominium Community 59
Contents of the Operating Section of the Budget 59
Tips on Preparing the Budget 60
Budget Line Items Explained 61
Summary of Chapter 5 61
PRACTIVE EXERCISES 62
ANSWER KEY 63
6 ASSESSMENTS 64
How to Compute the Assessments 64
The Budget Adoption Process 66
Budget Meeting 66
Budget Exceeds 115 Percent of Prior Year's Assessments 67
Collection of Assessments 70
Summary of Chapter 6 71
PRACTICE EXERCISES 72
ANSWER KEY 74
7 STRUCTURAL INTEGRITY RESERVE STUDY 75
What Is a Structural Integrity Reserve Study 75
Structural Elements Included in a SIRS 75
Who is Required to Complete a SIRS 75
Who Can Perform a SIRS 75
How a SIRS Affects Reserve Funding 76
Baseline Funding and Reserve Balances 76
Pooling of SIRS Reserve Items 76
Relationship Between SIRS Reserves and Other Reserve Requirements 76
Adjustments to Reserve Schedules When a SIRS Applies 76
SIRS Reporting and Owner Notification 76
How a SIRS May Affect Assessments 77
Summary 77
8 RVIEW 78
FINAL PRACTICE EXERCISES 79
ANSWER KEY 81
Conclusion 82
REFERENCES 83

Figures & Tables

Figure 1.1 SAMPLE NOTICE THAT IS PROPER 15
Figure 1.2 IMPROPER SAMPLE NOTICE 16
Figure 2.1 Sample Operating Section of the Proposed Budget 24
Figure 2.2 Sample Reserves Section of the Proposed Budget 26
Table 2.3 Examples of How To Compute Quorum, the Vote To Approve the Budget, and/or to Use Certain Reserves For Other Purposes 27
Figure 4.1 Completed Sample Reserve Schedule Using the Straight-line Method 44
Figure 4.2 Reserve Schedule Using the Pooling Method 48
Figure 4.2 Continued Reserve Schedule Using the Pooling Method 49
Figure 5.1 Sample Accounts Receivable Subsidiary Ledger 56
Figure 6.1 Budget Increase Does Not Exceed 115% of Prior Year's Assessments 68
Figure 6.2 Budget Increase Exceeds 115% of Prior Year's Assessments 69

Glossary

ACCOUNTING RECORDS This includes all of the books and records identified in Section 718.111(12)(a)11., Florida Statutes, and any other records that identify, measure, record, or communicate financial information whether the records are maintained electronically or otherwise. [Rule 61B-22.001(1)]

ACCRUAL BASIS This basis of accounting recognizes revenues and expenses when they are earned and incurred, regardless of when cash is received or disbursed. *(Compare with Cash Basis.)*

ADMINISTRATIVE RULES These implement, interpret, and further define or clarify the provisions of the Statutes. The Florida Administrative Code (F.A.C.) Rules that correspond to the Condominium Act include Chapters 61B-15 through 61B-24, F.A.C.
NOTE: The Florida Administrative Code is updated after changes are made to the Florida Statutes so there may be a delay before those updates appear. If there is a discrepancy between the F.A.C. and the Statutes, the Statutes should be followed.

ARTICLES OF INCORPORATION This document is filed with the Department of State and creates a corporate entity, such as an association that operates a condominium. It contains information about the corporation such as the name of the corporation and its purpose.

ASSESSMENT A unit owner's share of funds paid to the association from time to time. A unit owner's share will be combined with all other unit owners' shares to pay the common expenses of the association. [718.103(2)]

ASSOCIATION This is the entity that operates the condominium. [718.103(3)]

ASSOCIATION PROPERTY This is property, real and personal, which is owned or leased by, or is dedicated by a recorded plat to, the condominium association for the use and benefit of its members. [718.103(4)]

BASELINE FUNDING The least conservative of three generally accepted reserve funding

goals. This goal allows the reserve cash balance to approach but never go below zero during the cash flow projection. This is the funding goal with the greatest risk due to the variabilities encountered in the timing of component replacements and repair and replacement costs.

BOARD MEETING This means any gathering of the members of the board of directors, at which a quorum of the members is present, for the purpose of conducting association business. [Rule 61B-23.001(1)(a)] The meeting may be conducted in person or via video conference.

BUDGET This is a formal plan that itemizes the association's projected expenditures for the fiscal year.

BYLAWS As used in this manual, bylaws are a condominium association document, as may be amended from time to time, that addresses the operational aspects of the association such as meeting notice requirements and budgeting information. [718.103(7)]

CAPITAL EXPENDITURE Any expenditure of funds for the purchase or replacement of an asset whose useful life is greater than one year, or the addition to an asset that extends the useful life of the previously existing asset for a period greater than one year. [Rule 61B-22.001(2)]

CASH BASIS This basis of accounting recognizes and records revenues when they are received, and expenses when they are paid. *(Compare with Accrual Basis.)*

CHART OF ACCOUNTS This is a listing of the titles and the number, letter or alphanumeric codes of all the financial accounts that have been assigned to the general ledger. It's like an index and helps facilitate the recording of revenues and expenses in the accounting records.

COMMITTEE A group of board members, unit owners, or board members and unit owners appointed by the board or a member of the board to take action on behalf of the board or to make recommendations to the board regarding association matters, including the proposed annual budget. [718.103(8)]

COMMITTEE MEETING Any gathering of a committee at which a quorum of the members of that committee is present. [Rule 61B-23.001(1)(b)]

COMMON ELEMENTS The portions of the condominium property not included in the units. [718.103(9)]

COMMON EXPENSES All expenses properly incurred by the association in the performance of its duties. [718.103(10)]

COMMON SURPLUS This means the cumulative excess of all revenues and receipts over common expenses. [718.103(11)]

CONDOMINIUM DOCUMENTS or GOVERNING DOCUMENTS For purposes of this manual, condominium documents and governing documents are used interchangeably; and include the declaration of condominium and any amendments and attached exhibits, including

articles of incorporation and bylaws.

CONDOMINIUM PARCEL A unit, together with the undivided share in the common elements appurtenant to the unit. [718.103(13)]

DECLARATION OF CONDOMINIUM This is the document that creates the condominium and may be amended from time to time. It is recorded in the county where the condominium is located and contains information such as the unit owners' percentages or proportions of and manner of sharing common expenses and owning common surplus. [718.103(16)]

DEFERRED MAINTENANCE Any maintenance or repair that will be performed less frequently than yearly and will result in maintaining the useful life of an asset. [Rule 61B-22.001(3)]

DIVISION This means The Division of Florida Condominiums, Timeshares and Mobile Homes

ESTIMATED FUND BALANCE This is the amount of money that should be in the reserve account at any given time, such as year end.

ESTIMATED REMAINING USEFUL LIFE This is the length of time a particular asset has left before deferred maintenance or a capital expenditure is needed.

ESTIMATED TOTAL USEFUL LIFE This is the length of time a particular asset should last before deferred maintenance or a capital expenditure is needed.

FISCAL YEAR An accounting period of 12 months, usually a calendar year of January 1 to December 31.

FULLY FUNDED This means that the budget provided to the owners shows the amount of money that must be deposited that year for each reserve item to ensure that, when the time comes, sufficient funds will be available for deferred maintenance or cost of replacement.

GOOD ACCOUNTING PRACTICES This means that accounting records are maintained in sufficient detail so that when someone inspects them, that person will be able to determine the association's revenues, expenses, assets and liabilities. It also advises that controls be in place to protect the financial assets of the association.

LIMITED COMMON ELEMENTS These are common elements which are reserved for the use of a certain condominium unit or units to the exclusion of all other units, as specified in the declaration. [718.103(22)]

LIMITED PROXY *(See Proxy.)*

LINE ITEMS These are categories of expenses listed on the budget.

MULTICONDOMINIUM This means real property which contains more than one condominium operated by a single association. [718.103(23)]

MULTICONDOMINIUM ASSOCIATION This is a condominium association that operates more than one condominium.

POOLED METHOD aka “Cash Flow Method” is a method of developing a reserve funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the pooled reserve fund. Different reserve funding plans are tested against the anticipated schedule of pooled reserve expenses until the desired funding goal is achieved.

PROXY A proxy, whether general or limited, is a form unit owners can use if they cannot, or choose not to, personally attend a unit owner meeting. A limited proxy limits the decision-making power of the person to whom the proxy is assigned called a proxy holder. The unit owner uses the limited proxy to direct the proxy holder on how to vote for a particular issue.

QUORUM The minimum number of voting interests that must be present for a meeting to be held. The documents should identify the quorum requirement for board, committee, and unit owner meetings. Members at unit owner meetings can be represented in person, via telephone or real-time videoconferencing or similar electronic means, or by proxy.

RESERVES Any funds, other than operating funds, that are restricted as to use by the Statutes, condominium documents or by the association. [Rule 61B-22.001(5)]

REVENUE As used in this manual means income, including assessments, recreational area rent and forgiveness of liabilities, related to the operation of the association.

SPECIAL ASSESSMENT This is any assessment levied against a unit owner other than the assessment required by the adopted annual budget. [718.103(27)]

STRAIGHT-LINE METHOD aka “Component Method” is a method of developing a reserve funding plan where the total contribution is based on the sum of contributions for the individual components.

STRUCTURAL INTEGRITY RESERVE STUDY This is a study of the reserve funds required for future major repairs and replacement of the condominium property performed as required under s. 718.112(2)(g). [718.103(28)]

THRESHOLD FUNDING One of three generally accepted reserve funding goals. This reserve funding goal keeps the reserve balance above a specified dollar or percent funded amount throughout the duration of the cash flow projection.

TURNOVER This occurs when the developer(s) transfer(s) control to non-developer unit owners. [Rule 61B-22.001(6)]

UNIT OWNER This is the record owner of legal title to a condominium parcel. [718.103(32)]

VOTING INTERESTS The voting rights distributed to the association members as described

in the condominium documents. [718.103(3)]

Preface

Our Goals

- To describe the budgeting process and highlight the statutory requirements for preparing the association budget and reserve schedules for unit owner controlled associations.
- To provide a self-study training manual for condominium association board members and unit owners who are not familiar with preparing the association budget.
- To provide illustrative examples of all related schedules and materials.

Programmed Instruction

The manual includes practice exercises so that you will be able to put your knowledge to work right away. You will benefit from the material more if you master the concepts in each chapter before moving on to the next.

Self-Study / Self-Paced

This manual relates to associations in which the developer is no longer in control of the association. The manual provides the basic knowledge needed to prepare a proposed budget and reserve schedule. You can progress and learn at your own speed. The chapters are short to make it easier for you to learn the material and organize the content for future reference.

Additionally, you should have a copy of your association bylaws and declaration of condominium available for reference.

Teaches Concepts in Sequence

The manual is arranged so that you learn from start to finish how to prepare a proposed budget and reserve schedule. We suggest that, as you progress, you look at your own association's budget and reserve schedule and compare it to the information provided. Alternatively, use the manual to develop a proposed budget and reserve schedule for your own association as you learn the concepts.

A summary can be found at the end of each chapter. In addition, you will have the opportunity to assess your level of knowledge by completing the practice exercises and reviewing the answers provided. The more you apply your knowledge, the more information you will retain.

Based Upon Statutes and Administrative Rules

Although not needed to complete the manual, you should review the Condominium Act, Chapter 718 of the Florida Statutes and Chapter 61B-22 of the Florida Administrative Code.

Is This Manual For You?

This manual is intended to assist board members, unit owners, and budget or reserve committee members who have limited experience or familiarity with preparing a

budget or reserve schedule. It may also serve as a helpful reference for more experienced board or committee members seeking a refresher on these topics.

The manual was written at an introductory level to assist individuals who fulfill the criteria stated above. Therefore, topics such as multicondominiums, limited common elements, and issues pertaining to associations that are still controlled by the developer are only briefly addressed. It must be recognized that the complexity and sophistication of budget preparation will vary based upon the size of the association. In other words, there is no "one size fits all" sample budget, and budgets for different associations will not look the same. However, all budgets must contain those items and disclosures required by the Condominium Act and Administrative Rules.

Others who *might* benefit include newly licensed community association managers (CAM), managers who need to refresh their memory about basic statutory and administrative rule requirements, and certified public accountants and developers who are not familiar with condominium budgeting requirements.

Suggestions For Improvement?

If you have any comments or suggestions for improvement of this manual, please submit your ideas to the Division of Florida Condominiums, Timeshares, and Mobile Homes by email at ctmheducation@myfloridalicense.com.

1 Getting Started

This chapter addresses why associations have a budget, when to start work on the proposed budget, how various meetings should be noticed, and provides information about accounting records.

Why Do Associations Have A Budget?

Operating an association can be compared to running a business. The board of directors of every corporation must have a plan to anticipate revenues and expenses for the upcoming year. The corporation's board protects the stockholders by estimating how much money must be earned in order to pay the corporation's expenses. Condominium associations are operated in much the same manner.

An association's budget assists the board of directors by projecting expenses and creating a benchmark by which to compare the board's stewardship of the financial assets of the association. The budget also provides for control over certain restricted funds, known as reserves, which are required or designated to be used for only specific purposes of the association. It also identifies how much money must be collected from the unit owners and how often the collection must be made. Basically, the budget is simply a map that will guide the board in making decisions during the course of the fiscal year. Since the budget is only an estimate of future expenses, unexpected events may occur that will require the board to make changes to the budget during the budget period.

When to Begin the Budgeting Process

It is a good idea to start gathering information needed to prepare the proposed budget about three months before the current budget ends. This should give you plenty of time to do such things as review historical budget data, compare adopted budgets against actual performance, research the payment histories of association members, identify and communicate with key people about the costs of equipment and services, determine whether additional expenditures are needed to maintain the property, etc. Regardless of when you start, the annual budget must be adopted at least 14 days prior to the start of the new fiscal year.

Meetings Held While Developing the Budget

Often, the board or budget committee will meet to gather and discuss information and make decisions as the proposed budget is developed. Notice of these meetings must be posted appropriately and open to the unit owners. You need to be aware of the laws about noticing these meetings. The Condominium Act, Chapter 718 of the Florida Statutes, and the related administrative rules provide guidance on this topic.

Any meeting at which the budget will be considered for adoption requires a minimum 14-day notice. Board and committee meetings at which the budget will not be considered for adoption, but will be discussed require 48 continuous hours' notice to the unit owners.

Some tips for preparing board and committee meeting notices are:

- Ensure you have plenty of time to prepare the notice. Specify the date, time, location and/or hyperlink if the meeting can be attended by videoconference, of the meeting on the notice;
- Include a list of specific agenda items to be addressed in the meeting; and
- Post the completed notice in a conspicuous location on the property at least 48 continuous hours before the meeting. (A specific location for posting meeting notices should have already been designated.)
- Note: In lieu of, or in addition to, the physical posting of meeting notices, the association may adopt a procedure for conspicuously posting and repeatedly broadcasting the notice and the agenda on a closed-circuit cable television system serving the condominium association, in accordance with the Statutes.

If there is no property to post the notice on, it must be mailed, delivered, or electronically transmitted to the unit owners at least 14 days before the meeting. Keep in mind that if the condominium documents (e.g., declaration of condominium, bylaws, and articles of incorporation, also referred to as "governing documents"), provide guidelines that are more restrictive than the statutes, then the documents must be followed. For example, the law addressing notice of board and committee meetings requires 48 hours' notice preceding the meeting except in an emergency. If the condominium documents require 72 hours' notice before the meeting, the association must provide 72 hours' notice. On the other hand, if the documents require 24 hours' notice before the meeting, the association must provide at least 48 hours' notice.

Sample Notices

Figures 1.1 and 1.2, found after this Chapter's summary, are examples of proper and improper notices of board meetings at which the budget is being developed. Notices you prepare do not have to look exactly like the notice in Figure 1.1. The important point to remember is that your notice must include all required information and be posted by the appropriate date. Check your documents for additional requirements that do not conflict with the Statute. Please review the sample notices before proceeding to the next topic.

Accounting Records

Accounting records consist of all those records that identify, record, measure and/or communicate financial information, whether maintained electronically or otherwise. These records include, but are not limited to, items such as:

- Accurate, itemized, and detailed records of all receipts and expenditures;
- All invoices, transaction receipts, or deposit slips that substantiate any receipt or expenditure of funds by the association;
- A current account and a monthly, bimonthly, or quarterly statement of the account for each unit designating the name of the unit owner, the due date and amount of each assessment, the amount paid upon the account, and the balance due;
- All audits, reviews, accounting statements, and financial reports of the association. (Structural integrity reserve studies must be maintained for at least 15 years after the study is completed);

- All contracts for work to be performed; and
- Bids for materials, equipment, or services. (Bids for work to be performed are official records and must be maintained for a period of at least one year.)

