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Certified Public Accountants

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Gerstle, Rosen & Goldenberg, P.A. offers the following courses:

- Budgeting and Reserves
- Fraud
- How to Read Financial Statements
- Taxes for CIRA



Budgeting and Reserves



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Budgeting and Reserves

Agenda

Budgeting

- I. Understanding your Financial Statements
- II. Understanding your Balance Sheet – Cash vs. Equity
- III. Income Statement – Prepare Projections / Support Schedules
- IV. Legal Requirements
- V. Board of Directors Meeting – Prepare Timetable / Adopt Budget / Modify Reserves (Unit owner vote)
- VI. Monitor Effectiveness

Reserves

- VII. Reserves – Pooled vs. Separate – Cash Flow vs. Straight Line
- VIII. Legal Requirements



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Budgeting and Reserves

- Florida Chapter 720 – Homeowners Association
- Florida Chapter 718 - Condominium Association
- Florida Chapter 719 – Cooperative
- Florida Chapter 721 – Vacation and Timeshares

Budgeting

I. Understanding your Financial Statements

A. Cash Balance vs Available to spend/Cushion (Equity)

Terms

- **Debit/Credit** – each transaction is recorded in two places and should have equal debits and credits in the aggregate. (ie. Cash Deposit / Maintenance Fee Income)
- **Cash/Accrual** - transactions recorded when they happen, not when cash is exchanged.
- **Fund Accounting** – **Operating, Reserves or Special Assessment**. It represents the idea that certain monies are for designated/different purpose.
- **Financial Statements** Basic Set Includes:
 - **Balance Sheet** (Cumulative), Reserves and Special Assessment activity
 - **Income/Expense Statement** (Current Year Only)
 - Surplus/Deficit/Recurring/Non-Recurring

Budgeting

II. Understanding your Balance Sheet

Assets – Cash (Bank Reconciliation, Outstanding Checks, and Deposits in Transit)

- Accounts Receivable - Allowance
- Utility Deposit
- Fixed Assets (Almost never) Unit Investments.
- Prepaid Insurance

(Less) Liabilities - Accounts Payable

- Insurance Payable
- Notes Payable and Line of Credit
- Prepaid Maintenance Fees

(Equals) Equity/Fund Balance - Operating and Other Fund Balances (Equities) equals available to spend, Cash not equal to available to spend, Net income not equal to available.

- Project year end operating balance - Industry standard for Operating Fund Balances is 10 % or 2 months of operating budget.
- What's available to spend? (Balance Sheet cumulative). Cash= Equity and Cushion 10%, the Available to Spend.

Budgeting

II. Understanding your Balance Sheet (Continued)

ASSETS:	A	B	C	D	E
CASH - OPERATING	\$100,000	\$100,000	\$10,000	\$10,000	\$10,000
CASH - RESERVES			100,000		
ACCOUNT RECEIVABLE				90,000	90,000
ALLOWANCE					(80,000)
TOTAL	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$110,000</u>	<u>\$100,000</u>	<u>\$20,000</u>
LIABILITIES:					
PREPAID ASSESSMENTS		\$90,000			
RESERVES			\$100,000		
EQUITY:					
FUND BALANCE	<u>\$100,000</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$100,000</u>	<u>\$20,000</u>

A - Cash = Fund Balance = Available to Spend

B - Cash \neq Fund Balance NOT Available to Spend

C - Cash - Reserves = Reserve Fund Balance

D - Fund Balance NOT available to spend (accounts receivable)

E - Fund Balance = available to spend (accounts receivable and allowance)

Budgeting

III. Income Statement - Prepare Projection/Support Schedules

- Know if there will be a Surplus/Deficit for the year. Know reasons for variances and project year ending Fund Balance
- Prepare Projection - take current year and annualize current year (12 months) compared to next years' budget.
- Review other recurring revenue sources
- Consider rollover provisions
- Consider sales tax implications
- Identify Non-recurring items in current year
- Identify billed but not collected (example: late fees, rental income and etc.)
- Contracts – know specifics, term of service, renewal date, and any adjustments
- Know utility rate changes
- Know Insurance requirement / coverage / deductibles

