



Mulcahy Memo – August 2016

Published for clients and friends of the Mulcahy Law Firm, P.C.

by Beth Mulcahy, Esq.

Dear Clients and Friends,

Where has summer gone? I can't believe we are already in August! Soon, school will be starting and hopefully the temperatures will start cooling off.

August is a great time to get a jump start on your association's 2017 budget. Please scroll down to review our Mulcahy Memo on tips that will help your association simplify the budgeting process.

A few reminders!

Our firm will be hosting our 2016 Legislative Update Seminar and free Q and A on the new laws, TONIGHT, Tuesday, August 9, 2016 from 5:00 to 7:00 p.m. at the Burton Barr Library. We have over 100 people coming, but, we have room for a few more! To find out more information or to RSVP, please click [here](#).

Also, our firm will be teaching 17 free classes for board members, homeowners and managers around the valley between September and December, 2016. Please click [here](#) for a full listing of all classes and information on how to RSVP. We look forward to seeing you there!

[Follow us on Facebook!](#) Our law firm has a very active page with free tips and legislative updates for board members, managers and owners that is updated weekly.

Thank you for the opportunity to work with you and know you!



Sincerely,
Beth Mulcahy, Founder and Senior Partner
Mulcahy Law Firm, P.C.



August is a Great Time to Start Planning your 2017 Community Association Budget!

By: Beth Mulcahy, Esq.

Most community association documents require an associations' board of directors to adopt a budget for each fiscal year and early to late fall is typically the time of year devoted to that process. Because the management company is familiar with all aspects of the association, they usually prepare the budget for the board's approval. However, an association's finance committee should be encouraged to help with the process. Whether the manager, a committee or a combination thereof develops the budget, it requires time and research to complete the process.

The association budget is broken down into two documents: (1) operations and (2) reserves. The operations budget consists of daily and monthly expenditures such as landscape maintenance, insurance, legal fees, water, social programs, etc. The reserve budget is money reserved for large capital expenditures such as painting, roofs, common area improvements, etc. Both operations and reserves should be addressed annually and budgeted appropriately. The board of directors has the fiduciary duty to review the operating budget of the association and provide annual reports if requested.

Listed below are 9 steps to help simplify the budget process and preparation:

1. Review last year's budget and records and compare the differences between what was budgeted and what was actually spent. Review each line item in the budget. Is there a difference between what was budgeted and what was expended? Why is there a difference?
2. Evaluate the needs of the community for the upcoming year. Does the annual assessment need to be raised because of an increase in delinquencies and cost of living? Are there new expenditures for any of the line items in the operational budget that will benefit the community?
3. Assess the needs of the community for the future. What long term or capital projects need to be addressed in the reserve budget? When was the last reserve study conducted? Considering the cost of living increases, should a new reserve study be conducted? Does a larger percentage of the annual assessment need to be directed to the reserve budget?
4. Ask questions of the association's vendors. Are there potential cost increases or added services a vendor might deem necessary for the association? Are proposed cost increases necessary?
5. Review and analyze the association's contracts. Are changes in services needed that may require an increase or decrease in the contract amount? Does the association need to get three bids to determine value received?
6. Receive and analyze information from the vendors with regard to the budget.
7. Plan for the miscellaneous. Surprises are not fun in the operational budget. Consider including a line item for a reasonable amount of money to handle the unexpected.

8. Budget the line item amount taking all research and information gathered into account.
9. Prepare for the budget presentation to the board and homeowners. Have backup information available and reasons as to how and why each line item was established.

In a planned community the budget must be approved by the board, but there is no requirement that the budget be approved by the membership prior to the start of the fiscal year (unless the governing documents require this, which in my experience would be unusual). The Arizona Condominium Act (A.R.S. Section 33-1243) requires that the board of directors provide (typically by mail) a summary of the proposed condominium budget to all unit owners within thirty days after adoption. The unit owners in accordance with the procedures set forth in A.R.S. 33-1243 (D) shall ratify any budget or amendment, unless the board of directors is expressly authorized in the declaration to adopt and amend budgets from time to time. If ratification is required, the board of directors is required to set a date for a meeting of the unit owners (not fewer than fourteen nor more than thirty days after mailing the summary) to consider ratification of the budget. The budget is ratified whether or not a quorum is present, unless a majority or any larger vote of the unit owners as specified in the declaration rejects it at that meeting. If the proposed budget is rejected, the periodic budget last ratified by the unit owners will be continued until such time as the unit owners ratify a subsequent budget proposed by the board of directors.

*If you have questions and need answers on budgeting questions,
please contact Beth Mulcahy at 602.241.1093 or bmulcahy@mulcahylaw.net.*