Multicondominium associations must maintain separate accounting records for themselves and for each condominium it operates.

The accounting records must be maintained within the State of Florida and retained by the association for at least seven years, unless otherwise stated by law. The records of the association shall be made available to a unit owner within 45 miles of the condominium property or within the county in which the condominium property is located within 10 working days after receipt of a written request by the board or its designee.

Accounting Software

To facilitate recording, maintenance, and retrieval of accounting information, you may want to consider purchasing some type of accounting software. Software packages, such as spreadsheets and others that are specifically tailored for condominium associations are readily available. The Division cannot recommend specific software. You may want to contact your Certified Public Accountant (CPA), licensed community association manager (CAM), or other suitable expert(s) to assist you in locating the software that is appropriate for your association.

Good Accounting Practices

Accounting records should be maintained in accordance with good accounting practices. This means that the accounting records should be maintained in sufficient detail so that when someone inspects the records, that person will be able to determine the association's assets, liabilities, and cash flows, as well as all revenues and expenses. Good accounting practices also include controls to protect the financial assets of the association.

As the size of an association increases, the complexity of the financial record keeping will also increase. In addition, associations of all sizes are vulnerable to fraud, such as embezzlement. You should consult a CPA or other professionals to obtain more information on developing adequate internal controls and safeguards.

Providing Access to Accounting Records

The Condominium Act provides that the accounting records are open to inspection by any unit owner or authorized representative at all reasonable times. Additionally, if a written request for access to the records is received by the association, the records must be made available within ten (10) working days, except that a written request for the most recent annual financial report must be provided within five (5) business days. The unit owner or authorized representative has the right to make or obtain copies of the records. A fee cannot be charged for simply accessing the records. Each association may adopt reasonable, clear, and understandable rules addressing:

- How unit owners should provide the association with notice for requesting access to records (e.g., whether the notice must be in writing and sent by certified mail, to whom the notice should be given, what information the

notice must contain, etc.). For the most recent annual financial report, the unit owner may choose the specific method of delivery; mailed, hand delivered, or electronically delivered via the internet.
- Frequency of access, reasonable restrictions on number of times per week or month that access will be granted.
- Time of access, including all reasonable working hours.
- Manner of inspecting the accounting records (e.g. whether a board member or other designated individual will be present during inspection, whether or not the records can be removed from the location, etc.).
- Location where the records may be inspected or copied.

NOTE: If the association fails to allow unit owners access to the records, the statutes provide for certain remedies, including monetary damages, for the unit owner. Please refer to Section 718.111(12)(c)1.a., Florida Statutes.

Summary of Chapter 1

This chapter introduces the foundational concepts necessary to understand the budgeting process for condominium associations. It explains why budgets are required, outlines when and how the budgeting process should begin, describes statutory meeting notice requirements, and provides an overview of accounting recordkeeping obligations.

A condominium association's budget functions much like a business plan. It allows the board of directors to anticipate revenues and expenses for the upcoming fiscal year and to ensure that sufficient funds are collected to meet the association's obligations. The budget serves as a financial roadmap that guides decision-making throughout the year and provides a benchmark against which the board's management of the association's financial assets can be evaluated. In addition, the budget identifies restricted funds, such as reserves, and clarifies how often and in what amounts assessments must be collected from unit owners. Because budgets are based on estimates, they may need to be adjusted during the year to address unforeseen circumstances.

The chapter emphasizes the importance of beginning the budgeting process well in advance of the new fiscal year. Gathering information approximately three months before the current budget ends allows time to review historical financial data, compare budgeted amounts to actual expenses, evaluate payment histories, and obtain updated cost estimates. Regardless of when preparation begins, the annual budget must be adopted no later than 14 days before the start of the new fiscal year.

Meetings held while developing the budget must comply with statutory and governing document notice requirements. Board and committee meetings where the budget will be discussed require at least 48 continuous hours' notice, while any meeting at which the budget will be considered for adoption requires a minimum 14 day notice. Notices must include required information such as the date, time, location, hyperlink if videoconference available and agenda items, and must be posted or delivered in accordance with the Condominium Act and the association's governing documents. If governing documents impose stricter notice requirements than the statutes, the

stricter provisions must be followed.

The chapter also explains the scope and importance of maintaining proper accounting records. Accounting records include all documents that identify, record, and communicate the association's financial information, such as receipts, invoices, unit account statements, contracts, bids, and financial reports. These records must be maintained in Florida and generally retained for at least seven years. Multicondominium associations are required to keep separate records for each condominium they operate.

Good accounting practices are essential to ensure transparency, accuracy, and protection of association funds. As associations grow in size and complexity, the need for organized accounting systems, internal controls, and professional guidance increases. The use of appropriate accounting software may assist with maintaining accurate and accessible records.

Finally, the chapter outlines unit owners' statutory rights to access accounting records. Records must be made available for inspection within specified timeframes, and associations may adopt reasonable rules governing access. Failure to provide access as required by law may subject the association to civil penalties and corrective actions.

Figure 1.1 SAMPLE NOTICE THAT IS PROPER

SUNSHINE CONDOMINIUM ASSOCIATION, INC.

NOTICE OF BOARD MEETING

TO:	All Unit Owners / Residents
FROM:	Sunshine Condominium Association, Inc. Post Office Box 1234 Notices, Florida 54321
DATE:	March 14, 2025

Notice is hereby given that the board of directors will meet on Friday, April 4, 2025, at 7:30 P.M. The meeting will take place in the clubhouse.

AGENDA ITEMS

Call to Order

Statement of Quorum

Proof of Meeting Notice

Approval of Minutes of March 7, 2025

Old Business - Refinish Swimming Pool

Development of the 2025 / 2026 Operating Budget

New Business – Hurricane Shutters

Set Date of Follow-up Meeting

Adjournment

Figure 1.2 IMPROPER SAMPLE NOTICE

SUNSHINE CONDOMINIUM ASSOCIATION, INC.

NOTICE OF BOARD MEETING

TO:	All Unit Owners / Residents
FROM:	Sunshine Condominium Association, Inc. Post Office Box 1234 Notices, Florida 54321
DATE:	March 14, 2025

Notice is hereby given that the board of directors will meet on Friday, April 4, 2025, at 7:30 P.M.

AGENDA ITEMS

Old Business

New Business

Adjournment

ITEMS *with an X* ARE MISSING

___Date.
__ Time.
_X_Location and/or videoconference hyperlink.
_X_List of designated agenda items.

PRACTICE EXERCISES

The board of directors of your association has appointed you to the Budgeting Committee. You're responsible for noticing any committee meetings held to develop the proposed budget package. *(Use this scenario to answer questions 1, 2, and 3.)*

1) What is the statutory time frame for noticing these meetings? *(Choose one.)*

   a) At least 24 hours.
   b) At least 72 hours.
   c) At least 48 hours.
   d) Not addressed by the statute.

2) Identify the information that must be on the committee's meeting notices.

   a)
   b)
   c)
   d)

3) The bylaws state that the board and committee meeting notice must be posted 24 hours prior to the meeting. What will you do? *(Choose one.)*

   a) Post the notice 24 hours prior to the meeting.
   b) Post the notice at least 48 hours prior to the meeting.

4) Complete the following sentence.

   The accounting records must be maintained in _____ and kept for at least _____ years.

5) Accounting records must be maintained according to good accounting practices. Based upon the size of the association, the specific practices that are used may vary. Which of the following statements identifies what is meant by the phrase "good accounting practices"? *(Choose all that apply.)*

   a) The phrase implies a standard of conduct that must be established for good controls over the accounting records and financial assets of the association.
   b) The phrase implies that the accountant should practice accounting every day.
   c) The phrase implies that the records should be maintained in sufficient detail to allow for tracking revenues, expenses, assets and liabilities.

6) The Condominium Act states that the accounting records are: *(Choose one.)*

   a) Private records are not accessible by unit owners.
   b) Open to inspection by any unit owner or authorized representative at all reasonable times.
   c) Accessible only if the owner or representative makes the request in writing.

7) Ms. Smith mails a letter to the board identifying various accounting records she would like to see. Within what time frame after receiving the written request must the board allow Ms. Smith access? *(Choose at least one.)*
   a) 10 working days.
   b) 5 calendar days.
   c) 5 business days.
   d) 5 business days, but only if the letter is requesting the annual financial report.

ANSWER KEY

1) C. The Condominium Act provides that board and committee meetings held to develop a proposed budget package must be noticed at least 48 continuous hours prior to the meeting. The notice must be posted conspicuously on the property with an identification of agenda items or both may be conspicuously posted and repeatedly broadcast on a closed-circuit cable television system serving the condominium association

2) Notices of board or committee meetings held to develop a proposed budget package must include, at a minimum, the following items:

   a) Date of the meeting.
   b) Time of the meeting.
   c) Location of the meeting and/or hyperlink if videoconference available.
   d) A list of specific agenda items.

3) B. You will post the notice at least 48 hours prior to the meeting because, in this case, the statute is more restrictive than the bylaws requirement of 24 hours.

4) The sentence should be completed as follows:
   The accounting records must be maintained in **FLORIDA** and kept for at least **SEVEN (7)** years.

5) A. and C. Although the size of the association will determine the specific accounting practices that will be utilized, all associations should adopt accounting practices that fulfill these two criteria.

6) B. The records are accessible at all reasonable times. The statutes do not require that a request be made in writing. However, if a written request is made, the association then must allow access within 10 working days.

7) A. and D. The annual financial report must be made available within 5 business days. Any other financial records requested in the letter must be made available within 10 working days. Taking longer than 10 working days creates the presumption that the association *willfully* failed to allow access.

2 The Budget

This chapter addresses the two main sections of the budget, restrictions on reserve funds, investment restrictions on association funds, and the budget period.

Sections of the Budget

The budget has two main sections - operating and reserves. Figures 2.1 and 2.2, near the end of this Chapter are examples of the operating section, and of the reserves section, respectively.

The operating portion of the budget identifies the categories of expenses (called line items) that relate to the day-to-day operation of the association. These expenses can be anticipated to be incurred on a fairly regular basis such as monthly or annually.

The dollar amounts assigned to each line item are the estimates of how much money is expected to be spent on that particular line item for the budget period. Operating expenses are not restricted to the estimates provided and the board can use money allocated to one operating line item for other purposes. In other words, money in the operating section of the budget is not restricted to any particular purpose.
Examples of line item expenses generally found in the operating section of the budget include:

- Bad Debt
- Salaries
- Office Supplies
- Management Fees
- Utilities
- Taxes
- Insurance
- Accounting Services
- Division Annual Fees
- Corporate Fees
- Legal Services
- Postage
- Office Equipment
- Vending Machines

The other section of the budget is the reserve section. The reserve section contains funds that are restricted for specific purposes. The Condominium Act requires that reserves be established for certain items including: roof replacement, building painting, pavement resurfacing and any other item of capital expenditure or deferred maintenance that exceeds the required reserve threshold, as updated by the Division. Remember to check the structural integrity reserve study, if one is required, for items that need to be included in reserves.

Use of Reserves for Other Purposes

Section 718.112(2)(f)3., Florida Statutes (F.S.), states that reserve funds and any reserve interest must be used for authorized reserve expenditures unless their use for other purposes is approved in advance by a majority of all the voting interests of the association.

As opposed to the operating section, funds that are a part of the reserve section can

only be used for reserve expenditure(s), unless approved by a majority vote of the unit owners. Majority here means at least fifty percent plus one of all the voting interests. If the board identifies a need elsewhere for the funds, the board cannot simply withdraw and use them. Chapter 3 will cover more specifics about how the funds must be used. The main point here is that reserves and interest earned on reserves can only be used for the purpose intended.

For budgets adopted on or after December 31, 2024, members of a unit owner controlled association that must obtain a structural integrity reserve study may not vote to use reserve funds or reserve interest for any other purpose other than what is allowed by the statutes. This includes the roof, structure, fireproofing, fire protection systems, plumbing, electrical systems, waterproofing, exterior painting, windows, exterior doors, and any other item that has a deferred maintenance expense or replacement cost that exceeds the required reserve threshold, as updated by the Division, which affects the preceding items.

Voting by Limited Proxy

Limited proxies are used if an owner cannot, or chooses not to, attend a meeting either in person or via electronic means. The Division created a Sample Limited Proxy Form to assist associations with their use. The following example illustrates the steps an association will typically go through when voting on this type of matter:

Example:

In this example, the association does not pool reserves, which will be covered in Chapter 3, on a two story condominium which is not required to complete a SIRS. Due to recent storm damage, the building's roof needs to be replaced before it was scheduled. The association plans to use funds from the roof replacement reserve account, and it will file a claim with the insurance company. However, this will not generate sufficient funds to pay for the work. The board of directors has determined it will be in the best interests of the association to pull funds from the pavement resurfacing reserve to cover the shortfall. To use the reserve funds for a purpose other than intended, the board must get approval from majority of voting interest. Before this can be done, the board must determine the following and hold a properly noticed unit owner meeting:

1) The number of units in the condominium.

   Assume, for this example, a condominium has 100 units.

2) The vote assigned to each unit.

   Assume, for this example, that the assigned voting interest is one vote per unit.

3) The number of voting interests needed to establish a quorum. (A quorum must be established at the meeting, whether attendance is in person, via electronic means or by proxy, before business can be conducted.)

Assume for this example that the association needs at least a majority (just over half) of the total voting interests to establish a quorum. At least 51 of the 100 voting interests are required for a quorum.

4) The procedures for calling a unit owner meeting can be found in Section 718.112(2)(d), F.S. If proxies are used, a limited proxy, substantially the same as the Division's Sample Limited Proxy Form must be provided to the owners.

   80 voting interests are present in person, electronically and by proxy. Since 80 is more than the required minimum quorum of 51, a quorum is established, and the meeting can continue. After counting the votes, 61 votes approve of using a portion of the pavement resurfacing reserve to help pay for the roof replacement.

   In this example, the association needed to establish a quorum at the unit owner meeting and obtain approval from at least a majority, or just over half, of the total voting interests in the condominium association to use reserve funds for other purposes. Since a quorum was established and a majority (61 votes of the total 100 voting interest) approved the action, the board can withdraw the funds needed to help pay for the roof replacement.
   Note that general proxies may be used for the purpose of establishing a quorum, but only limited proxies may be used to vote.

Table 2.3 provides examples that should assist you in computing the required vote. Please review this before reading the next topic about maintaining association funds.

NOTE: Multicondominium associations should refer to the Statutes for additional information regarding reserves.

Investing Association Funds

While the Condominium Act does not restrict the types of investments that associations may use to generate a return on its funds, investing in anything other than a certificate of deposit or depository accounts at a community bank, savings bank, commercial bank, savings and loan association, or credit union bank account (referred to as "bank account" for ease of use in this manual) requires a vote by the unit owners.

Board members should keep the following in mind regarding investing association funds. First, board members have a fiduciary duty to the membership; such relationship requires prudent investment decisions that carefully consider risk and return. Next, board members should consider the deposit limits that are insured by the federal government. The risk to association funds can be limited by spreading the bank accounts out so that no one account has excess exposure. Statute allows operating and reserve accounts to be commingled for investment purposes only. However, associations should also consider using separate accounts for operating and reserve investments. There are several reasons that this may be a good idea. Since most associations collect monthly assessments, the operating cash should be highly liquid (readily available) and is usually kept at a level necessary to cover

monthly expenses, plus a cushion. On the other hand, reserve funds are usually maintained with less liquidity in mind and generally have higher average balances in the accounts than operating funds. Using a separate account for the reserve fund investments is also a good control procedure that helps ensure that the board does not unknowingly spend funds that are set aside for one purpose on something other than what was intended. Note that Section 718.111(14), F.S., prohibits associations from commingling operating and reserve funds, except for investment purposes. Investment purposes means that there is an expectation of a return on the principal deposits. Tax implications of the association investment decisions are beyond the scope of this manual. You should seek the advice of your tax professional before making your investment decisions.

NOTE: Multicondominium associations should refer to Rule 61B-22.002, F.A.C., for information on how to maintain the accounting records.

Fiscal Year

The budget must cover an annual operating period known as the fiscal year. The fiscal year may be the calendar year or some other 12-month period. Most Florida condominium associations use a calendar year for their fiscal year (January 1 through December 31). However, alternative fiscal years such as April 1 through March 31 or October 1 through September 30 are also used. The bylaws will usually indicate the fiscal year for the association. You must know what the fiscal year is for the association in order to draft the annual budget.