Budgeting

III. Income Statement - Prepare Projection/Support Schedules (Continued)

- Payroll and Burden – Know job titles and job descriptions
- Bad Debts should be based on reasonable estimates of the collectability of the outstanding receivables and next years dues of how many will not pay.
- Repairs vs Reserves – Review General Ledger for reclassification.
- Rental Income
 - Two methods of accounting for rental income and expenses;
 - The rental income and expenses, if any, are reflected on the income statement.
 - The rental income and expenses, if any, are credited to the unit balance.



Budgeting

Contracts Summary

Service Type	Company Name	Phone	Contract Begins	Contract Ends	Cost Yearly	Cancellation Clause
Accounting	Gerstle Rosen	305 937-0116		12/31/2021	\$6,000.00	
Cable Television	Comcast	305 232-8132	10/14/2020	10/13/2021	\$70,044.00	
Copier Lease	Advantage	305-769-2274	1/1/2020	12/31/2021	\$3,687.96	
Elevator Contract	Schindler Elevator Corp.	954-626-5522	10/1/2020	9/30/2021	\$25,936.00	
Equipment - Life Safety	Engineering Systems, Inc.		1/1/2021	12/31/2021	\$13,000.00	
Generator	OK Generators	800-385-3187	3/1/2021	3/31/2022	\$395.00	
HVAC	Eveld Tatman	954-753-8040	4/17/2021	4/17/2022	\$2,004.00	
Landscaping	Sidney Teller Landscaping		12/20/2021	auto renew	\$20,000.00	30 day written notice
Management Fees	ABC	305-555-1212	1/1/2021	12/31/2021	\$18,600.00	
Pest Control	Power Exterminator	305-255-7077	1/1/2021	auto renew	\$2,460.00	30 day written notice
Pool/Spa	American Pool Service		1/1/2021	12/31/2021	\$4,500.00	
Rodent Control	Guarantee Floridian	305-7581811	2/10/2020	auto renew		30 day written notice
Roof Maintenance	Decktight		1/1/2021	12/31/2021	\$700.00	
Trash Removal	B.F.I	305-638-3800	1/1/2021	12/31/2021	\$4,500.00	
Window Services	All Building Cleaning Corp.		1/1/2021	12/31/2021	\$3,200.00	
TOTAL					<u>\$175,026.96</u>	

Budgeting

IV. Legal Requirements

718.112 (d10e)

The proposed annual budget of estimated revenues and expenses shall be detailed and shall show the amounts budgeted by accounts and expense classifications, including, if applicable, but not limited to, those expenses listed in s. 718.504(21).

- Expenses for the homeowners and condominiums:
 - 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
 - Reserves
- Fees payable to the division
 - Expenses for a unit owner
 - Rent for the unit, if subject to a lease (Sales Tax)

Budgeting

IV. Legal Requirements - Budget (Continued)

- 115 Percent Rule (after Developer control). 718.112
 - 10 percent owners can call special meeting
 - Reserves not factored
 - Majority of owners to adopt new budget
 - Expenses

718.112

- Multi-condominium association
- Limited common elements
- The budget shall include reserve accounts for capital expenditures and deferred maintenance
- These accounts shall include, but are not limited to, roof replacement, building painting, and pavement resurfacing, regardless of the amount of deferred maintenance expense or replacement cost, and for any other item for which the deferred maintenance expense or replacement cost exceeds \$10,000. **(Determined by the Board, bylaws)** Computed by means of a formula
- By a majority vote at a duly called meeting of the association, to provide no reserves or less reserves. **(subject to unit owner vote to waive or reduce)**

Budgeting

IV. Legal Requirements - (Continued)

720.303 (6b,c,d,e,f,g)

- Shall prepare an annual budget that sets out the annual operating expenses. The budget must reflect the estimated revenues and expenses for that year and the estimated surplus or deficit as of the end of the current year. Shall provide each member with a copy of the annual budget or a written notice that a copy of the budget is available upon request at no charge to the member.

