

apm NEWS

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Insurance Appraisals for Community Associations

By John R. Math, LCAM

With the rapid rise in property values, associations are potentially putting themselves in danger if they have not had a recent Insurance Appraisal for their structures. Though an association is run by volunteers, the Board is still required to use good business judgment when covering the association's structures with proper insurance and accurate amounts.

Currently, these structures may be underinsured and the current replacement amounts could be inaccurate and if this is the case, this may be placing the Board of Directors in a precarious position. If the current replacement amount stated

in the policy was inadequate and there was a loss that was not covered, the Board could be held liable for not having the proper insurance. Conversely, if the structures are over-insured, the association is wasting money by paying extra insurance premiums.

In order to avoid such problems, the Board of Directors can have an Insurance Appraisal performed at a nominal cost that will provide the Board and their insurance agent with guidelines for securing adequate and proper insurance coverage. In addition, the insurance underwriters are able to provide accurate costs when having this type of documentation. The appraisal determines the re-

placement cost as of a certain date (the date of the report when it is prepared) of all association structures and amenities that are required to be covered by the association documents, state laws and by good business judgment by the Board of Directors. In this manner, the Board is using sound business decision making to provide adequate coverage for the association and minimizing any potential risk and liability.

One way for an association to avoid any of this is to secure Guaranteed Replacement Cost coverage. This type of coverage pays whatever is needed to rebuild the structure(s). This covers the association in times of rapid inflation or in times of material

shortages that drive up prices. We saw this happen when we had the hurricanes a few years ago. Suppliers took advantage of the situation as materials were limited and as a result, prices went up.

In the future, if your association added any new structures, these improvements need to have new values set and added to the existing insurance policy. We also suggest that the policy protect the association for any building code changes that will add to the cost of reconstruction.

In addition, if possible and without too many exclusions to secure Mold Coverage for their buildings. The insurance industry has made this coverage difficult to get but there are still some carriers offering this type of policy.

Overall, an appraisal will guide the association in securing the right amount of insurance. We all hear about rising values of our homes but the property value usually does not equal the replacement cost. Be properly informed and protected, have an appraisal on your association improvements.

Ask The Attorney

By Edward Dicker, Esq.

Q. *At the direction of the Board of Directors, our management company signed a contract for fencing around our pool. Now that it is installed, the Board does not like the design of the fence and are blaming the management company, since they signed the contract. Isn't this wrong and shouldn't they be responsible for this?*

A. Regardless of whether a contract is signed by the Association or the management company, the Board of Directors should be aware of the contents of all contracts. This particular contract should have specified the design of the fence, and if so, the Board of Directors should have been aware of the design, and should not be blaming the management company for the Board's dissatisfaction. However, if the design of the installed fence is not consistent with the contract, then the Association would have a legitimate issue to raise with the fence company.

Q. *There is a group of owners in our condominium that would like to have hurricane shutters for the whole building. They insist that this should be done not only for appearance sake, but also to help get reduced in-*

surance premiums. Some of us cannot afford this expense. Can the association force us into having hurricane shutters?

A. Pursuant to the Condominium Act (Section 718.113, Florida Statutes), a majority of the voting interests may require that the Association install hurricane shutters in all units. The initial cost of the shutters are assessed against only those owners who receive the shutters.

Edward Dicker is a partner in the law firm of Dicker, Krivok & Stoloff, P.A., which represents more than 600 community associations. The firm is located in West Palm Beach, Florida, and their telephone number is (561) 615-0123

REMINDERS!

1. Remember, there are financial reporting requirements now for HOA's. Make provisions in your 2008 Budget for this cost..
2. Any waiver of reserves for Chapter 718, 719 and 720 association members must be voted on and waived prior to the beginning of the new fiscal year.
3. If the documents so require, the amount of Directors for the coming year must be determined according to the by-laws prior to the first notice of Annual Meeting.
4. Any proposed amendments must be drafted, reviewed and proposed by the Board of Directors, prior to the Members Meeting or Annual Meeting.