Summary of Chapter 2

This chapter provides a comprehensive overview of the structure and requirements of the association's budget and explains how operating and reserve funds must be established, maintained, and used in compliance with the Condominium Act. The budget is divided into two primary sections: operating and reserves. The operating section identifies the line-item expenses associated with the day-to-day operation of the association and reflects estimated costs that may be adjusted by the board as necessary to meet operational needs. These funds are not restricted to specific purposes, allowing the board flexibility in managing routine expenses during the fiscal year.

In contrast, the reserve section of the budget contains funds that are restricted for specific deferred maintenance and capital expenditure purposes. The chapter emphasizes that reserves are required for certain items, including roof replacement, building painting, pavement resurfacing, and other qualifying expenditures that exceed the statutory reserve threshold, as updated by the Division. Where applicable, the structural integrity reserve study plays a critical role in identifying required reserve items. Reserve funds and any interest earned on those funds may only be used for their intended purpose unless unit owner approval is obtained as permitted by law.

The chapter further explains the voting requirements associated with using reserve funds for purposes other than those originally intended. Generally, such use requires approval by a majority of all voting interests in the association, and limited proxies must be used when voting occurs by proxy. For budgets adopted on or after December 31, 2024, additional statutory restrictions apply to associations required to obtain a structural integrity

reserve study, prohibiting unit owners from voting to repurpose reserve funds for certain structural components. These provisions reinforce the importance of long-term financial planning and the protection of funds designated for critical building systems.

Investment of association funds is also addressed, with an emphasis on the board's fiduciary duty to make prudent and lawful investment decisions. While the statutes permit associations to earn a return on their funds, unit owner approval is required for investments outside of standard bank accounts or certificates of deposit. The chapter highlights the importance of considering federal deposit insurance limits, maintaining appropriate liquidity for operating funds, and using separate accounts as a best practice to prevent unintended use of restricted funds. Although operating and reserve funds may be commingled for investment purposes only, doing so requires careful oversight and adherence to statutory limitations.

Finally, the chapter explains the significance of the fiscal year in the budgeting process. The budget must cover a defined 12 month period, which is typically identified in the association's bylaws. Whether the association uses a calendar year or an alternative fiscal year, understanding this timeframe is essential for accurately preparing, adopting, and administering the annual budget. Together, these concepts provide a framework for understanding how budgets are structured, how funds are restricted and managed, and how statutory requirements guide financial decision-making throughout the fiscal year.

Figure 2.1 Sample Operating Section of the Proposed Budget

For the Fiscal Year January 1, 20XX through December 31, 20XX

REVENUES	
Assessment Income:	$345,600
Interest Income:	
Operating Account	$3,510
Savings Account	$2,610
Total:	$6,120
Other Income:	
Miscellaneous	$108
Drinks	$4,800
Copies	$250
Laundry	$9,640
Snacks	$600
Games	$5,508
Total:	$20,906
TOTAL REVENUES	***$372,626***
Reserves:	
Roof Replacement	$8,000
Pavement Resurfacing	$3,504
Building Painting	$18,008
Elevators	$800
Clubhouse	$3,000
Walkways	$3,000
Total	***$36,312***
Administration:	
Accounting	$5,004
Bad Debt	$1,054
Annual Condominium Fee	$640
Annual Corporate Fee	$62
Insurance (D&O, Fidelity, Flood, P&C)	$32,004
Legal	$804
Licenses and Taxes	
Licenses	$504
County	$144
State	$804
Management Fees	$6,000
Office Supplies	$2,400
Postage	$660
Total	***$50,080***
Salaries:	
Casual Labor	$204
Maintenance Staff	$80,012
Payroll Taxes	$15,004
Worker's Compensation	$17,600
Total	***$112,820***

Maintenance and Repair:	
Buildings	$8,004
Elevators	$4,000
Fire Systems	$3,000
Grounds	$7,008
Supplies and Tools	$8,008
Swimming Pool	$6,408
Tennis Courts	$660
Laundry	$5,000
Miscellaneous	$504
Total	***$42,592***
Utilities:	
Electricity	$23,004
Pest Control	$4,008
Sanitation	$14,004
Sewer	$28,500
Telephone	$1,404
Water	$12,504
Total	***$83,424***
Vending:	
Drinks	$2,000
Hygiene Products	$120
Soap Products	$3,000
Snacks	$360
Games	$120
Total	***$5,600***
Other Expenses:	
Security	$25,008
Rent for Recreational / Other	$0
Commonly Used Facilities	$0
Taxes on Association Property	$0
Taxes on Leased Areas	$0
Operating Capital	
Special Enhancements	$7,250
Contingency	$9,540
Total	***$41,798***
ADDITIONAL EXPENSES FOR A UNIT OWNER	
Rent For Unit Subject To Lease	$0
Rent Payable by Owner Directly to Lessor	$0
Under Recreational Lease / Lease for	$0
Commonly Used Facilities	$0
Total	$0

EXPENSES FOR ASSOCIATION & CONDOMINIUM

MONTHLY OPERATING EXPENSES	$31,052
NET INCOME (LOSS)	$0
ASSESSMENTS FOR EACH UNIT (160 units)	
Annual	$2,158
Monthly	$180
OPERATING EXPENSES (w/o reserves)	$336,314
TOTAL OPERATING EXPENSES	$372,626

Figure 2.2 Sample Reserves Section of the Proposed Budget

SCHEDULE OF DEFERRED MAINTENANCE & CAPITAL EXPENDITURE RESERVES
(for the fiscal year of January 1, 20XX through December 31, 20XX)

Reserve Items	Estimated Total Useful Life (in years)	Estimated Remaining Useful Life (in years)	Estimated Cost for Deferred Maintenance/ Capital Expenditure ($)	Estimated Fund Balance as of 12-31-XX ($)	Funding Required for Proposed Budget Period ($)
Roof Replacement	12	1	$95,000	$87,000	$8,000
Pavement Resurfacing	18	7	$55,000	$30,472	$3,504
Building Painting	5	4	$92,000	$19,968	$18,008
Elevator Repair & Modernization	25	14	$20,000	$8,800	$800
Clubhouse Roof Replacement	12	1	$60,000	$57,000	$3,000
Walkway Improvements	10	9	$30,000	$3,000	$3,000
T O T A L S			$352,000	$206,240	$36,312

NOTE: This schedule is for illustrative purposes only and does not represent the Division's position regarding the life expectancies or costs of reserve assets.

NOTE: Multicondominium associations have additional disclosure requirements for the proposed budget and reserve schedule. Refer to Rule 61B-22.003, F.A.C., for more information.

Table 2.3 Examples of How To Compute Quorum, the Vote To Approve the Budget and/or to Use Certain Reserves For Other Purposes

Number of Units As Stated in Condominium Documents	50	100	150
Assigned Voting Interest in Condominium Documents	1 per unit	40 units get ½ vote each 60 units get 1 vote each	1 per unit
Quorum Requirement As Stated in Condominium Documents	Majority of Total Voting Interests How To Compute 1 vote x 50 units = 50 voting interests 50 / 2 = 25 Therefore, 26 voting interest are required	Majority of Total Voting Interests How To Compute ½ (or .5) vote x 40 units = 20 voting interests 1 vote x 60 units = 60 voting interests 20 + 60 = 80 80 / 2 = 40 Therefore, 40.5 voting interest are required	30 Percent (or .3) of Total Voting Interests How To Compute 1 vote x 150 units = 150 voting interests .3 x 150 = 45 Therefore, 45 voting interests are required
Voting Interests Required by Statute To Approve the Budget/ Use Certain Reserves For Other Purposes/Voting to Waive or Reduce Reserves from Chapter 3	Majority of Total Voting Interests How To Compute Same as Quorum 26	Majority of Total Voting Interests How To Compute Same as Quorum 40.5	Majority of Total Voting Interests How To Compute 1 vote x 150 units = 150 voting interests .5 x 150 = 75 Therefore, 76 voting interests are required

PRACTICE EXERCISES

1) (Complete the sentence.) A budget is divided into two main sections -

_____

and

_____

2) Money in the operating section of the budget: *(Choose one.)*

   a) Is restricted to the line items to which it is allocated.
   b) Is not restricted to any particular purpose.
   c) Represent the limit that can be spent on each line item.

3) Funds that are a part of the reserves section: *(Choose one.)*

   a) Can be used for all major expenses that occur regardless of the purpose.
   b) Can be used for any purpose as long as there is plenty of money in the reserve.
   c) Can only be used for the purpose intended.

4) Your association's board of directors wants to begin setting money aside using the straight line method for the flood insurance premium that's due in three years. The board wants to ensure these funds are not accidentally used for everyday expenses. What could the board do? *(Choose one.)*

   a) Create a line item entitled "Flood Insurance Premium" in the operating section of the budget, and put the money with the operating funds.
   b) Create a line item entitled "Flood Insurance Premium" in the reserves section of the budget, and put the money with the reserve funds.
   c) Create a line item entitled "Flood Insurance Premium" in the operating section of the budget, and put a note in that says "do not touch for 2 more years".

5) Your association needs to repair the roof that was damaged in the storm. The roof reserve has some money but not enough. The board has decided to pull money from the pavement reserve to supplement the roof reserve funds. What vote is required to do this? *(Choose one.)*

   a) A majority of the entire board.
   b) A majority of the voting interests present at a unit owner meeting.
   c) A majority of all the total voting interests.
   d) Whatever is set forth in the documents.

6) Section 718.111(14), F.S., requires that operating and reserve funds be maintained in a certain manner. *(Choose the correct statement.)*

   a) Operating and reserve funds can be commingled for investment purposes.
   b) Operating and reserve funds cannot be commingled unless approved by a vote of the unit owners.
   c) Operating and reserve funds cannot be commingled.

7) An association's bylaws indicate that the operating year is a calendar year. When does this association's operating year begin and end? *(Write your answer in the space provided.)*

ANSWER KEY

1) The sentence should have been completed as follows:
   The budget is divided into two main sections - OPERATING and RESERVE.

2) B. Money in the operating section of the budget is not restricted to any particular purpose. The board can generally use money allocated to one line item for other purposes if the need arises.

3) C. As opposed to the operating section, any funds that are a part of the reserves section can only be used for the purpose intended.

4) B. Either section is allowable. Since the board wants to ensure that funds will be available in three years to pay for the flood insurance premium, and money in the reserves section of the budget must be used for the purpose intended, the board could create a line item for this in the reserves section. If the money is placed in the operating section, there's a greater chance that the insurance premium funds would be used for everyday expenses.

5) C. The Condominium Act states that reserve funds and reserve interest must be used for authorized reserve expenditures unless their use for other purposes is approved in advance by a vote of a majority of all the voting interests of the unit owners subject to assessment. In addition, the reserves that may be used for other purposes cannot be those that are statutorily required. In this example, it would not be allowable to use funds from the building fireproofing reserve but would be okay to use funds from the flood insurance reserve.

6) A. Associations are prohibited from commingling, operating and reserve funds except for investment purposes.

7) The response is JANUARY 1 **TO** DECEMBER 31. A calendar year by definition is an accounting period that begins on January 1 and ends on December 31.

3 Reserves

This chapter addresses reserves, why they are established, what types of reserves must be included in the proposed annual budget, and the different reserve funding methods. This chapter also provides some ideas on obtaining estimates for reserve items.

What Are Reserves

Reserves are monies set aside for specific expenditures that will be incurred in the future due to the normal aging, wear and tear, or eventual replacement of association property. By planning for these future costs, reserves help protect the long-term condition and structural integrity of the condominium property. Usually, such expenditures relate to the cost of major repairs to, or replacements of, the condominium property – capital expenditures and deferred maintenance. If money is not set aside for these expenses, unit owners will usually have to pay a special assessment at the time such repair or replacement occurs. Reserves may also be established for other types of expenditures that are paid infrequently, such as a premium for a three-year flood insurance policy. It's important for the board to clearly identify the purpose of each reserve.

Reserves related to an association's structural integrity reserve study may be funded by regular assessments, special assessments, lines of credit, or loans. A special assessment, a line of credit, or a loan for reserves related to SIRS requires approval of by a majority of the total voting interests of the association. Additionally, funds from loans and lines of credit for SIRS must be immediately available for access by the board and must be sufficient to fund the cumulative amount of any previously waived or unfunded portions of the reserve funding required by the most recent structural integrity reserve study

When funds are set aside for a specific purpose, whether it's for repairs to or replacements of the property or for other purposes, the association must comply with certain requirements such as disclosing reserve information in the budget as well as in the year-end financial reporting disclosures.

It is important to clarify the purpose of a reserve at the time it is created. If a reserve entitled, "Tennis-Court Resurfacing" were established, then the funds in this reserve should not be used to replace the tennis court lighting system.

The definition of reserves is found in Rule 61B-22.001(5), F.A.C. and in the Glossary. The reserves required by the Condominium Act are discussed below.

Deferred Maintenance & Capital Expenditure Reserves

Examples of capital expenditure and deferred maintenance reserves include:

- Roof Replacement
- Building Painting
- Pavement Resurfacing
- Balcony Restoration
- Sidewalk Replacement
- Boardwalk Replacement
- Seawall Repair
- Air Conditioning Replacement

It is important that you determine the purpose of each reserve item maintained by the association so that you will know what restrictions have been placed on the expenditure of the reserve funds and when it is allowable to make expenditures from the operating account or the appropriate reserve account. The title of each reserve account should specify the purpose for which the funds can be used.

Reserve funds that are restricted for these purposes may not be used for frequent or routine maintenance of the property. These expenses should be paid with operating funds, and the operating portion of the budget should include such estimated routine expenses.

Example of Deferred Maintenance:
An example of a deferred maintenance reserve is building painting. Painting a building is usually done less frequently than annually, and it results in maintaining the life of the building. Deferred maintenance can be confused with regular or routine maintenance. Touch up painting is a routine maintenance item that should be included in the operating section of the budget and should be paid with operating funds.

Examples of Capital Expenditures:
An example of a capital expenditure is the purchase of a swimming pool heater. The association may pay for this expenditure with funds from its reserve account titled "Pool-Heater Replacement".

Another example of a capital expenditure is the purchase of a new lawn tractor to replace the one currently owned by the association. This account could be called "Lawn Tractor Replacement."

Another type of capital expenditure is a repair such as replacing the pilings to a dock. The dock's useful life expectancy will be extended by more than one year. This is different from replacing a board here and there on the dock.

It is important to clarify the purpose of a reserve at the time it is created. If a reserve entitled, "Tennis-Court Resurfacing" were established, then the funds in this reserve should not be used to replace the tennis court lighting system.

It's important for the board to clearly identify the purpose of each reserve. Although not required by the Condominium Act, the board should identify the purpose of each reserve in the minutes or in the reserve study, if the reserve is not required by 718.112(2)(g). The minutes and reserve study can be used as a reference for future boards as they make decisions about the use of the reserve funds. If the association's documents require certain reserves, the board should ensure the purpose for each is clearly identified in the documents and in the minutes.

Different Types of Reserves

The association's proposed budget is required by section 718.112(2)(f)2., F.S., to establish reserves for:

- Roof replacement,
- Building painting,
- Pavement resurfacing, and
- Any other deferred-maintenance or capital-expenditure items expected to cost more than the required reserve threshold, as updated by the Division.

For an association required to obtain a structural integrity reserve study (SIRS) in accordance with section 718.112(2)(g), F.S., the proposed budget must establish reserves for:

a. Roof.
b. Structure, including load-bearing walls and other primary structural members and systems.
c. Fireproofing and fire protection systems.
d. Plumbing.
e. Electrical systems.
f. Waterproofing and exterior painting.
g. Windows and exterior doors.
h. Any other item that has a deferred maintenance expense or replacement cost that exceeds the required reserve threshold, as updated by the Division, and if not maintained or replaced would negatively affect the items listed above.

To learn more about the structural integrity reserve study, visit the Inspection webpage on the Condo Information and Resources website here.

In addition to the specific reserves required by the law, the association may establish other reserves. Examples of other types of reserves can include: insurance premium, repair and replacement of pool pump system, or reserve for purchase of recreational equipment for the clubhouse. Many associations want to have a reserve called "Contingency Reserve." The purpose of this account would be to fund items for which reserves have not been established or to cover unanticipated operating expenses. However, it is inappropriate to create a "reserve" account for this purpose as there is no apparent restriction on the use of the funds. Consequently, the account does not meet the definition of a reserve, and associations that desire to have a contingency account should budget for a surplus in the operating fund. As stated above, the association may create a reserve for general deferred maintenance and capital expenditures. Funds in this account may be used for any deferred maintenance or capital expenditure project, but not for ordinary operating expenses. To determine whether additional reserves have been established, you should review prior board meeting minutes, prior budgets, and year-end financial reports.