- (b) The budget may include reserve accounts for capital expenditures and deferred maintenance for which the association is responsible. **If reserves (Deferred Maintenance) are (provided but have) not (been) established pursuant to paragraph (d) (Statutory Reserves), funding of such reserves is limited to the extent that the governing documents limit increases in assessments, including reserves.**

- (d) **Once an association provides for reserve accounts pursuant to paragraph (d), the association shall thereafter determine, maintain, and waive reserves in compliance with this subsection.**

- **Reserves components may be established and terminated upon affirmative approval of the total voting interests of the Association**

- **Annual funding may be waived annually pursuant to a vote at a meeting at which a quorum is present.**

Budgeting

IV. Legal Requirements – (Continued)

- 718-504 (21) (c) Need not include expense unless applicable
- Chapter 61B-22.003 State the estimated common expense on at least an annual basis.
- Disclose beginning and ending dates of the budget
- Show total assessment for each unit type for period due (quarterly/monthly)
- 718.112 (f) Include Reserve Information
- Multi-condominium - include separate budget for each condominium/separate buildings and show method of allocation expenses
- For ancillary operations - (rental program, marina, spa, restaurant) must maintain separate accountability

Budgeting

IV. Legal Requirements – (Continued)

- Limited common elements-include separate schedule
- Special Requirements for Developer Controlled Board
- Special Cable Rule –Allocated Equally

Prepare and Mail - Timetable

- Initial projection July/August
- Final Projection September/October
- Mail Notice November
- Adopt New Budget November
- Mail Coupon December

Budgeting

V. Board of Directors Meeting-Adopt Budget/Modify Reserves (Unit Owner Vote)

- Present proposed budget at Finance Committee Meeting for final adjustments. Board adopts budget (or as indicated in documents).
- Unit Owner Meeting – Waiver/Partially Fund Reserves.
- Notice Requirement
 - Hand Deliver or mail a copy to unit owners pursuant to applicable guidelines (Statutes 718.112, 14 days). Documents may require longer. Need “Evidence of Compliance.”

VI. Monitor Effectiveness

- Meet monthly to review Balance Sheet and Income Statement

Reserves

New Surfside Legislator – SB4D - Effective for 2025 Budgets

- Surfside legislation for condominium associations.
- Signed into law by the Governor on May 26th.
- Building is 3 or more stories
- Milestone inspection 30 years from the date the Certification of Occupancy (“CO”)
- Building is within 3 miles of the coastline Within 25 years of the CO date
- Phase 1 inspection – architect or engineer
- If the Phase 1 inspections reveals no signs of structural deterioration, then a “Phase 2” inspections is not required.
- Written inspection report
- “Structural Reserve Study”
- Change Budget adoption process, particularly regarding reserves.
- Structural integrity Reserve Study
- At least every 10 yrs. thereafter
- May not waive or reduce reserves in the structural integrity reserve study
- The structural integrity reserve study must address: roofs, load bearing walls or other primary structural members; floors, foundations, fireproofing and fire protection systems; plumbing; electrical systems; waterproofing and exterior paint; windows; any other item which exceeds \$10,000.00
- Engineer or Architect performing
- Law became effective on May 26, 2022

2.a. In addition to annual operating expenses, the budget must include reserve accounts for capital expenditures and deferred maintenance. These accounts must include, but are not limited to, roof replacement, building painting, and pavement resurfacing, regardless of the amount of deferred maintenance expense or replacement cost, and any other item that has a deferred maintenance expense or replacement cost that exceeds \$10,000. The amount to be reserved for an item is determined by the association's most recent structural integrity reserve study that must be completed by December 31, 2024. If the amount to be reserved for an item is not in the association's initial or most recent structural integrity reserve study or the association has not completed a structural integrity reserve study, the amount must be computed using a formula based upon estimated remaining useful life and estimated replacement cost or deferred maintenance expense of the reserve item. The association may adjust replacement reserve assessments annually to take into account any changes in estimates or extension of the useful life of a reserve item caused by deferred maintenance. The members of a unit-owner-controlled association may determine, by a majority vote at a duly called meeting of the association, to provide no reserves or less reserves than required by this subsection. Effective December 31, 2024, the members of a unit-owner-controlled association may not determine to provide no reserves or less reserves than required by this subsection for items listed in paragraph (g).

