

## 500's—CONTINGENCY

### 501. New Construction

It is seldom possible to anticipate every expense that will be incurred by an association during an operating year. In the case of new construction, a contingency equal to 3% of an annual budget is recommended for unforeseen operating and reserve items. If the subdivision is more than 12 months old, use 6%.

For high-rise buildings (over 70 feet) a 10% contingency is reasonable.

### 502. Conversions and Existing Structures (Over 12 Months Old)

Where a condominium development is created out of the conversion of an existing apartment house or complex, a contingency reserve of 6% of the total budget should normally be adequate. Also, If the subdivision is more than 12 months old, use 6%.

For high-rise buildings (over 70 feet) a 10% contingency is reasonable.

### 503. Revenue Offsets

Normally, revenue derived through leasing, renting, laundry, etc. will just cover anticipated costs for repair, replacement, utilities, cleaning, etc. For leased equipment, replacement or repair may be done by the leasing company and only utilities or minor maintenance may be covered by the revenue received.

Another source of revenue for existing associations may be interest income. Interest income may be considered non-exempt income in some cases and be taxable.

Existing associations with a strong history (2 years or more) of a revenue source may, if the amount is significant, use the revenue as an offset against total expenses. If so, all related expense items noted earlier should also be included in the budget. Attach supporting financial records and calculations used in determining the amount shown in the budget.