If an item was previously required to be reserved for but later falls below the inflation-adjusted reserve threshold, the association is not required to eliminate that reserve. An association may choose to continue setting aside funds for the item. Although the statutory requirement for the item to be reserved for has changed, the item's condition and future repair or replacement needs remain. Any money already held in a reserve

account remains restricted for its original purpose, and a vote of the unit owners may be required to use those reserve funds for a different purpose, as allowed by law.

Reserve Funding Methods

Florida law allows condominium associations flexibility in how reserve funds are accounted for and funded, provided that all statutory and administrative rule requirements are met. Associations may choose to maintain reserve accounts using different accounting and funding methods based on the nature of the reserve items, the size and complexity of the association, and long-term financial planning needs.

The two most common reserve accounting methods are the pooled method and the straight-line method. An association may use one method exclusively or may use a combination of both methods for different reserve items, as long as all required disclosures are included in the proposed budget and reserve schedule. While a combination of reserve funding methods is permitted, using both pooled and straight-line reserves may increase administrative and accounting complexity and requires clear reserve schedules, consistent accounting records, and accurate disclosures to avoid confusion.

Straight-Line Reserves

Under the straight-line method, reserve funds are maintained and accounted for separately for each individual reserve item. Each reserve account is established for a specific purpose, such as roof replacement, building painting, or pavement resurfacing, and funds deposited into that account may only be used for the designated reserve item unless otherwise approved by the unit owners as permitted by law.

When using the straight-line method, the annual reserve contribution for each item is calculated by subtracting the estimated fund balance from the estimated cost of the deferred maintenance or capital expenditure and dividing the result by the remaining useful life of the item. This method spreads the cost of each reserve item evenly over its remaining life and helps ensure that sufficient funds will be available when the expenditure is needed.

The straight-line method provides a clear and transparent connection between each reserve item and its associated funding. Because each reserve is tracked independently, this method may be easier for unit owners to understand and for boards to monitor, particularly in smaller associations or when reserve items have significantly different replacement schedules. However, using the straight-line method may result in less flexibility for boards and higher regular assessment requirements in order to fund the multiple components.

A vote of the unit owners is not required for the board to use the straight-line method of reserve funding. However, as with all reserves, funds maintained under the straight-line method may only be used for their intended purpose unless unit owner approval is obtained in accordance with the statutes and administrative rules.

Pooled Reserves

Both the Florida Statutes and the Florida Administrative Code allow associations to establish "pooled" reserve accounts for two or more reserve components instead of individual reserve accounts from the straight-line method. This means that an association may have as few as one source of funds to pay for multiple categories of reserve expenses. For example, if an association establishes a pooled reserve account for roof replacement, building painting and pavement resurfacing, funds may be drawn from this account to pay for any of the three items.

Reserve accounts for items that are statutorily required by Section 718.112(2)(g), F.S. may not be pooled with other reserve accounts not required by the section. Furthermore, funds in such a reserve account may not be used for an expense not included in that pooled reserve account.

The association may have other pooled reserve accounts for items that are not statutorily required. An example of such would be replacement of the pool heater.

A vote of the members is not required for the board to change the accounting method for reserves to a pooling accounting method or a straight-line accounting method.

For association's not required to obtain a structural integrity reserve study, unit owner approval is required in order to use pooled funds from a reserve account to pay for any expenses that are not allocable to the categories included in the pool. For example, unit owner approval must be obtained in order to use the pooled reserve funds for a new pool heater and new lawnmowers (included in the pooled reserves) to pay for a seawall replacement (not included in the pooled reserves).

Why Establish Reserves

A Condominium association's main source of income is assessments (also known as maintenance fees) collected from the unit owners. The primary purpose for establishing reserves is to spread the cost of major expenditures over the lives of the assets to be maintained or replaced in order to avoid large assessment increases or special assessments.

Example:
An association repaints the building every five years. The last time the association painted the building it cost $25,000. The association funds a painting reserve each year in the amount of $5,000 in order to avoid making a special assessment of $25,000 every five years. (Note that this example excludes factors such as inflation, adjusted reserve thresholds, and interest earnings.)

Additionally, reserves add a degree of accountability or control that is not applicable to operating funds. In other words, there are no restrictions (other than using the funds to pay for proper common expenses) for operating funds, but reserve funds may only be spent for the specified purposes unless the unit owners approve a different use of the reserve funds not required by statute.

Waiving or Reducing Reserves

While a fully funded reserve schedule, as described in chapter 4, must be included in the proposed budget, associations may waive the requirement that reserves be funded or reduce the amount of the proposed funding under certain circumstances, such as termination of the condominium. It is the board's responsibility to include reserves on the proposed budget and to fully fund those reserves that are not waived or reduced by a majority vote of the unit owners in accordance with the Statutes.

NOTE: For association's required to obtain a structural integrity reserve study, reserves may not be waived or reduced. Except that members of a multicondominium may determine to provide no reserves or less reserves than required by statute if an alternative funding method is approved by the Division.

After the proposed budget is provided to the owners (at least 14 days prior to the budget meeting), a vote to waive or reduce the funding of any reserves not required by statute may be taken. Most condominium documents provide the board with authority to adopt the budget, but only the unit owners can waive or reduce certain reserve funding requirements. It is helpful to plan the association meetings in such a way that the vote taken to waive or reduce any reserves as allowed by statute is taken on the same date as the vote to adopt the budget. Keep in mind that a vote to waive or reduce reserve funding is only good for one annual budget. If any reserve funding is to be waived for the *next* annual budget, then another unit owner vote must be obtained. Also, a vote to waive or reduce the funding of reserves is not required unless the association intends to waive or reduce the reserve funding.

Table 2.3 in the previous chapter provides some examples of how to compute the vote to waive or reduce the funding of reserves.

What happens if a majority of the voting interests don't approve the proposal or there is not a quorum at the meeting to approve the budget? If either of these occur, the reserves must be fully funded as outlined in the budget. If the vote to waive or reduce reserves is presented to the owners, it's important to remember that this vote is only to waive or reduce the *funding* of reserves. The vote does not mean that the disclosures in the budget can be waived or reduced. Reserve disclosures, as discussed in Chapter 4, must be included in the proposed budget regardless of a vote to waive or reduce reserves.

Also, remember that general proxies cannot be used to waive or reduce reserve funding; rather, a vote in person or via electronic means or by limited proxy must be used. The limited proxy used by the association must substantially conform to the Division's Sample Limited Proxy Form.

Section 718.112(2)(f)2.f., F.S., provides that, prior to turnover, the developer may not vote to waive or reduce reserve funding.

NOTE: Multicondominium associations should refer to Rule 61B-22.005(8), F.A.C., for additional procedures on voting to waive or reduce reserve funding.

Estimating Reserves

Identifying all of the items for which reserve accounts must be established and obtaining cost and life expectancy estimates can seem daunting. For example, you need to determine which items cost more than the required reserve threshold, as updated by the Division, estimate the total expected lives, the remaining lives, and how much money the association has already set aside to replace these items.

Accurate estimates are essential to proper reserve planning. Special assessments often result from poor estimates or failure to establish proper reserves for expensive items. Keep in mind that estimates will change from time to time based upon factors such as weather damage, original construction, routine maintenance, location of the property (i.e., inland or on the coast), and inflation.

For non-statutorily required reserves, the board must annually re-evaluate these estimates to ensure the reserves will be properly funded for the next budget year. The following steps should be performed each year:

- Take an inventory of the condominium property and evaluate the condition of each item.
- Examine original plans and specifications.
- Review reports from unit owners about repairs that need to be made.
- Talk to other board members and owners who may have special knowledge about the condominium.
- Consult professionals such as licensed architects, engineers, or a person certified as a reserve specialist or professional reserve analyst by the Community Associations Institute or the Association of Professional Reserve Analysts. The board should consider hiring a professional from the previous list to perform an analysis of the condition of the facilities and reserves at least every three to five years.

For association's required to obtain a structural integrity reserve study, the reserve amount for items identified in paragraph (g) of section 718.112(2), F.S. must be based on the findings and recommendations of the association's most recent structural integrity reserve study.

Summary of Chapter 3

This chapter explains the purpose, structure, and statutory requirements associated with reserve funds and emphasizes their critical role in an association's long-term financial stability. Reserves are funds set aside for future deferred maintenance and capital expenditures, most often related to major repairs or replacements of condominium property. By planning for these expenses in advance, associations can reduce the likelihood of large assessment increases or special assessments when significant work becomes necessary. The chapter highlights the importance of clearly identifying the purpose of each reserve at the time it is established so that funds are properly restricted and used only for their intended purpose.

The chapter distinguishes between deferred maintenance and capital expenditures, explaining how each type of reserve differs from routine operating expenses. Deferred

maintenance typically involves work performed less frequently than annually to preserve an asset's useful life, while capital expenditures involve replacing or purchasing assets with a useful life greater than one year or extending the useful life of existing assets. These distinctions are essential because reserve funds may not be used for routine maintenance, which must instead be paid from operating funds. Properly titling and documenting reserve accounts helps ensure compliance with statutory restrictions and provides clarity for future boards and unit owners.

Required reserves are addressed in detail, including those mandated by section 718.112(2)(f), Florida Statutes, and additional reserve requirements applicable to associations subject to a structural integrity reserve study. The chapter explains that associations may also establish other reserves beyond those required by law, provided the purpose of the reserve is clearly defined and the funds are restricted accordingly. It cautions against improperly labeling unrestricted funds as reserves and explains that contingency needs should instead be addressed through operating fund surpluses.

The chapter also discusses reserve funding methods, including the straight-line and pooled methods, and explains how each approach may be used depending on the association's needs. While boards have discretion to choose the appropriate accounting method, reserve funds remain subject to statutory use restrictions regardless of the funding method selected. The chapter further explains the circumstances under which reserve funding may be waived or reduced, emphasizing that such action generally requires unit owner approval and is limited to reserves not required by statute. For associations required to obtain a structural integrity reserve study, reserves generally may not be waived or reduced, reinforcing the Legislature's intent to protect funding for critical building components.

Finally, the chapter underscores the importance of accurate reserve estimates and ongoing evaluation. Boards are encouraged to regularly review reserve assumptions, consider professional input, and update estimates based on changing conditions such as inflation, wear and tear, or environmental factors. Accurate reserve planning supports informed decision-making, enhances transparency, and helps ensure that the association remains financially prepared to meet its future obligations. Together, these principles form the foundation for responsible reserve management and compliance with Florida's condominium laws.

PRACTICE EXERCISES

1) *(Complete the sentence.)* Repairs or maintenance that will be performed less frequently than yearly and will result in maintaining an asset's useful life are called:

_____

2) *(Complete the sentence.)* Spending funds to purchase or replace an asset with a useful life of more than one year or to extend the useful life of an asset more than one year is called:

_____

3) The board has established a reserve entitled, "Swimming Pool Capital Expenditure Reserve." For which of the following may the board use the funds? *(Choose one.)*

   a) Purchase pool supplies.
   b) Replace the pump.
   c) Clean the Pool.

4) The board has established a deferred maintenance *and* capital expenditure reserve entitled, "Golf Cart Replacement." For what purposes may the board use the funds? *(Choose all that apply.)*

   a) Replacing a golf cart with a new one.
   b) Replacing the battery (occurs once every few years).
   c) Paying for the electricity to recharge the battery (occurs daily).
   d) Replacing the tires with new ones (occurs once every few years).
   e) Repainting scuff marks (occurs daily).

5) Your association has 130 units and does not require a structural integrity reserve study. The bylaws assign one vote to each unit and provide that a quorum is a majority of the total voting interests. The board wants to obtain approval to reduce reserves for this year. Ballots representing seventy-eight (78) voting interests are cast at the meeting. How many unit owner votes must be obtained, at a minimum, to allow the reserves to be reduced for the upcoming fiscal year? *(Choose one.)*

   a) 40
   b) 66
   c) 87

ANSWER KEY

1) Repairs or maintenance that will be performed less frequently than yearly and will result in maintaining an asset's useful life is called **DEFERRED MAINTENANCE**.

2) Spending reserve funds to purchase or replace an asset with a useful life of more than one year or to extend the useful life of an asset more than one year is a **CAPITAL EXPENDITURE**.

3) B. In this example, the board established a reserve only for capital expenditures related to the swimming pool. The definition of capital expenditure is any expenditure of funds for the purchase or replacement of an asset whose useful life is greater than one year, or the addition to an asset that extends the useful life of the previously existing asset for a period greater than one year. Answer A should not be chosen because purchasing chlorine supplies is an operating expense and should be paid for with operating funds. Answer C should not be chosen because paying to have the pool cleaned is considered to be a routine maintenance expense. As stated earlier, these types of expenses should come out of the operating section of the budget.

4) A. This reserve account is restricted to replacement of the golf cart. Responses B. and D. are examples of capital expenditures, but are not correct answers because they are not expenditures for the replacement of the golf cart. Responses C. and E. are not correct because these events are considered routine maintenance. Expenses for routine or frequent maintenance should come from the operating section of the budget.

5) B. The vote required to waive or reduce the funding of reserves is the approval of a majority of the total voting interest of all unit owners subject to assessment. A majority of the 130 voting interests is 66, or one more than half of 130 (65).

4 Reserve Schedule

This chapter addresses the preparation of the reserve schedule for statutorily required reserves and communities that are not required to obtain a SIRS. Topics that will be discussed include the schedule's purpose, required reserve disclosures, and the computations involved in completing the schedule. The manual presents the straight-line method first, followed by the pooled method. However, associations may decide to use the straight-line method for some reserve items and the pooled method for others, in which case the proposed budget should contain both schedules.

What is a Reserve Schedule

The reserve schedule constitutes the reserve section of the budget, and its purpose is to disclose reserve information to the unit owners and board members. The estimates that were discussed in Chapter 3 (how long assets will last, their remaining useful life, and the cost for deferred maintenance or a capital expenditure) appear in the reserve schedule.

Regardless of what reserve schedules look like, they must all contain the minimum disclosures required by the Condominium Act and administrative code rules.

These disclosures are an important component of the budget. Not just because they are required, but also because they provide critical information for unit owners and board members. Among other things, they help everyone know how much future expenses are estimated to cost, when these expenses are scheduled to take place, and how much money has been set aside for these expenses as of a certain date. The reserve schedule also provides unit owners with information to assist in deciding whether to vote to waive or reduce the reserves or not.

Reserve Schedule Disclosures

Whether using the pooling method or straight-line method of accounting, the schedule of deferred maintenance and capital expenditure reserves includes:

1) All required deferred maintenance and capital expenditure reserve items.
2) Estimated total useful life of each of the required items.
3) Estimated remaining useful life of each of the required items.
4) Estimated deferred maintenance or capital expenditure replacement cost of each of the required items.
5) Specific to the straight-line method:
    a. Estimated fund balance for each item as of the beginning of the proposed budget year (end of the current year).
    b. The required funding amount for the proposed budget year for each item.

Additionally, the following must be disclosed for any reserve items that are not deferred maintenance or capital expenditure items and are maintained or proposed by the association:

1) The intended use of the restricted funds; and
2) The estimated fund balance as of the beginning of the proposed budget period (end of the current fiscal year).

The funding amounts are important because they let everyone know how much money must be deposited in each reserve account each month or quarter, depending on whether your association collects assessments monthly or quarterly.

The Steps for the Straight-Line Method

STEP ONE: List All Reserve Items on the Schedule

The first thing to do when preparing the deferred maintenance and capital expenditure reserve schedule is to list *all* of the required reserve items. Not only must you list reserves required by the Condominium Act, but also any other deferred maintenance and capital expenditure reserve items or any other reserves that the association would like to fund or are established by the association's governing documents. For purposes of this manual, we are going to create a reserve schedule that lists the following reserve items:

- Roof Replacement
- Elevator Repair & Modernization
- Pavement Resurfacing
- Clubhouse Roof Replacement
- Building Painting
- Walkway Improvements

In our example, Roof Replacement, Pavement Resurfacing, Building Painting, and Clubhouse Roof Replacement are required by the Condominium Act to be listed on the budget. Additionally, Walkway Improvements and Elevator Repair and Modernization must also be established because, in our example, it is estimated that the cost of the deferred maintenance or capital expenditure will be more than $25,000 in 2025. If, in our example, the association had a swimming pool where the replacement cost was under $25,000, a reserve for this item would not have to be listed on the schedule unless there was already an account established by the association. While this manual does not cover reserves not required by the Condominium Act, if your association wants to establish reserves for items other than capital expenditures and deferred maintenance the following information will need to be disclosed in a separate reserve schedule:

- The name of each item (disclosing the intended use of the funds);
- The estimated balance of each of these reserve items at the beginning of the proposed budget period; and
- The amount of funds to be set-aside for each of these items in the current budget.