b. Before turnover of control of an association by a developer to unit owners other than a developer under s. 718.301, the developer-controlled association may not vote to waive the reserves or reduce funding of the reserves. If a meeting of the unit owners has been called to determine whether to waive or reduce the funding of reserves and no such result is achieved or a quorum is not attained, the reserves included in the budget shall go into effect. After the turnover, the developer may vote its voting interest to waive or reduce the funding of reserves.

3. Reserve funds and any interest accruing thereon shall remain in the reserve account or accounts, and may be used only for authorized reserve expenditures unless their use for other purposes is approved in advance by a majority vote at a duly called meeting of the association. Before turnover of control of an association by a developer to unit owners other than the developer pursuant to s. 718.301, the developer-controlled association may not vote to use reserves for purposes other than those for which they were intended. Effective December 31, 2024, members of a unit-owner-controlled association may not vote to use reserve funds, or any interest accruing thereon, that are reserved for items listed in paragraph (g) for any other purpose other than their intended purpose.

4. The only voting interests that are eligible to vote on questions that involve waiving or reducing the funding of reserves, or using existing reserve funds for purposes other than purposes for which the reserves were intended, are the voting interests of the units subject to assessment to fund the reserves in question. Proxy questions relating to waiving or reducing the funding of reserves or using existing reserve funds for purposes other than purposes for which the reserves were intended must contain the following statement in capitalized, bold letters in a font size larger than any other used on the face of the proxy ballot: WAIVING OF RESERVES, IN WHOLE OR IN PART, OR ALLOWING ALTERNATIVE USES OF EXISTING RESERVES MAY RESULT IN UNIT OWNER LIABILITY FOR PAYMENT OF UNANTICIPATED SPECIAL ASSESSMENTS REGARDING THOSE ITEMS.

(g) Structural integrity reserve study.—1. An association must have a structural integrity reserve study completed at least every 10 years after the condominium's creation for each building on the condominium property that is three stories or higher in height which includes, at a minimum, a study of the following items as related to the structural integrity and safety of the building:

- a. Roof.
- b. Load-bearing walls or other primary structural members.
- c. Floor.
- d. Foundation.
- e. Fireproofing and fire protection systems.
- f. Plumbing.
- g. Electrical systems.
- h. Waterproofing and exterior painting.
- i. Windows.
- j. Any other item that has a deferred maintenance expense or replacement cost that exceeds \$10,000 and the failure to replace or maintain such item negatively affects the items listed in sub-subparagraphs a.-i., as determined by the licensed engineer or architect performing the visual inspection portion of the structural integrity reserve study.

2. Before a developer turns over control of an association to unit owners other than the developer, the developer must have a structural integrity reserve study completed for each building on the condominium property that is three stories or higher in height.

3. Associations existing on or before July 1, 2022, which are controlled by unit owners other than the developer, must have a structural integrity reserve study completed by December 31, 2024, for each building on the condominium property that is three stories or higher in height.

4. If an association fails to complete a structural integrity reserve study pursuant to this paragraph, such failure is a breach of an officer's and director's fiduciary relationship to the unit owners under s. 718.111(1).