BUDGETING PROCEDURES FOR COMMUNITY ASSOCIATIONS

By John R. Math, LCAM

A budget is an operational document that puts forth policies and goals of the Association in fiscal form. A budget is an estimate, which is usually initiated two to three months before the fiscal year usually, begins. An operating budget is a management tool developed and used by the Board of Directors of an Association to help achieve the goals of the Association.

A budget can be developed by a committee and or by a Board of Directors, depending on the size and complexity of the operations. For this article, we will assume that the Committee will develop the budget to present to the Board of Directors. In all cases, the Treasurer and key operations personnel should be involved, as they have an intimate knowledge of the income and expenses of the previous year and would also be in the best position to make reasonable judgments for the coming year.

A budget will include a reasonable expectation of the amount of expenses it shall incur during the coming fiscal year and the amount of income required to offset the expense. Once in place, the Board of Directors monitors the budget by way of regular monthly or quarterly financial statements. These financial statements will show a balance sheet, income and expense, any changes in reserves, a statement of cash flows and a general ledger detail. In this manner, any major variances in either income or expense can be examined and explained with action being taken.

As a group, the Committee needs to agree on what specific goals they would like achieve during the next year, what expense categories are required by the by-laws and or state statutes. After agreeing to certain goals, the use of last year's budget and historical file, a line by line

comparison analysis, last years variance reports can all be used to help compile the budget.

The previous years budget and historical files will provide a recap of previous activity and past year's actual expenses, projected for 12 months activity will also provide a guide to the Committee.

The budget format will consist of income, expense and reserve requirements. Income categories will include maintenance assessments, interest income, late fee income, and any other income, which can be relied upon throughout the year. Expense categories will include utilities, payroll/employee benefits, if any, operating, repairs and maintenance, administrative and general expenses. Reserves for Replacements, as mandated as required by the documents and current statutes.

The Committee will take each year-to-date line item, project that expense over a twelve-month period of time and then base this work on past performance and historical calculations. With this information, provide line item figures with any anticipated changes and variances. We like for Committees to provide a written explanation of each line item. This will not only help the Committee to explain the budget to the Board of Directors, but will help provide a base of information for future Committees and also may be used as a guide when mailing out to the members.

The draft package will contain an overview of the proposed budget outlining pertinent facts and items of special interest. The Budget Summary will be the actual budget, with all major sub-headings, showing percentage of increase/decrease over last year's budget.

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Mailing Label

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Additional reports may be presented to the Board of Directors such as “seasonalization” spreads and monthly “cash flow” analysis. Both reports will help the Board of Directors to operate throughout the year and be used as a planning tool.

Some tips to help you save time and have some continuity in the budget process:

1. Throughout the year have all abnormal expenditures reflected in the minutes of meetings, then use this for a guide.
2. Keep a historical file on the budget. Any committee, board or other meetings which could have impact the budget, keep in the file.
3. Keep account codes to a minimum and keep the budget simple.

Associated Property Management of the Palm Beaches, Inc., is a nineteen-year-old full-service association management firm. APM serves more than 130 associations in Palm Beach County. If you have any questions or comments, you may contact us at 1928 Lake Worth Road, Lake Worth, Florida 33461. Please call us at 561-588-7210, or you may email us at assocpropmgt@bellsouth.net at any time.

USEFUL WEBSITES FOR YOUR ASSOCIATION

Associated Property Management
561-588-7210 or www.assocpropmgt.com

Florida Department of State
904-487-6000 or www.sunbiz.org

South Florida Water Management District
561-686-8800 or www.sfwmd.gov/index

Palm Beach County Property Appraiser
561-355-3230 or www.pbcgov.com/papa/

Florida Division of Emergency Management
850-413-9900 or www.floridadisaster.org

Palm Beach County Div. of Emergency Mgt.
561-712-6400 or www.co.palm-beach.fl.us/eoc