STEP TWO: List the Estimated Total Useful Life on the Schedule

Once you've listed the appropriate reserve items on the schedule, determine the estimated total useful life for each reserve item.

This estimate will be placed in the first column of the schedule

STEP THREE: Include the Estimated Remaining Useful Life on the Schedule

Once you have listed the estimated total useful life for each reserve item, determine each item's estimated *remaining* useful life and write the amounts on the schedule.

The estimate for each reserve item's remaining useful life will be placed in the second

column of the schedule.

Example
The 2016 engineer's report given to the association stated that the estimated total useful life of the roof was 10 years. All subsequent re-evaluations supported the 2016 findings. It is now 2025. Based on this information, the estimated remaining useful life of the roof is one year. In 2026, a capital expenditure to replace the roof will likely be needed.

STEP FOUR: List the Costs on the Schedule

The fourth step in preparing your schedule is to determine each item's estimated cost of deferred maintenance or capital expenditure and to include the amounts on the schedule.

Once the amounts are listed, a total should be provided at the bottom of the column. Refer to Chapter 3 for guidance on how to obtain these estimates.

STEP FIVE: List the Estimated Fund Balances on the Schedule

The fifth step in preparing the reserve schedule is to identify the estimated fund balance, as of the beginning of the period for which the budget is being prepared, for each reserve item and to include these amounts on the schedule.

Note that the information and examples provided for this topic are very basic in nature. The methods used for determining estimated fund balances may vary based on the complexity and sophistication of the association's accounting system. As you read through this section, assume that there have been no unauthorized transfers or unauthorized expenditures from the reserves. In addition, keep in mind that the reserves must be identified separately in the accounting records even if all reserves are maintained in one bank account. In other words, the accounting records must be maintained in accordance with good accounting practices.

As you identify each reserve's estimated fund balance, include the amounts in the "Estimated Fund Balance" column on the schedule and total them.

Example
Assume that you are working on next year's budget in October. In order to determine what the roof reserve's fund balance will be at the close of business on December 31, you can start by checking the amount of money that was in the roof reserve at the end of September. Then, add all of the assessments that *should* be deposited in the roof reserve based on the current budget for the months of October, November, and December. Finally, subtract any expenditures that are anticipated for those three months. This total should give you the estimated fund balance for the roof reserve as of December 31.

STEP SIX: Compute the Current Year Funding Requirements and Include them on the Schedule

The sixth step in preparing a reserve schedule is computing the current year funding requirements. When the proposed budget is given to the unit owners, the reserve

schedule must provide for full funding of the reserves.

The current year funding requirement is the amount of money that must be deposited in the reserves during the year. This amount should ensure sufficient funds are available when it's time to do the deferred maintenance or a capital expenditure.

Keep in mind that the current year funding requirement is different than the fund balance. The funding requirement is what must be deposited during the year, and the fund balance is the amount that should be in the reserve account at any given time.

The formula for computing the current year funding requirement must take into account the estimated deferred maintenance or capital expenditure amount, estimated fund balance, and number of years remaining until deferred maintenance or a capital expenditure is needed. Since these estimates are part of the formula, you can see that the current year funding requirement will change from year to year. So you should not simply copy the current year funding requirement from the current budget to the next year's proposed schedule. The formula is also addressed by rule 61B-22.005(3), F.A.C.

As the current year funding requirements are computed for each reserve, place them in the "Current Year Funding Requirement" column on the schedule and total them.

Example – Straight-line Method:
Assume that you are preparing next year's budget (January to December) in October, the remaining useful life of the roof is 4 years, the estimated cost to replace the roof is $86,000, and $50,000 should be in the roof reserve when the budget becomes effective on January 1. To determine the amount that must be deposited during the proposed budget year, subtract $50,000 from $86,000. The result is $36,000. Then, you divide this amount by the remaining useful life of 4 years. This results in $9,000 and is the current year funding requirement.

($86,000 - $50,000) / 4 = $9,000

Figure 4.1 Completed Sample Reserve Schedule Using the Straight-line Method

SCHEDULE OF DEFERRED MAINTENANCE & CAPITAL EXPENDITURE RESERVES
(for the fiscal year of January 1, 20XX through December 31, 20XX)

Reserve Items	Estimated Total Useful Life (in years)	Estimated Remaining Useful Life (in years)	Estimated Cost for Deferred Maintenance/ Capital Expenditure ($)	Estimated Fund Balance as of 12-31-XX ($)	Funding Required for Proposed Budget Period ($)
Roof Replacement	12	1	95,000	87,000	8,000
Pavement Resurfacing	18	7	55,000	30,472	3,504
Building Painting	5	4	92,000	19,968	18,008
Elevator Repair & Modernization	25	14	25,000	11,100	1000
Clubhouse Roof Replacement	12	1	60,000	57,000	3,000
Walkway Improvements	10	9	30,000	3,000	3,000
		T O T A L S	$357,000	$208,440	$36,512

NOTE: This schedule is for illustrative purposes only.

NOTE: Multicondominium associations have additional disclosure requirements for the proposed budget and reserve schedule. Refer to Rule 61B-22.003, F.A.C., for more information.

In computing the Funding Required for the Proposed Budget Period, you might come across a situation, which may be indicative of a statutory violation, where a reserve has a negative (less than zero) balance. Negative balances can occur when the association spent more money than was available for one or more reserve items.

To compute the current year funding requirement in this type of situation, the administrative rules require that you make up the deficit in the upcoming year **in**

addition to funding the replacement cost over the life of the item being replaced or purchased (the formula discussed above). The negative amount cannot be made up over the remaining useful life of the reserve item.

For example, an association replaced a roof that had $95,000 in the reserve fund, but cost $105,000, leaving a negative balance in the reserve fund of $10,000. The new roof has an estimated useful life of 20 years and is expected to have a replacement cost of $160,000. This results in an annual contribution to the roof reserve fund of $8,000. However, in the next fiscal year, the amount to be paid into reserves should be $18,000 ($8,000 for the new roof and $10,000 to cover the negative balance.

Preparing the Pooling Schedule

Rule 61B-22.005(3)(b), F.A.C., addresses the method of calculating reserves using the pooling method. The rule provides that the amount of the current year contribution should not be less than that required to ensure that the balance on hand at the beginning of the period when the budget will go into effect plus the projected annual cash inflows over the estimated remaining lives of the items in the pool are greater than the estimated cash outflows over the estimated remaining lives of the items in the pool. The rule prohibits using any type of balloon funding. There are multiple acceptable reserve funding goals for pooled reserves, including Threshold Funding and Baseline Funding. The projected annual cash inflows may include reasonable estimated earnings from investment of principal. The rate of annual reserve contribution increases in a pooled reserve funding plan can not exceed the rate of inflation used for expense projections. This method also requires associations to identify each item to be included in the pool, along with the estimated cost of replacement or deferred maintenance, and the remaining lives of each of the items within the pool. The following table 4.2 demonstrates how the same reserve information shown in the straight-line method may be used to create a pooled reserve account schedule. In order to present the entire pooling analysis on one page this manual shows the first four columns of the schedule separately. When you prepare a pooling schedule, insert this information into the table. Remember that the Florida Statutes do not allow pooling items that are statutorily required by Section 718.112(2)(g), such as the roof, with those reserve items that are not, such as a pool heater.

The Steps for the Pooling Method

STEP ONE: List All Reserve Items

The first thing to do when preparing the deferred maintenance and capital expenditure reserve schedule is to list *all* of the required reserve items. For purposes of this manual, we are going to create a reserve schedule that lists the following reserve items:

- Roof Replacement
- Elevator Repair & Modernization
- Pavement Resurfacing
- Clubhouse Roof Replacement
- Building Painting
- Walkway Improvements

In our example, Roof Replacement, Pavement Resurfacing, Building Painting, and Clubhouse Roof Replacement are required by the Condominium Act to be listed on the budget.

STEP TWO: Determine the Estimated Total Useful Life of Each Item in the Pool

Once you've listed the appropriate reserve items on the schedule, determine the estimated total useful life for each reserve item and disclose the information on the schedule(s).

STEP THREE: Determine the Estimated Remaining Useful Life of Each Item in the Pool

Once you have listed the estimated total useful life for each reserve item, determine each item's estimated *remaining* useful life and disclose the information on the schedule(s).

STEP FOUR: Determine the Number of Columns Needed for the Projected Annual Cash Outflows Section

Each column in the projected annual cash outflows section represents one year to be included in the analysis. The analysis must include at least the number of years (columns) equal to the longest remaining life of any item in the pool, though a good practice is to plan reserve for a longer period, such as 25 or 30 years. In this example, the longest remaining life for statutorily required reserve items is 7 years (for Pavement Resurfacing) and 14 years for other pooled reserves (for Elevator Modernization). Therefore, the minimum number of columns required for these analyses are 7 and 14, respectively.

STEP FIVE: Enter Costs for Estimated Deferred Maintenance or Capital Expenditure of Each Item in the Pool(s)

Once you have created sufficient columns in the table, determine each item's estimated replacement or deferred maintenance cost and write the amounts in the applicable column. Note that some items may be replaced more than once during the entire period under analysis. For example, Figure 4.2 shows that Building Painting will be done at the end of the remaining painting life of 4 years and will reoccur every 5 years from that date. After the amounts are listed for each item, a total should be provided at the bottom of each column for each separate pool. This total represents the total projected annual cash outflows from each reserve pool.

STEP SIX: Enter the Estimated Beginning Cash Balance for Year 1

The sixth step in preparing the reserve schedule(s) is to determine the estimated fund balance of each reserve pool as of the beginning of the period for which the budget is being prepared. Since the budget is usually prepared in advance of the new year, this requires an estimate of the amount that will be on hand at the end of the year. This can be done by determining the reserve pool balance on the date the estimate is being prepared, adding the monthly or quarterly funding requirement for the remainder of the year, and subtracting any estimated expenses that will be incurred during the remainder of the year. Enter this amount in the "Beginning Cash Balance" row under Year 1.

Hint: Spreadsheet users can create a formula making the Beginning Cash Balance

for each year after year 1 equal to the Ending Cash Balance from the prior year. The formula for calculating the Ending Cash Balance each year is: Beginning Cash Balance less the Total Projected Cash Outflows plus the Annual Reserve Requirement.

STEP SEVEN: Compute the Annual Reserve Requirement

The last step in preparing any reserve schedule using the pooling method is to calculate the Annual Reserve Requirement. This is the minimum annual contribution based on the reserve analysis that will ensure the reserve pool will not have a negative Ending Cash Balance.

Note: Figure 4.2 shows a level funding requirement each year during the analysis. While the rules do not specifically require a level funding requirement, the pooling method cannot be used to simply fund reserves in an amount equal to the amount of cash outflows each year. The rules prohibit balloon payments, so the cost of capital expenditures and deferred maintenance projects must be spread over the life of the reserve items.

Adjusting the Schedule

Changes will probably occur that will affect the formula you use to calculate reserves from year to year. For example, the board may be given different estimates for life expectancies, deferred maintenance, capital expenditures, interest and inflation estimates, all of which will affect the reserve analysis. It is important to remember that when you compute the current year funding requirement for the proposed budget, you are only computing it for the year for which the reserve analysis is being prepared. For reserve items subject to a structural integrity reserve study, any adjustments to the reserve schedule must remain consistent with the funding amounts and recommendations in the association's most recent structural integrity reserve study, unless the study is updated as provided by law.

Figure 4.2 Reserve Schedules Using the Pooling Method

Statutorily Required Reserve Item	Total Estimated Life (Yrs)	Remaining Life (Yrs)	Cost
Roof Replacement	12	1	$95,000
Pavement Resurfacing	18	7	$55,000
Building Painting	5	4	$92,000
Clubhouse Roof Replacement	12	1	$60,000
Item(s) Not Required by Statute	**Total Estimated Life (Yrs)**	**Remaining Life (Yrs)**	**Cost**
Landscape Improvements	10	9	$20,000
Elevator Repair & Modernization	25	14	$20,000

Figure 4.2 Continued - Reserve Schedules Using the Pooling Method

	Projected Annual Cash Outflows													
Statutorily Required Item(s)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**							
Roof Replacement	95,000	0	0	0	0	0	0							
Pavement Resurfacing	0	0	0	0	0	0	55,000							
Building Painting	0	0	0	92,000	0	0	0							
Clubhouse Roof Replacement	60,000	0	0	0	0	0	0							
Total Projected Cash Outflows:	(155,000)	0	0	(92,000)	0	0	(55,000)							
Beginning Cash Balance:	$194,440	$71,952	$104,464	$136,976	$77,488	$110,000	$142,512							
Annual Reserve Requirement:	$32,512	$32,512	$32,512	$32,512	$32,512	$32,512	$32,512							
Ending Cash Balance:	$71,952	$104,464	$136,976	$77,448	$110,000	$142,512	$120,024							

Item(s) Not Required by Statute	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Year 14**
Elevator Repair & Modernization	0	0	0	0	0	0	0	0	0	0	0	0	0	$25,000
Landscape Improvements	0	0	0	0	0	0	0	0	$20,000	0	0	0	0	0
Total Projected Cash Outflows:									($20,000)					($25,000)
Beginning Cash Balance:	$14,000	$18,000	$22,000	$26,000	$30,000	$34,000	$38,000	$42,000	$46,000	$30,000	$34,000	$38,000	$42,000	$46,000
Annual Reserve Requirement:	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000
Ending Cash Balance:	$18,000	$22,000	$26,000	$30,000	$34,000	$38,000	$42,000	$46,000	$30,000	$34,000	$38,000	$42,000	$46,000	$25,000

NOTE: These schedules are for illustrative purposes only and do not represent the Division's position regarding the life expectancies or costs of reserve assets.

NOTE: Multicondominium associations have additional disclosure requirements for the proposed budget and reserve schedule(s). Refer to Rule 61B-22.003, F.A.C., for more information.

For reserve items subject to a structural integrity reserve study, the funding shown in the reserve schedule must be sufficient to ensure the reserve balance does not fall below zero over the remaining useful life of the items. This minimum level of funding is sometimes referred to as baseline funding and must be consistent with the association's most recent structural integrity reserve study.

How To Fund Reserves

Rule 61B-22.005(6), F.A.C., requires that reserves be funded in a timely manner, at least as frequently as assessments are due from the owners, such as monthly or quarterly. This means that, if assessments are collected monthly, then 1/12 of the Annual Reserve Requirement must be funded (i.e., deposited to the reserve account) each month.

In addition, Rule 61B-22.005(2), F.A.C., states that if operating and reserve assessments are collected as a single payment, the reserve portion of the payment must be transferred to the appropriate reserves within 30 calendar days from the date the payment was deposited in the operating account. The following situation is intended to illustrate the funding requirements and handling of operating and reserve funds.

Example:
Assume that the condominium documents require that assessments be collected on a calendar quarterly basis, reserves have not been waived, and assessments from unit owners are deposited on January 6, 2025. The association must transfer the reserve portion of that deposit to the appropriate reserve bank account(s) no later than February 5, 2025, and one fourth of the annual funding requirement must be set aside in the reserve account(s) not later than March 31, 2025, even if all of the unit owners have not made their quarterly payments. In other words, reserves are required to be funded even if some unit owners are delinquent in their payments. Should your association experience chronic delinquencies, it is a good idea to build a line item into the operating budget to ensure adequate cash flow to pay for all of the operating expenses and to fund all reserves.

Summary of Chapter 4

This Chapter explains the purpose, required disclosures, and preparation of the reserve schedule, which forms the reserve component of an association's annual budget. The reserve schedule discloses critical financial information to unit owners and board members regarding anticipated deferred maintenance and capital expenditures, including projected costs, timing, and whether sufficient funds are being accumulated to meet future obligations.

The reserve schedule must include all statutorily required reserve items, as well as any additional deferred maintenance, capital expenditure, or other reserve items the association intends to fund. All reserve schedules must contain the minimum disclosures required by the Condominium Act and applicable administrative rules. These disclosures support legal compliance and help unit owners make informed decisions, including whether to vote to waive or reduce reserves when permitted by law.