(h) *Mandatory milestone inspections.*—If an association is required to have a milestone inspection performed pursuant to s. 553.899, the association must arrange for the milestone inspection to be performed and is responsible for ensuring compliance with the requirements of s. 553.899. The association is responsible for all costs associated with the inspection. If the officers or directors of an association willfully and knowingly fail to have a milestone inspection performed pursuant to s. 553.899, such failure is a breach of the officers' and directors' fiduciary relationship to the unit owners under s. 718.111(1)(a). Upon completion of a phase one or phase two milestone inspection and receipt of the inspector-prepared summary of the inspection report from the architect or engineer who performed the inspection, the association must distribute a copy of the inspector-prepared summary of the inspection report to each unit owner, regardless of the findings or recommendations in the report, by United States mail or personal delivery and by electronic transmission to unit owners who previously consented to receive notice by electronic transmission; must post a copy of the inspector-prepared summary in a conspicuous place on the condominium property; and must publish the full report and inspector-prepared summary on the association's website, if the association is required to have a website.

(i) *Assessments.*—The manner of collecting from the unit owners their shares of the common expenses shall be stated in the bylaws. Assessments shall be made against units not less frequently than quarterly in an amount which is not less than that required to provide funds in advance for payment of all of the anticipated current operating expenses and for all of the unpaid operating expenses previously incurred. Nothing in this paragraph shall preclude the right of an association to accelerate assessments of an owner delinquent in payment of common expenses. Accelerated assessments shall be due and payable on the date the claim of lien is filed. Such accelerated assessments shall include the amounts due for the remainder of the budget year in which the claim of lien was filed.

(j) *Amendment of bylaws.*—1. The method by which the bylaws may be amended consistent with the provisions of this chapter shall be stated. If the bylaws fail to provide a method of amendment, the bylaws may be amended if the amendment is approved by the owners of not less than two-thirds of the voting interests.

2. No bylaw shall be revised or amended by reference to its title or number only. Proposals to amend existing bylaws shall contain the full text of the bylaws to be amended; new words shall be inserted in the text underlined, and words to be deleted shall be lined through with hyphens. However, if the proposed change is so extensive that this procedure would hinder, rather than assist, the understanding of the proposed amendment, it is not necessary to use underlining and hyphens as indicators of words added or deleted, but, instead, a notation must be inserted immediately preceding the proposed amendment in substantially the following language: "Substantial rewording of bylaw. See bylaw for present text."

Reserves

New Surfside Legislator – SB154 (2023)

- The bill revises the milestone inspection requirements for condominium and cooperative buildings that are three or more stories in height to:
- Limit the milestone inspection requirements to buildings that include a residential condominium or cooperative;
- Provide that the milestone inspection requirements apply to buildings that in whole or in part are subject to the condominium or cooperative forms of ownership, such as mixed-ownership buildings;
- Clarify that all owners of a mixed-ownership building in which portions of the building are subject to the condominium or cooperative form of ownership are responsible for ensuring compliance and must share the costs of the inspection;
- Require a building that reaches 30 years of age before December 31, 2024, to have a milestone inspection before December 31, 2024;
- Delete the 25-year milestone inspection requirements for buildings that are within three miles of the coastline;
- Authorize the local enforcement agencies that are responsible with enforcing the milestone inspection requirements the option to set a 25-year inspection requirement if justified by local environmental conditions, including proximity to seawater;
- Authorize the local enforcement agency to extend the inspection deadline for a building upon a petition showing good cause that the owner or owners of the building have entered into a contract with an architect or engineer to perform the milestone inspection and it cannot reasonably be completed before the deadline;
- Permit local enforcement agencies to accept an inspection and report that was completed before July 1, 2022, if the inspection and report substantially comply with the milestone requirements; however, associations must still comply with the unit owner notice requirements, and if a local enforcement agency accepts a previous inspection as a milestone inspection, the deadline for a subsequent 10-year re-inspection is based on the date of a previous inspection;

Reserves

New Surfside Legislator – SB154 (2023)

- Provide that the inspection services may be provided by a team of design professionals with an architect or engineer acting as a registered design professional in responsible charge;
- Provide that the condominium or cooperative association is responsible for all costs associated with the inspection attributable to the portions of the building for which it is responsible under the governing documents of the association;
- Require associations to give unit owners notice about the inspection deadlines, electronically or by posting on the association’s website, within 14 days after they receive the initial milestone inspection notice from local enforcement agency;
- Require the milestone inspector to submit a phase two progress report to the local enforcement agency within 180 days of submitting the phase one inspection report; and
- Clarify that an association must distribute a copy of the summary of the inspection reports to unit owners within 45 days of its receipt.

