



Understanding the Association Budget and How It Affects Your Assessments

Condo ownership incurs two major costs, mortgage and assessments. Though mortgage costs may be locked-in for 15 or 30 years, assessments must be determined annually as part of the association budget process. The Budget Committee -- a combination of management, board, and volunteer owners -- meets in September and October of each year to review past expenses and determine an estimate of future expenses. The income needed to offset these expenses is covered by charging an assessment to the unit owners of the association, based on the percent of ownership a unit is assigned in the building - more on this percentage later.

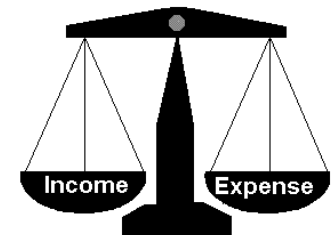
Why are there two assessments on my monthly statement?

The budget is divided into two traditional accounting areas -- operating and capital improvement. Therefore, the monthly statement (see below) itemizes two assessments corresponding to these budget areas. Though other associations may combine these into a single assessment, our Association chooses to itemize these as separate assessments to reflect the budget process. Note that the improvement assessment is not a "special assessment" -- rather, a primary source of accumulating association reserve savings as explained in the capital improvement and reserves sections below.

Statement of Account As of 00/00/00		
	Beginning Balance	0.00
00/00/00	OPERATING ASSESSMENT	541.84
00/00/00	CAPITAL IMPROVE ASSESSMENT	197.04

What determines Operating Income/Expense and Operating Assessments?

Operating expenses include items with annually recurring costs, such as utilities, salaries and management fees, maintenance supplies, taxes and insurance. The first assessment itemized on an owner's monthly statement is the amount that a unit owner is billed for operating expenses -- but not covered by other income, such as retail office rent, late and processing fees, laundry use, and scavenger rebates. Since our budget uses a zero-based accounting method, each of the two budget areas must balance, independent of the previous year's budget surplus or deficit -- i.e., in the annual budget, the total amount of operating income must cover the total amount of the operating expenses, so that the difference between the two is zero. Budget line-item #4000 is the amount of operating assessment that needs to be collected from unit owners to balance the operating section of the budget.

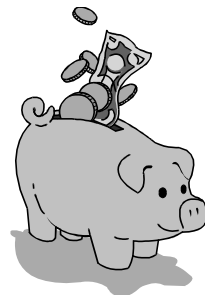


What are Capital Improvement Expenses?

Capital expenses include costs that do not normally reoccur annually, but may be one-time expenses related to area repairs or improvement to maintain the appearance and integrity of the building. Some of the capital expense items are determined from the Reserve Study that looks ahead over a 20-year period. Additional capital items are added to the budget at the discretion of management and/or the board. The Reserve Study, which is done by outside consultant engineers, is a guide to future costs to replace or repair key areas of the building. The capital section of the budget is also used to fund (increase) the Association's Reserves (line item #9510). The current Reserve Study is available on request from the Management Office.

What are Association Reserves? Where do they come from?

Like a saving account, the Association Reserves provide the financial cushion needed to take care of both planned and unexpected expenses. The reserves are built up over time with money that is collected through capital assessments, but not used for budget year expenses. This unspent assessment collected is transferred at the end of the budget year to fund (add to) the reserves. If the operating income exceeds the anticipated operating expenses in a budget year, as determined by the Association's annual audit, this balance may also be added to the reserves. By building up reserves gradually over the years, special assessments are rarely, if ever, needed. Again, the capital improvement assessment is not a special assessment, but instead, the amount of income needed to cover periodic maintenance or building improvements that add value to ownership - both immediate and in the near future. A viable condominium association is based in large part on having adequate reserves -- a fact recognized by mortgage lenders.



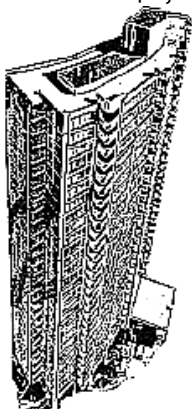
How do we determine Capital Improvement Assessments?

Capital improvement expenses and adequate funding of the Association Reserves are covered by interest earned on existing reserves (usually through investment in CDs) and the balance from capital assessments collected from unit owners. As with the operational side, the capital improvement section of the budget must also balance. Therefore, budget line item #4060 is the amount of improvement assessment (not covered by interest income in line item #4980) that must be collected to pay for the current year's total capital expenses AND to fund appropriate reserves (line item #9510) needed for future expenses as forecast by the Reserve Study.

What is my share of Association Assessments?

Based on meeting annual operating and capital expenses, the total assessment needed to support a balanced budget is the sum of line items #4000 and #4060. One-twelfth of this total is the amount collected on a monthly basis. Finally, each unit is assigned a specific percent of ownership, based on the initial selling price, determined by its location and unit size. These percents are listed in the LPP Condominium Declaration of Ownership-Exhibit-C, created when the building converted to a condominium on December 18, 1978. Unit owners are given a copy of this Declaration when they purchase a unit; or request your specific percent from the Management Office; or find it on the LPP website (lakeparkplaza.com). Given this information, an owner can then verify their total assessment as calculated below:

For example, the percent ownership for Unit 1907 is set at 0.29555%. If the total annual assessment that must be collected is \$3,000,000, then the unit owner of 1907 must pay a total monthly assessment of **\$3,000,000 times 0.0029555 divided by 12 months** which equals **\$738.88** per month.



What can I do to keep assessment increases to a minimum?

The nine board members elected by unit owners are most responsible for creating a balanced budget, making decisions on spending during the course of the fiscal year, and generally containing expenses by wise fiduciary planning. Therefore, electing the right combination of board experience is a key financial responsibility of every owner. Becoming involved in understanding the business side of condominium life -- through attendance at board meetings and being involved in committees, including the budget committee -- is an equally important ownership role to assist the board in the decision-making process. Finally, taking responsibility to care for common areas, as if they were part of one's own unit, will help minimize repairs and lengthen the life of our existing facilities. Condominium ownership offers a positive and unique quality of life as well as

an excellent investment opportunity -- assuming every owner aspires to be a respectful neighbor, responsible resident, and informed business partner.