At a minimum, the reserve schedule for deferred maintenance and capital expenditures must disclose:

- each required reserve item;
- estimated total useful life;
- remaining useful life;
- estimated replacement or deferred maintenance cost;

- estimated fund balance at the beginning of the budget year; and
- the funding amount required for the proposed budget period.

The reserve schedule is prepared by identifying all required and elected reserve items and estimating useful lives, costs, and beginning balances. Reserve balances must be separately identified in the association's accounting records, even if funds are held in a single bank account, and reserves must be funded in accordance with good accounting practices.

The schedule must also calculate the current year funding requirement, which is the amount that must be deposited during the budget year to ensure adequate funds are available when expenditures occur. This amount differs from the reserve fund balance and must be recalculated each year based on updated estimates.

Associations may prepare reserve schedules using either the straight-line method, where each item is funded separately, or the pooled method, where eligible items are combined. The pooled method is subject to additional rule-based requirements, including prohibitions against balloon funding and restrictions on pooling statutorily required items and those not required by statute. An association may use a combination of both methods if clearly disclosed in the proposed budget. While a combination of reserve funding methods is permitted, using both pooled and straight-line reserves may increase administrative and accounting complexity and requires clear reserve schedules, consistent accounting records, and accurate disclosures to avoid confusion.

Finally, reserves must be funded timely and consistently, at least as frequently as assessments are collected. When operating and reserve assessments are collected together, the reserve portion must be transferred to the appropriate reserve account within the timeframe required by rule, regardless of owner delinquencies.

PRACTICE EXERCISES

1) In the space below, explain why a reserve schedule must be included in the proposed budget that is sent to the unit owners.

2) List the six (6) disclosures that are included on a schedule of deferred maintenance or capital expenditure reserve items.

   a)
   b)
   c)
   d)
   e)
   f)

3) True or False: Associations may use either the straight line or pooled method to prepare reserve schedules. (Write your answer in the space below)

4) Which of the following must be listed on a deferred maintenance and capital expenditure reserve schedule? *(Choose all that apply.)*

   a) Building painting.
   b) Roof replacement.
   c) A reserve for an insurance premium due in three years.
   d) Pavement resurfacing.
   e) A deferred maintenance item that will cost less than the current reserve threshold posted by the Division.

5) Your experiences may allow you to respond to this question in ways other than that provided in this manual. The paragraph below provides one such response.

   Not only are reserve disclosures required by the statute and administrative rules, they also provide important information to unit owners and board members. The disclosures assist in making decisions about the funding of reserves and they identify how long assets should last before needing deferred maintenance or a capital expenditure. It is easier for people to make long-term plans when reserve disclosures are provided.

6) Six disclosures that should be on a deferred maintenance and capital expenditure reserve schedule include:

   a) All deferred maintenance and capital expenditure reserve items.
   b) The estimated total useful life.
   c) The estimated remaining useful life.
   d) The estimated cost for deferred maintenance or a capital expenditure.
   e) The estimated fund balance.
   f) The current year funding requirement.

7) Items ‘A,’ ‘B,’ and ‘D’ must be listed. Item ‘C’ should only be included if it is expected to cost $25,000 or more. Rule 61B-22.003(1)(e), F.A.C., requires that the budget include a schedule of *each* deferred maintenance and capital expenditure reserve item.

8) True. Associations may prepare reserve schedules using either the straight-line method, where each item is funded separately, or the pooled method, where eligible items are combined. The pooled method is subject to additional rule-based requirements, including prohibitions against balloon funding and restrictions on pooling statutorily required items and those not required by statute. An association may use a combination of both methods if clearly disclosed in the proposed budget.

5 Operating Expenses

This chapter provides information about the operating section of the budget. First, general budgeting techniques will be discussed, and then, statutory and administrative rule requirements will be addressed.

The Budget

Think of the budget as a formal written plan of the association's projected expenditures for a given period of time. As discussed in Chapter 2, the budget as a whole establishes the financial framework for the association by identifying projected revenues, operating expenses, and reserve funding for the fiscal year. It communicates the board's plans for the association and serves as a primary tool for financial planning and oversight.

This section builds upon that foundation by focusing specifically on the operating section of the budget. While Chapter 2 explains the overall structure and purpose of the budget, Chapter 5 addresses how operating expenses are identified, estimated, and presented. The operating budget should reflect, as closely as possible, the association's anticipated day-to-day expenses for the upcoming fiscal year.

The board of directors is responsible for administering the affairs of the association and, by law, has a fiduciary relationship to the unit owners. A fiduciary is a person or entity who acts on behalf of others and is required to place their interests ahead of their own. By carefully preparing the operating budget in accordance with statutory requirements and the association's governing documents, the board can help ensure that sufficient funds are collected to meet the association's obligations and support the proper operation of the condominium.

The Association's Accounting Information System

Keep in mind that the accounting system needs to be designed in accordance with the association's size and budget. The accounting information system for a very small association may consist of an accounting ledger book and a check register. As the size of an association increases, the level of sophistication of its accounting information system increases. It's important that the system be organized and maintained in such a way so that anyone can look at the records and determine what the revenues and expenses are for both the operating and reserve funds. An association might want to consult with an accountant who is knowledgeable about condominium associations to ensure the system is organized properly and is able to produce the accounting records required by the Condominium Act and the related administrative rules.

Consider purchasing a *general ledger* software program that's user-friendly and easy to update. It should be designed for condominium associations or easily adaptable. The software program should make the process of updating the books faster, easier, and more accurate by having specific codes assigned to all revenue and expense accounts. Purchasing this type of software is generally more feasible for medium to large associations that have numerous transactions. It's usually more expensive than other software packages, such as spreadsheet programs, that may be useful for smaller associations.

Updating the books can be quite tedious, especially for medium and large associations that have many general ledger accounts. The software program, if organized and updated properly, can be a great help in ensuring the records are maintained and kept up-to-date as they should be.

If the association chooses to keep the books by hand instead of using a computer, ledger books can be purchased to accomplish this. They come in a variety of formats so choose what will best work for you.

Example
The Condominium Act requires the association to maintain a current account and a monthly, bi-monthly, or quarterly statement of the account for each unit designating the name of the unit owner, the amount of each assessment, the due dates, the amounts paid upon the account, and the balance due. The governing documents will identify at what frequency assessments are collected; however, the frequency cannot be less than quarterly (ie, every three months). Assume that the unit owners are billed for assessments on a quarterly basis. The Subsidiary Accounts Receivable Ledger for assessments has a separate ledger page for each unit. The Accounts Receivable Subsidiary Ledger for unit owner Joseph Miller is as follows:

Figure 5.1 Sample Accounts Receivable Subsidiary Ledger

Joseph Miller Unit 210				
Date	Amount Due	Description	Payment Made	Balance
1/1/25	$100	First Quarter's Assessment	-	$100
1/5/25	-	Paid Check Number 2319	$100	$0
4/1/25	$100	Second Quarter's Assessment	-	$100
4/3/25	-	Paid Check Number 2342	$100	$0
7/1/25	$100	Third Quarter's Assessment	-	$100
7/5/25	-	Paid Check Number 2360	$100	$0
7/10/25	$200	Special Assessment for Pool Repair	-	$200
8/8/25	-	Paid Check Number 2385	$200	$0
10/1/25	$100	Fourth Quarter's Assessment	-	$100

Good accounting practices recommend maintaining a Chart of Accounts. This chart is simply a listing of the titles and the numbers or codes that have been assigned to the general ledger accounts. It's like an index and helps facilitate the process of entering revenues and expenses. A short explanation next to each of the accounts should also be included.

Example

The bookkeeper is in the process of recording assessments paid by the owners, and the amounts paid by the association for utilities, and cable. Instead of having to search through the general ledger account, the bookkeeper can refer to the Chart of Accounts, locate the account number/code that corresponds to each account title (in this case, Assessments, Utilities, and Cable), select or enter that account number/code in the accounting system or records, and record the amounts.

Accrual Basis of Accounting and Cash Basis of Accounting

The accrual and cash bases of accounting are discussed in this manual to familiarize you with the concepts because it's important that you know what method is being used by your association. When preparing financial reports, associations that have less than $150,000 in revenue use cash basis and associations that have $150,000 or more in revenue use accrual basis.

The accrual basis of accounting means revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of when cash is received or disbursed.

Example

Assume that your association receives a bill for pool work performed in June with a due date for payment in July. Using accrual basis accounting the transaction is recorded on the books in June even though the payment of cash will not occur until July.

The cash basis of accounting recognizes revenues when received and expenses when paid.

Example

Using the above example, under the cash basis of accounting, the bill for pool work is recorded on the books in July instead of June. This is because the actual flow of cash occurred in July when the bill is paid.

The main advantage of the cash basis of accounting is that it's an intuitive method to apply. In very small associations, it may be the most practical method to use due to its simplicity.

Under the cash basis the results of operations can be manipulated by timing the payment of bills. The accrual basis is less susceptible to manipulation, but is little use without a balance sheet to indicate which of the revenues are still outstanding or which expenses have yet to be paid. Also, the accrual basis is not as straightforward or intuitive as the cash basis.

Estimating the Association's Operating Expenses

As discussed in Chapter 2, the main purpose of the operating section of the budget is to show the categories of expenses (usually called line items) that relate to the

day-to-day operation of the association. In addition, it identifies how much money the board estimates will be spent for each item. This is not a simple process, but it can be made easier if accurate and complete accounting records are maintained. Something that must be kept in mind when preparing the budget is that the association's main source of income is the maintenance fees or assessments received from the unit owners.

The Condominium Act requires that sufficient funds be collected in advance to pay all of the anticipated expenses. In other words, the board should not carry out the day-to-day operations of the association at a deficit or on the basis of special assessments. *(Please refer to the Glossary for the definitions of assessment and special assessment.)*

Associations that budget properly for common expenses can reduce the financial hardships that special assessments can cause. Not only do special assessments occur due to insufficient reserve funding, they also occur when the estimated operating expenses are not sufficient. If estimated properly, the budget will help the association fulfill its obligations, help the board monitor the association's financial progress, and help the unit owners understand what is planned for the upcoming year.

One of the goals in preparing this manual was to identify the basic procedures and minimum statutory and administrative rule requirements for preparing a proposed budget. The following ideas are presented to assist you with preparing accurate estimates for the budget.

Historical Data
The best information about future budgeting estimates can be obtained by comparing budget versus actual performance from prior years. Start with two to three years' worth of historical information. Identify problem-funding areas and determine why, if applicable, the association was not able to meet its projected budget limits. Identify trends in income and expenses so these trends can be incorporated into the proposed budget. For example, if utility costs have been going up approximately two percent each year, increase the anticipated utility expenditure by two percent. Also, consider historical inflation rates. Even if past estimates were accurate, new estimates should be adjusted for inflation.

Look to the Future
Ask, "What is anticipated this year that should be incorporated into the proposed budget?" For example: Is the association involved in litigation in which expenses are anticipated? Does the association need to hire any additional employees this year? Are increases in taxes or payrolls anticipated? Does additional insurance need to be purchased? Is there any additional day-to-day maintenance that needs to be performed? Does the board have new plans for the association? Will the cost of any association contracts or insurance policies be increasing? What is the expected rate of inflation, and what aspects of the association's operations will it affect?

Involve the Whole Condominium Community

Remember that communication and unit owner involvement are important aspects of community living. Give owners the opportunity to be involved in the budget preparation process. To accomplish this, many associations establish budget committees that gather information about needed improvements or maintenance, new state or federal requirements, or enhancements desired by the community. Pull upon the knowledge and resources of the unit owners, and let them know their input is valued. If owners are involved in the preparation process, they will more likely accept and understand the budget and the expenditures required by the association.

Contents of the Operating Section of the Budget

The minimum requirements for the operating section of the budget are listed on the following checklist:

PROPOSED BUDGET CHECKLIST - Operating Section

All estimated common expenses or expenditures of the association including, but not limited to, the following items:

- Administration of the association;
- Management fees;
- Maintenance;
- Rent for recreational and other commonly used facilities;
- Taxes upon association property;
- Taxes upon leased areas;
- Insurance;
- Security provisions;
- Other expenses;
- Operating capital
- Rent for a unit, if subject to a lease;
- Rent payable by the unit owner directly to the lessor or agent under any recreational lease or lease for the use of commonly used facilities, which use and payment is a mandatory condition of ownership and is not included in the common expenses or assessments for common maintenance paid by the unit owners to the association;
- Fees payable to the Division;
- Expenses for a unit owner;
- All estimated common expenses or expenditures stated on an annual basis;
- All estimated expenses shown on a monthly basis;
- Beginning and ending dates of the period covered by the budget; and
- The total assessment for each unit type according to the proportion of ownership on a monthly basis, or for any other period for which assessments will be due.

If the association maintains limited common elements with the cost shared by only those entitled to use them, a separate schedule or schedules must be attached which contains the same disclosures as in the budget. The schedule(s) must show all estimated expenses specific to each limited common element including reserves for deferred maintenance and capital expenditures, if applicable.

Tips on Preparing the Budget

One of the most common errors made in preparing the budget is failing to state the time period covered by the budget. Many associations fail to identify the beginning and end date to which the budget applies. This can be a problem for future boards who are trying to piece together historical data. Also, while the budget estimates are required to be presented on an annualized basis, there will be times that a budget will need to be amended for the remaining portion of a fiscal year, and putting the period covered by that budget is important in order to ensure that each unit owner was charged and paid the proper amount of assessments throughout the year. The time period covered must be a statement of the *range of time* that the estimated budget will cover.

Consider using the same line items in the budget and the year-end financial report. Using the same line items will make it easier to compare the budget versus actual performance.

Look in the left-hand column on the sample budget presented in Chapter 2 and locate the line entitled, "Reserves." You will see the main category of Reserves and a listing of the individual reserve accounts beneath it. In our sample budget, these amounts are simply transferred from the reserves section of the budget (Figure 2.2) to the operating section (Figure 2.1). Please note that the statutes and administrative rules do not require that the individual reserves be itemized under the operating category of Reserves.

Although the statutes and administrative rules do not require budgets to contain a detailed revenue section, if the association expects to earn non-assessment revenues, then it's a good idea to do so. Non-assessment revenue may result in a reduction of maintenance fees. In our sample budget the owners' assessments would have been $195 per month instead of $180 if the non-assessment revenues had not been included. This is because the full amount of $372,626 (in the Total Operating Expenses row in the bottom right-hand corner of the sample budget) would have been used to compute the assessments. Instead, the total amount of operating expenses, $372,626, was reduced by the anticipated non-assessment revenues of $6,120 for Interest Income and $20,906 for Other Income (in the upper left-hand column). The result is $345,600. This amount is the assessment income that is anticipated for the budget year and can be found on the row entitled Assessment Income just under the title Revenues at the beginning of the sample budget. So, instead of using the larger amount of $372,626 from Total Operating Expenses to compute assessments, we are using the lower amount of $345,600. This results in the lower assessment of $180 per unit. The budget must identify the total assessment for each unit type, according to the proportion of ownership, on a monthly basis or for any other period for which assessments will be due. As you can see in the bottom right-hand corner, the assessments for each unit are stated on an annual and monthly basis. The reason a monthly basis is stated in our sample association is that the condominium documents require assessments to be paid on a monthly basis. If our sample association's documents required assessments on a quarterly basis, then the budget would identify the assessment amount on a quarterly basis. The documents for your association must be reviewed to determine on what basis assessments are paid.

Budget Line Items Explained

Unit owners and board members are often confused about the meaning of the required budget line items Operating Capital, Additional Expenses for a Unit Owner, and Rent for Recreational and Other Commonly Used Facilities. (These line items can be found near the end of the expenses section of the sample budget.) Operating capital is simply a built-in surplus for the association. Additional Expenses for a Unit Owner are not commonly included in the budget. Instead, these expense disclosures notify unit owners of expenses they may incur. These expenses are *not* counted as expenses collectible through assessments, and are generally related to disclosures during developer control of the association. An example of this category might be maid service that is available on a pay as you want basis, but not a common expense of the association.

Rent for Recreational and Other Commonly Used Facilities refers to any facility the association uses but does not own. An example of this could be where a condominium is part of a large recreation association that operates recreational facilities serving the condominium unit owners. Since the unit owner pays assessments directly to the recreation association this expense will not be part of the condominium assessment, and is included only for disclosure purposes.