The Florida Building Commission is required by the bill to establish by rule a building safety program to implement the milestone inspection requirements within the Florida Building Code. The commission must specify the minimum requirements for the commission’s building safety program by December 31, 2024, including inspection criteria, testing protocols, standardized inspection and reporting forms that are adaptable to an electronic format, and record maintenance requirements for the local authority having jurisdiction.

The bill exempts unit owner policies from the requirement that all personal lines residential policies issued by the Citizens Property Insurance Corporation must include flood coverage.

Reserves

New Surfside Legislator – SB154 (2023)

Regarding the governance of condominium or cooperative, the bill:

- Clarifies that any unit owner and any person authorized by any owner as his or her representative may inspect the official records of the association; and
- Excludes insurance premiums from the calculation which permit members to petition for a substitute budget if assessments increase by 115 percent.

The reserve funding requirements relating to condominium and cooperative associations are revised by the bill to:

- Require associations that are subject to the structural integrity reserve study (SIRS) requirement to base a budget adopted on or after January 1, 2025, on the findings and recommendations of the association's most recent SIRS;
- Clarify that reserves are required for the SIRS items for which the association is responsible under the condominium declaration;
- Clarify that reserves for replacement costs do not need to be maintained for any item with an estimated remaining useful life of greater than 25 years, but the SIRS study may recommend a deferred maintenance expense amount for such item;
- Permit associations that are not subject to the SIRS requirement to waive reserves if approved by a majority vote of the total voting interests of the association;
- Permit multi-condominium associations to waive reserves if an alternative funding method has been approved by the division; and
- Provide that reserve assessments may be adjusted for inflation.

Reserves

New Surfside Legislator – SB154 (2023)

The bill amends the SIRS requirements to:

- Limit the SIRS requirement to residential condominiums and cooperatives;
- Clarify that the SIRS recommendation must include a reserve funding schedule;
- Include the building structure as a SIRS building component, consisting of load-bearing walls and other primary structural members and primary structural systems as those terms are defined in s. 627.706, F.S., and delete “floor” and “foundation” from the list;
- Permit the visual inspection portion of the SIRS to be verified by an engineer or architect;
- Permit persons who have been certified as a reserve specialist, or professional reserve analyst by the Community Associations Institute or the Association of Professional Reserve Analysts to perform or verify the visual inspection portion of the SIRS;
- Exempt from the SIRS requirement:
 - Single-family, two-family, or three-family dwellings with three or fewer habitable stories above ground; and
 - Any portion or component of a building that has not been submitted to the condominium or cooperative form of ownership; or any portion or component of a building that is maintained by a party other than the condominium or cooperative association.
- Permit associations that are required to complete a milestone inspection on or before December 31, 2026, to complete the SIRS simultaneously with the milestone inspection, but the associations must complete the SIRS by December 31, 2026; and
- Permit associations to satisfy the SIRS requirement with a previous milestone inspection, or an inspection performed for a similar local requirement, if the inspection had been performed within the previous five years.

Reserves

New Surfside Legislator – SB154 (2023)

Effective July 1, 2027, the bill permits condominium and cooperative unit owners to use the mediation process in this section for specified disputes related to compliance with the milestone inspection or SIRS requirements.

Regarding the turnover inspection report that a developer must provide to the association when condominium and cooperative unit owners other than the developer are authorized to elect the majority of the board, the bill permits reserve specialists and professional reserve analysts to prepare the turnover report in addition to engineers and architects, and adds the turnover inspection report to the required presale disclosures.

The bill also provides additional presale notice requirements in contracts for sales of a unit by a developer or non-developer. A developer and a non-developer must give a prospective buyer of a condominium or cooperative unit a copy of a turnover inspection report completed on or after July 1, 2023, if applicable, and a copy of the inspector-prepared summary of the milestone inspection, if applicable. This provision is similar to current contract notices to unit owners obligated to furnish certain governing documents to the prospective buyer of a unit more than three days before closing for sales by a non-developer or 15 days before closing for sales by a developer. A contract that does not conform to these notice requirements is voidable at the option of the purchaser prior to closing.