Summary of Chapter 5

This chapter explains the role of the operating section of the budget and emphasizes the importance of careful financial planning and accurate recordkeeping. The budget serves as a formal written plan of the association's projected expenditures for a specific period of time and provides a framework for managing day-to-day operations. To support this process, the association's accounting system must be organized and maintained in a manner that allows revenues and expenses for both operating and reserve funds to be clearly identified and understood.

The chapter also distinguishes between the accrual and cash bases of accounting, explaining how each method recognizes revenues and expenses and why it is important for board members and managers to understand which method the association uses. In addition, the chapter highlights that the primary purpose of the operating section of the budget is to identify expense categories, or line items, related to the routine operation of the association and to estimate the amounts that will be spent on each item during the budget period. Finally, the chapter reinforces that statutes and administrative rules require the operating section of the budget to include specific disclosures and items, as outlined in the Budget Checklist – Operating Section, to ensure transparency, consistency, and compliance with applicable legal requirements.

PRACTICE EXERCISES

1) The operating section of the budget primarily serves which of the following purposes? *(Choose one.)*

   A. To identify funds restricted for deferred maintenance and capital expenditures
   B. To show the association's projected day-to-day expenses and estimated spending for each line item
   C. To disclose only reserve balances and reserve funding requirements
   D. To establish special assessments for future repairs

2) Which statement best describes the board's responsibility when preparing the operating budget? *(Choose one.)*

   A. The board may prepare the budget informally, as long as assessments are collected
   B. The board must ensure the budget reflects projected expenses and fulfills its fiduciary duty to the unit owners
   C. The board may rely solely on the prior year's budget without review
   D. The board's responsibility is limited to approving expenses after they occur

3) Which of the following items must be included in the operating section of the budget? (Choose all that apply.)

   A. Insurance expenses
   B. Operating capital
   C. Estimated common expenses shown on both an annual and monthly basis
   D. Reserve schedules for deferred maintenance
   E. Beginning and ending dates of the period covered by the budget

4) Under accrual basis accounting, when is an expense recorded? (Choose one.)

   A. When the cash payment is made
   B. When the budget is adopted
   C. When the expense is incurred, regardless of when payment is made
   D. When assessments are collected

ANSWER KEY

1) ‘B’. The main purpose of the operating section of the budget is to identify the categories of expenses related to the day-to-day operation of the association and to estimate how much money will be spent for each item during the budget period.

2) ‘B’. The board has a fiduciary duty to the unit owners and is responsible for establishing an operating budget that reflects the association’s projected expenses as accurately as possible to ensure sufficient funds are collected.

3) Options ‘A’, ‘B’, ‘C’, and ‘E’ should be selected. The operating section of the budget must include insurance expenses, operating capital, all estimated common expenses stated on an annual and monthly basis, and the beginning and ending dates of the period covered by the budget. Reserve schedules are disclosed separately in the reserves section of the budget.

4) ‘C’. Under the accrual basis of accounting, expenses are recognized when they are incurred, regardless of when cash is paid.

6 Assessments

This chapter addresses how to determine each unit's share of the assessments, the budget adoption process, what happens when budgeted assessments exceed 115 percent of the prior year's assessments, and collection of assessments.

How to Compute the Assessments

Before you can compute the assessments, you must know three things:

1) How assessments are allocated among the units.
2) The number of units in the condominium.
3) How often the assessments are to be collected.

STEP ONE: Identify How Assessments are Allocated

The first step is to identify how the assessments are allocated among the units. This information can be found by referring to the condominium documents. Keep in mind that the law regarding sharing assessments may change, and your condominium documents may differ. Since the percentage that you share assessments cannot change without your approval, this is one of those items in the declaration that cannot be changed when the law is changed. For *condominiums* created after April 1, 1992, the allocation must be based on either an equal fractional basis or the units' square footage of the unit relative to the total square footage of all of the units.

STEP TWO: Identify the Number of Units

Next, the number of units in the condominium will need to be identified. Again, the documents will provide this information. The number of units is important because you must have this information for the formula that will be used to compute the assessments.

STEP THREE: Determine How Often Assessments are to be Collected

The last step before computing the assessments is to determine how often the assessments are to be collected. The Condominium Act states that assessments must be made against units not less frequently than quarterly. This just means that owners must be assessed at least four times a year - not one, two, or three times a year. The documents, usually the bylaws, should identify the frequency of the assessments. Look at the sample document language on the next page that sets forth these three critical pieces of information. *(The pertinent language is underlined and italicized.)* Remember that each association's condominium documents are unique. The language you will see here will likely be different than that of your documents.

Sample Language from the Declaration of Condominium

Percentage of Ownership of Common Elements: The undivided share in the Common Elements and Common Surplus, which are appurtenant to each Unit, shall be computed upon the following basis:

Upon recordation in the county records, *each unit shall have an undivided share in the ownership of the common elements and the common surplus established on an equal fractional basis*. This shall be *equal to one/three-hundredths (1/300th)*. The interest in the ownership of the Common Elements and the Common Surplus for each unit shall be ascertained by dividing one (numerator) by the total number of Units (denominator); the resulting number being the undivided interest expressed in decimals of ownership of the common elements and the common surplus attributable to each unit.

Common Expenses and Common Surplus:
Common expenses of the association, as defined in this declaration, shall be shared by all unit owners in accordance with an undivided share in the ownership of the Common Elements and the Common Surplus attributable to each Unit, *as set forth in the preceding paragraph.*

Number of Units:
Upon recordation in the county records, there shall be three-hundred (300) units.

Assessments: The *assessments shall be collected from the unit owners on a monthly basis* due and payable by the fifth of every month.

In this example, the assessments are allocated on an equal fractional basis of 1/300ths which, in this case, means everyone will pay the same amount in assessments. You can find this information under the headings “Percentage of Ownership of Common Elements”, and “Common Expenses and Common Surplus.” The number of units (300) is very clear in this case. The documents also indicate that assessments will be collected monthly.

Once you’ve obtained these three pieces of information, you’re ready to compute the assessments. Chapter 5 indicated that the operating section of the budget must identify the assessments for each type of unit (units with different ownership shares). Remember that the assessments must be shown on an annual basis as well as for the time period for which they are due. The formula for calculating the per unit assessment is as follows:

Total Operating Expenses - Anticipated Revenues = Total Amount to be Assessed.

The Total Amount to be Assessed x Ownership Share = Annual Assessment Per Unit.

Annual Assessment Per Unit / Frequency of the Assessment (monthly, quarterly, etc.) = Periodic Assessment Per Unit.

Once you have computed the annual and periodic assessments for each unit, you must place them on the operating section of the budget. When this is done, you've fulfilled all of the requirements for preparing the budget! You've prepared the reserve schedule with all necessary disclosures, and included all of the line items and other disclosures on the operating section of the budget.

Before we begin the discussion of the budget adoption process, please answer the following questions. The answer key is provided at the end of this chapter.

The Budget Adoption Process

You've completed the process of preparing the proposed budget package, and now you're ready to adopt it! The association's documents should provide for how this is to be done since it's not specifically addressed by the Condominium Act. Some condominium documents provide that the board has the authority to adopt the budget, but some reserve this responsibility to the unit owners.

Regardless of who ultimately adopts the budget, the Condominium Act contains specific requirements for presenting the proposed budget to the unit owners. Before the proposed budget or budgets go out, the board should review for accuracy one last time to ensure all of the required disclosures are provided.

Budget Meeting

Any meeting at which a proposed annual budget of a condominium association will be considered, whether the budget is ultimately adopted by the board of administration or by the unit owners, must be noticed in accordance with section 718.112(2)(e), Florida Statutes. The meeting notice, agenda, and a copy of the proposed annual budget must be mailed, hand delivered, or electronically transmitted to each unit owner at least 14 days before the meeting, and the notice must state that assessments will be considered and describe the nature of the assessments. The notice and agenda must also be posted in the location designated for posting official notices on the condominium property, if such a location exists. An affidavit of compliance must be executed by the person providing the notice and maintained in the association's official records.

The budget must be adopted 14 days before the start of the association's fiscal year.

Communication is a very important aspect of community living. Since the budget is such a vital part of the operation of the association, the board should use this opportunity to communicate with the unit owners. Here are some examples of information that may be included with the proposed budget. They are not required, but they help unit owners better understand what they are receiving.

- Explain any major projects that are planned for the year and why they need to be done. In addition, explain large variances from the prior year's budget,

especially if the association has a column that lists the prior year's budgeted amounts next to the proposed amounts.

- Explain hard-to-understand line items.
- If the decision is made to present a vote to the owners to waive or reduce the funding of certain reserves, explain what happens when reserves are not fully funded. Unit owners need to know that, when reserves *are* funded, they are funding for future expenses. If the funding of reserves is waived or reduced, owners may not realize that it could result in large special assessments.
- If the decision is made to present the vote to waive or reduce reserve funding, include a disclosure of what assessments will be with and without reserve funding.

IMPORTANT!!

After the board has given the proposed budget to the unit owners, held a meeting to adopt the budget, and adopted it, the board must now ensure that the minutes of the meeting at which the budget was adopted reflect the adoption of the budget, and that copies of the proposed *and* adopted budgets are maintained as part of the financial official records of the association.

Budget Exceeds 115 Percent of Prior Year's Assessments

If a board proposes a budget which increases assessments more than 15 percent over the prior year's assessments, the Condominium Act provides that the board simultaneously propose a substitute budget that does not include any discretionary expenditures that are not required to be in the budget. The substitute budget must be proposed at the budget meeting before adoption of the annual budget. However, the law states that certain items should be excluded from the current year *and* the prior year budgets when determining whether assessments exceed 15 percent of the previous fiscal year. These are as follows:

1) Reserves for repair or replacement of the condominium property.
2) Anticipated expenses not expected to be incurred on a regular or annual basis for the repair, maintenance or replacement of items required by statute.
3) Insurance premiums.

After subtracting these items from both budgets, divide the current year total assessment by the prior year total assessment. The resulting percentage will tell you know whether the current year budget is more than 115 percent of the prior year budget (i.e., a 15 percent increase). The following examples illustrate this calculation.

Figure 6.1 Budget Increase Does Not Exceed 115% of Prior Year's Assessments

	2024 Assessments	2025 Budgeted Assessments
	$140,646	$158,482
SUBTRACT: Reserves	$5,000	$7,008
SUBTRACT: Anticipated expenses not expected to be incurred on an annual/regular basis	0	500[1]
SUBTRACT: Insurance Premiums	750[2]	1,500[2]
TOTALS	$134,896	$149,474

149,474 / 134,896 = 1.108 or 111%

NOTE:

[1]The city notified the association that a local ordinance was passed requiring a sidewalk to be installed on a portion of the property. The association will be charged $500 for this installation. This will not be a continuing charge.

[2]The association approved the purchase of tornado and sinkhole insurance, tornado in 2024 and both in 2025. The budgeted expenses were $750 and $1,500, respectively.

Figure 6.2 Budget Increase Exceeds 115% of Prior Year's Assessments

	2024 Assessments	2025 Budgeted Assessments
	$150,454	$182,684
SUBTRACT: Reserves	$4,500	$8,000
SUBTRACT: Anticipated expenses not expected to be incurred on an annual/regular basis	500[1]	800[1]
SUBTRACT: Insurance Premiums	1,000[2]	1,000[2]
TOTALS	$144,454	$172,884

172,884 / 144,454 = 1.196 or 120%

NOTE:
[1]The city notified the association that local ordinances had been passed. In 2024, a sidewalk was required to be installed on a portion of the property. In 2025, a fence was required to be built around the pool. The owners will be charged $500 and $800 respectively for these installations. They will not be continuing charges.

[2]The association approved the purchase of tornado and sinkhole insurance. The resulting premiums are $1,000 each.

In the first example, since the percentage increase is not more than 15 percent, the board would not need to propose a substitute budget. In the second example, the percentage increase is greater than 15 percent and would require the board to propose a substitute budget, subject to the same notices and requirements as the proposed budget.

Unit owners must consider and may adopt a substitute budget at the budget meeting, and it is required that at least 14 days before the meeting the association has hand delivered or mailed to each unit owner notice of the meeting at which the substitute budget will be proposed, and an affidavit evidencing compliance with the notice requirement has been executed and maintained in the association's official records. A substitute budget is adopted if approved by a majority of all voting interests unless the bylaws require adoption by a greater percentage of voting interests. If a substitute budget is not adopted, the annual budget previously initially proposed by the board may be adopted.

NOTE: If the developer is still in control of the board, the board may not impose an assessment for any year greater than 115 percent of the prior year's assessment without the approval of a majority of all of the voting interests, including those of the developer.

Collection of Assessments

What happens when some of the owners don't pay their proportionate share of assessments? When unit owners are delinquent in their assessments, it creates a financial hardship on the association. Not only are additional expenses incurred due to legal and processing fees, but the cash flow requirements of the association must be met by the other unit owners.

In addition to creating cash flow challenges, delinquent assessments may accrue interest and late fees as authorized by the association's governing documents and the Condominium Act. Section 718.116(3), Florida Statutes, provides that unpaid assessments and installments bear interest from the due date until paid at the rate stated in the declaration, not to exceed the rate allowed by law. If the declaration does not provide an interest rate, interest accrues at a rate of 18 percent per year. If authorized by the declaration or bylaws, the association may also charge an administrative late fee of up to the greater of $25 or 5 percent of each delinquent installment. Any payment received by the association must be applied first to accrued interest, then to administrative late fees, then to collection costs and reasonable attorney fees, and finally to the delinquent assessment. Boards should ensure that their collection practices, budgeting assumptions, and accounting records reflect these statutory requirements and should consult legal counsel when establishing or enforcing assessment collection procedures.

The board should review the association's documents relating to the collection of assessments. If the delinquent assessments are not likely to be collected any time soon it may be a good idea to create a line item in the budget for bad debt expenses. The authority for collection and the requirement that unit owners pay assessments are clearly stated in the Condominium Act. The owners must pay their share of assessments and cannot avoid payment by waiving the use or enjoyment of the property or by abandoning their unit. In addition, no owner may be excused from paying his or her share of the assessments unless all unit owners are likewise proportionately excused. For example, the fact that an owner does not feel like the board is maintaining the property does not excuse the unit owner from paying the assessments. The board should obtain competent legal assistance in developing collection procedures and collection of the assessments. [See section 718.116, F.S.]

Summary of Chapter 6

The information below summarizes the main points covered in Chapter 6.

- Before you can compute the assessments, you must know three things, which can be found in the governing documents:
    - How assessments are allocated among the units;
    - The total number of units in the condominium; and
    - How often the assessments are to be collected.
- The formula that can be used to obtain the total assessment per unit is:

(Total operating expenses - anticipated revenues) X ownership percentage

- The formula that can be used to obtain the periodic assessment amount is:

Total Assessment Per Unit / Frequency of the Assessment

- The Condominium Act requires the association to mail, hand-deliver or electronically transmit the proposed budget package to the unit owners at least 14 days prior to the meeting at which the budget will be considered for adoption.
- If the board proposes a budget that exceeds 115 percent of the prior year's assessments, the board must also present a substitute budget at the same time that does not include discretionary spending.
- In determining whether a budget increases the prior year's assessments by more than 115 percent, you must deduct three categories of items from the total budgeted expenses for the current year *and* the prior year: (1) reserves, (2) anticipated expenses not expected to be incurred on an annual or regular basis for the repair, maintenance, or replacement of items in the structural integrity reserve study, and (3) insurance premiums.

PRACTICE EXERCISES

1) List the three items that must be identified before assessments can be computed.

a)
b)
c)

2) In the space below, write the formula that can be used to compute the total assessment per unit.

3) In the space below, write the formula that can be used to compute the periodic assessment amount.

4) Compute the total assessment per unit and the periodic assessment using the data below. Write your responses in the spaces provided.
   - Assessments are allocated on an equal fractional basis.
   - Assessments are collected on a monthly basis.
   - Total Operating Expenses are $321,546.
   - Anticipated revenues are $23,466.
   - There are 180 units.

   Total Assessment Per Unit: $_____

   Periodic Assessment: $_____

5) The board of administration has the authority to adopt the annual budget, but the governing documents are silent with regard to noticing the budget meeting. The board has scheduled a meeting for November 21 at which the proposed budget is to be adopted. According to the Condominium Act by what date must the proposed budget be mailed, hand delivered or electronically transmitted to the unit owners? *(Choose one.)*

   a) November 8
   b) November 7
   c) October 22

6) *(A calculator may be needed for this question.)* Using the data which follows, determine the percentage by which the budgeted assessments for 2025 exceed assessments in 2024, and whether the board must present a substitute budget in addition to the proposed budget. First, use the dollar amounts in the 2024 and 2025 columns to compute the amounts that will be used to determine the percentage. (You may write the resulting figures in the shaded area.) Then, answer the two questions

which follow the notes.

	2024 Assessments	2025 Budgeted Assessments
	$132,478	$155,689
Reserves	$6,376	$10,296
Anticipated expenses not expected to be incurred on an annual/regular basis	$750[1]	$500[1]
Insurance Premiums	$1,200[2]	$1,200[2]
TOTALS	$	$

NOTE:

[1]Both years, the city notified the association that local ordinances had been passed. In 2024, a sidewalk was required to be installed on a portion of the property. In 2025, a fence was required to be built around the pool. The owners will be charged $750 and $500 respectively for these installations. They will not be continuing charges.

[2]The association approved the purchase of 3-year riot insurance in 2024 and 5-year vandalism insurance in 2025. The resulting special assessments are $1,200 each.

a) Resulting Percentage: _____%

b) Is the Board required to present a substitute budget? *(Choose one.):* Yes No

ANSWER KEY

1) The three items that must be identified before the assessments can be computed are the following:
   a) How assessments are allocated among the units.
   b) The total number of units in the condominium.
   c) How often the assessments are to be collected.

2) The formula for calculating the total assessment per unit is:

   (Total operating expenses - anticipated revenues) X ownership percentage.

3) The formula to calculate the periodic assessment amount is:

   Total Assessment Per Unit / Frequency of the Assessment

4) Total assessments of $298,080 are determined by subtracting revenues ($23,466) from total operating expenses ($321,546). This amount is divided by the total number of units (180) for a per unit total assessment of $1,656. This total is then divided by the number of collection periods (12), for a periodic assessment of $138 per month.

5) Since the documents in our question do not contain a provision that requires more notice than the Condominium Act, the noticing requirements in the statutes are followed. They state that the proposed budget package must be mailed, hand-delivered or electronically transmitted not less than 14 days prior to the budget meeting. Therefore, the answer to our question is no later than November 7. To determine the appropriate date, begin counting backwards starting with the day prior to the date of the meeting. In this case, you will start with “one” on November 20, and when you get to “14,” that will be the date by which the budget packages must be mailed, hand-delivered or electronically transmitted.

6) Your responses should be as follows:

a) The response for Part A is 116 percent (115.73% rounded).
b) The response for Part B is “YES.”

7 Structural Integrity Reserve Study (SIRS)

This chapter provides an overview of Structural Integrity Reserve Studies (SIRS) and explains how they relate to an association's budgeting, reserve funding, and reserve schedules. The purpose of this chapter is to help board members and unit owners understand how SIRS requirements interact with the reserve concepts discussed elsewhere in this manual. This chapter is not intended to replace the statutory requirements governing milestone inspections or structural integrity reserve studies, nor does it explain how inspections or studies are performed. Associations should refer to Chapter 718, Florida Statutes, and applicable administrative rules for complete legal requirements.

What Is a Structural Integrity Reserve Study?

A Structural Integrity Reserve Study is a budget planning tool required by Florida law for certain condominium buildings. A SIRS examines the parts of the building the association is required to maintain, the condition and status of the association's existing reserve funds, and the level of funding needed to address anticipated future expenses. A SIRS is a type of reserve study intended to ensure that condominium associations are reserving sufficient funds for major future repairs and replacement of critical structural elements of the condominium property.

Structural Elements Included in a SIRS

A SIRS includes an evaluation of eight specific structural elements that are critical to the safety and long-term condition of the building:

- Roof
- Structural systems
- Fireproofing and fire protection systems
- Plumbing systems
- Electrical systems
- Waterproofing and exterior painting
- Windows and exterior doors
- Other elements that exceed $25,000, or the inflation-adjusted reserve threshold posted by the Division on their website, and that have an impact on the structural integrity of the building, as determined by the visual portion of the SIRS

The Division is required to adjust the reserve threshold annually based on the Consumer Price Index for Urban Consumers.

Who Is Required to Complete a SIRS?

Not all condominium associations are required to complete a Structural Integrity Reserve Study. In general, the requirement applies to residential condominium associations with buildings that are three or more habitable stories in height and older than 10 years. Associations are responsible for determining whether a SIRS is required for their property based on statutory criteria and for complying with any applicable deadlines established by law.

Who Can Perform a SIRS?

A Structural Integrity Reserve Study consists of both a financial analysis and a visual inspection of the condominium property. The study must be performed or verified by a qualified professional, such as a Florida-licensed engineer, a Florida-licensed

architect, or a certified reserve specialist or professional reserve analyst. Associations should verify that any professional performing or verifying a SIRS meets the qualifications required by law.

How a SIRS Affects Reserve Funding

When an association is required to complete a Structural Integrity Reserve Study, the reserve items identified in the study must be included in the association's reserve schedule. The reserve funding shown in the association's annual budget must remain consistent with the association's most recent SIRS. Funding for SIRS reserve items generally may not be waived or reduced, except as permitted by law, and reserve funds and any interest earned on those funds may only be used for the purposes identified in the study.

Baseline Funding and Reserve Balances

A Structural Integrity Reserve Study must include a recommended reserve funding plan that ensures funds are available when needed for future repairs or replacement of structural components. At a minimum, the funding plan must be designed so that reserve balances do not fall below zero over the remaining useful life of the items evaluated. This minimum funding level is often referred to as baseline funding.

Pooling of SIRS Reserve Items

Florida law permits reserve accounts to be pooled in certain circumstances; however, reserve items that are subject to a Structural Integrity Reserve Study may only be pooled with other reserve items identified in the study, as provided by law. Reserve items that are not subject to a SIRS may be subject to different pooling rules. Associations should review their reserve schedules and accounting records to ensure that pooling practices comply with statutory requirements.

Relationship Between SIRS Reserves and Other Reserve Requirements

Some reserve items may be required under Florida law even if they are not subject to a Structural Integrity Reserve Study. In addition, associations may choose to maintain reserves for items that are not required by statute. For reserve items that are not subject to a SIRS, unit owners may be permitted to vote to waive or reduce funding, as allowed by law, and different pooling rules may apply depending on the classification of the reserve item. Regardless of whether a reserve item is required by statute, funds held in a reserve account remain restricted for their intended purpose unless unit owner approval is obtained to use those funds for another purpose, as permitted by law.

Adjustments to Reserve Schedules When a SIRS Applies

Reserve schedules may change over time due to updated estimates, completed repairs, changes in useful life, or updated inspections. However, for reserve items subject to a Structural Integrity Reserve Study, any adjustments to the reserve schedule must remain consistent with the funding amounts and recommendations in the association's most recent SIRS unless the study is updated as provided by law.

SIRS Reporting and Owner Notification

After a Structural Integrity Reserve Study is completed, associations are required to provide written notice to unit owners that the study is complete and available for inspection and copying within 45 days of the study's completion. Associations must

also electronically submit a completed SIRS Reporting Form to the Division using the association's online account within 45 days. Associations should maintain accurate records documenting compliance with SIRS reporting and notice requirements.

How a SIRS May Affect Assessments

If a Structural Integrity Reserve Study shows that an association does not have sufficient reserve funding to cover anticipated future expenses for structural components, the association may need to increase regular assessments, levy special assessments, or secure a loan or line of credit, as permitted by law. Any funding method used must align with the reserve funding schedule outlined in the most recent SIRS.

Summary

Structural Integrity Reserve Studies play a significant role in an association's long-term financial planning and directly affect reserve funding and budgeting decisions. Associations that are required to complete a SIRS must ensure that their reserve schedules and annual budgets reflect the findings and funding recommendations of the most recent study. While not all reserve items are subject to SIRS requirements, those that are identified in a SIRS are governed by specific statutory rules regarding funding, pooling, and use of reserve funds. Understanding how SIRS requirements interact with budgeting and reserves helps associations plan responsibly, maintain compliance with Florida law, and reduce confusion for board members and unit owners.

8 Review

The Budget Manual provides an overview of the statutory and administrative requirements for preparing, adopting, and maintaining condominium association budgets and reserve schedules after developer turnover.

Budget Structure and Purpose

Association budgets serve as a financial plan for the fiscal year and must project revenues, operating expenses, and reserve funding. Budgets are divided into two sections: operating funds, which are not restricted to specific purposes, and reserve funds, which are restricted for designated deferred maintenance and capital expenditures. Budgets must cover a defined 12-month fiscal year and be adopted in accordance with statutory notice requirements.

Operating Expenses

The operating section must include all estimated common expenses necessary for the day-to-day operation of the association, such as administration, maintenance, utilities, insurance, management fees, and operating capital. Estimates should be based on historical data, anticipated changes, and inflation, and must be sufficient to avoid operating deficits or reliance on special assessments.

Reserves

Reserves are funds set aside for future deferred maintenance and capital expenditures. The Condominium Act requires reserves for specific items, including roof replacement, building painting, pavement resurfacing, and other qualifying items that exceed the statutory reserve threshold, as well as structural integrity reserve study components when applicable. Reserve funds may only be used for their intended purpose unless unit owner approval is obtained for permitted non-structural items.

Reserve Schedules

The reserve schedule constitutes the reserve section of the budget and must disclose required information, including estimated useful life, remaining useful life, estimated costs, current fund balances, and required annual funding. Associations may use either the straight-line method or the pooling method, subject to statutory and rule limitations. Reserve schedules must be fully funded unless a lawful vote is taken to waive or reduce certain non-structural reserve funding.

Assessments and Budget Adoption

Assessments are calculated based on the total budgeted expenses minus anticipated revenues and allocated according to the ownership interests set forth in the governing documents. Proposed budgets must be provided to unit owners at least 14 days prior to the meeting at which the budget will be considered. If a proposed budget exceeds 115 percent of the prior year's assessments, statutory procedures for proposing a substitute budget apply.

Records, Transparency, and Fiduciary Duties

Associations are required to maintain accurate accounting records in Florida, follow good accounting practices, and provide unit owners with access to financial records

as required by law. Boards have a fiduciary duty to act in the best interests of the association and to ensure that budgets and reserves are prepared, disclosed, and funded in compliance with statutory and administrative requirements.

FINAL PRACTICE EXERCISES

1) You're responsible for noticing the first of several board meetings that will be held to develop the proposed budget. You proceed to read the bylaws and discover that they don't address the time frame for noticing the meeting. How much time prior to the board meeting does the statute require you to post the notice? *(Choose one.)*

    a) At least 24 hours prior.
    b) At least 72 hours prior.
    c) At least 48 hours prior.
    d) This isn't addressed anywhere.

2) The documents for your association state that board and committee meetings must be noticed at least 24 hours prior to the meeting. As secretary of the association, you are responsible for providing proper notice of the upcoming committee meeting at which the proposed budget is to be developed. The proper time frame for noticing the committee meeting is: *(Choose one.)*

    a) At least 24 hours prior to the meeting.
    b) At least 48 hours prior to the meeting.
    c) At least 14 days prior to the meeting

3) *(Complete the sentence.)* The budget is divided into two main sections -

    _____ & _____.

4) In the space below, describe the main difference between how funds can be used that are identified with the operating section of the budget versus those identified with the reserves section of the budget.

5) The board of your association has decided to begin saving money for the insurance premium that will be due in three years. They want to ensure that there will be enough money to make this payment by not accidentally spending it for day-to-day expenses. What could the board do in this case? *(Choose one.)*

    a) Create a line item entitled, "Insurance Premium" in the operating section of the budget, and put the money with the operating funds.
    b) Create a line item entitled, "Insurance Premium" in the reserves section of the budget, and put the money with the reserve funds.

6) The Condominium Act requires associations to establish, at a minimum, certain deferred maintenance and capital expenditure reserves. In the spaces provided, list the required reserves.

a)
b)
c)
d)

7) Your association has a swimming pool that costs approximately $18,000 to replace. The board decides to set aside funds as a reserve in the event deferred maintenance or a capital expenditure is needed for the pool. Where must this reserve be disclosed? *(Choose one.)*

a) It doesn't have to be disclosed anywhere because it's a deferred maintenance and capital expenditure reserve item that's under $25,000.
b) It should be disclosed in the reserves section of the budget on the schedule of required deferred maintenance and capital expenditure items.
c) It should be disclosed as an "other" reserve in the reserves section of the budget.

8) Assume that it is October, and you're preparing the proposed budget. It has been determined that the estimated cost to replace the roof in five (5) years is $86,000. You estimate that $64,325 should be in the roof replacement reserve on December 31. Use the Straight-Line Method to compute the current year funding requirement for the roof replacement reserve.

9) Due to recent storms the clubhouse roof sustained extensive damage. The cost to replace it <u>exceeded</u> the balance of the clubhouse roof replacement reserve by $6,000. The clubhouse roof has been replaced, and you're responsible for preparing next year's proposed budget. The roof is expected to last 15 years and has a replacement cost of $91,000. Use this data and the Straight-Line Method to compute the current year funding requirement for the clubhouse roof reserve.

10) Assume that assessments are allocated on an equal fractional basis and that there are 135 units. The bylaws state the assessments are collected on a monthly basis. Total estimated operating expenses amount to $361,532. The estimated non-assessment revenues are $21,269. Compute the total assessment and periodic assessment per unit.

Total Assessment per Unit: $_____

Periodic Assessment Amount: $_____

11) Your association's documents state that the board of administration has the authority to adopt the annual budget; however, they are silent with regard to noticing the budget meeting. The board has scheduled a meeting for October 31 at which the proposed budget is to be adopted. According to the Condominium Act, by what date must the proposed budget be mailed, hand delivered, or electronically transmitted to the unit owners? *(Choose one.)*

a) October 17
b) October 18
c) October 1

ANSWER KEY

1) C. A budget must be noticed at least 48 continuous hours prior to the meeting. The notice must be posted conspicuously on the property with an agenda and may also be repeatedly broadcast on a closed-circuit cable television system serving the condominium association.
2) B. You will post the notice at least 48 hours prior to the meeting because the statute specifies a longer notice period.
3) The sentence should have been completed as follows:

*The budget is divided into two main sections - **OPERATING** and **RESERVE.***

4) Although your response may be worded differently than the paragraph below, it should have essentially indicated the following:

The operating section of the budget identifies the line items that relate to the day-to-day operation of the association. The reserves section contains items that are restricted for specific purposes. Any funds that are a part of the reserve section and are required by statute can only be used for the purpose intended. Those reserve funds that are unrelated to statutorily required reserves can only be used for the purpose intended unless the proper unit owner vote is first obtained.

5) B. Since the board wants to ensure that funds will be available in three years to pay for the insurance premium, and reserves must be set aside and used for the purpose intended, the board could create a line item for this in the reserves section.

6) Your response should have included the following four items:

a) Roof Replacement.
b) Building Painting.
c) Pavement Resurfacing.
d) Items having a deferred maintenance expense or replacement cost over $25,000.

7) C. According to the administrative rules, deferred maintenance and capital expenditure reserve items that are not required by the Condominium Act should be disclosed in the “other reserves” section of the reserve schedule.
8) The current year funding requirement for this scenario is $4,335. This amount was determined as follows: ($86,000 - $64,325) / 5 = $4,335.
9) The current year funding requirement for this scenario is $12,067 (rounded to nearest whole dollar.). This amount was determined as follows: (($91,000 - $0) / 15) + $6,000.) = $12,067.

10) The total assessment per unit is $2,520, and the periodic assessment amount is $210 per month. These were determined as follows:

($361,532 - $21,269) / 135 = $2,520.

$2,520 / 12 Months = $210 per Month.

11) A. Since the documents in our question do not contain a provision that requires more notice than the Condominium Act, the noticing requirements in the statutes are followed. They state that the proposed budget package must be mailed, hand delivered, or electronically transmitted not less than 14 days prior to the budget meeting. Therefore, the answer is no later than October 17. To determine the appropriate date, begin counting backwards starting with the day prior to the date of the meeting. In this case, you will start with “one” on October 30, and when you get to “14,” that will be the date by which the budget must be mailed, hand delivered, or electronically transmitted.

Conclusion

You have concluded your training on the basic procedures and minimum statutory and administrative rule requirements for preparing a budget and reserve schedule of deferred maintenance and capital expenditure items. You should now be able to prepare your association budget and be able to identify missing components in budgets and reserve schedules.

REFERENCES

The Condominium Act, Chapter 718, Florida Statutes

Chapters 61B-15 through 25, 45 and 50, Florida Administrative Code

Department of Business and Professional Regulation, Division of Florida Condominiums, Timeshares, and Mobile Homes, Condominiums Information and Resources online https://condos.myfloridalicense.com/