The bill also provides an appropriation (\$1,301,928 recurring and \$67,193 nonrecurring) to the Division of Florida Condominiums, Timeshare, and Mobile Homes within the Department of Business and Professional Regulation to implement the requirements in the bill, including funds for 10 additional full-time employees.

If approved by the Governor, or allowed to become law without the Governor's signature, these provisions take effect upon becoming law

Reserves

VII. Reserves

A. Types of Reserve Funding Methods

SURFSIDE LEGISLATION FOR CONDOMINIUM ASSOCIATIONS.

Signed into law by the Governor on May 26th.

Building is 3 or more stories

Milestone inspection 30 years from the date the Certification of Occupancy (“CO”)

Building is within 3 miles of the coastline Within 25 years of the CO date

Phase 1 inspection – architect or engineer

If the Phase 1 inspections reveals no signs of structural deterioration, then a “Phase 2” inspections is not required.

Written inspection report

“Structural Reserve Study”

Change Budget adoption process, particularly regarding reserves.

Structural integrity Reserve Study

At least every 10 yrs thereafter

May not waive or reduce reserves in the structural integrity reserve study

The structural integrity reserve study must address: roofs, load bearing walls or other primary structural members; floors, foundations, fireproofing and fire protection systems; plumbing; electrical systems; waterproofing and exterior paint; windows; any other item which exceeds \$10,000.00

Engineer or Architect performing

Law became effective on May 26, 2022

There are three types of methods of funding reserves.

1. Pooled Funding Method - Reserve funding by projecting reserve contributions and disbursements over a 30 year timeframe. So, no balloon payment. Basically, instead of independently funding each component, the fund is pooled and kept in a single account to be used as specified component needs arise. Contribution can increase annually.

Reserves

VII. Reserves

A. Types of Reserve Funding Methods

2. **Straight Line Method** or Component funding requires independent funding of each common element. Each component is calculated separately, and projected equal funding over the life of the component. (only increases if costs increase).

3. **NEW Surfside Legislator** Effective for 2025 Budgets, first milestone inspection by December 31, 2024

Reserves

Pooled Method

1. Pooled Method

Pooled Funding Method determines reserve allocation by projecting reserve allocations and disbursements over a 30 year timeframe and testing different allocations until a minimum allocation is found that maintains a percent funded or net reserve balance amount above a specified funding objective. Basically, instead of independently funding each component, the fund is pooled and kept in a single account to be used as specified component needs arise.

This analysis takes the total beginning year reserve balance along with the projected annual reserve expenditures over a thirty year period, and through pooling of all of the reserve funds and creating one general reserve fund, arrives at an annual contribution amount so as to provide a positive cash flow and adequate reserve account balance over the next thirty years. Interest and inflation are factored into the calculations for the Pooled Method.

Choosing the pooled method for reserve funding can be a decision made by the Board of Directors. If the Association wants to transfer the prior year reserve components to the pooled method a unit owner vote is required.

Reserves Pooled/Cash Flow



Reserve	Total Estimated Life (Years)	Remaining Life (Years)	Cost To Replace	Cash On Hand	Balance Needed	2019	2020	2021	2022
Paint	8	7	\$ 176,000	\$ 37,600	\$ 138,400				
Roof	20	5	\$ 1,250,000	\$ 568,000	\$ 682,000				
Road	8	2	\$ 90,000	\$ 51,000	\$ 39,000		\$ (39,000)		
Roof Cleaning	4	4	\$ 15,000	\$ 2,200	\$ 12,800				\$ (12,800)
Beginning Cash Balance						\$ 179,600	\$ 295,600	\$ 372,600	\$ 488,600
Annual Contribution						\$ 116,000	\$ 116,000	\$ 116,000	\$ 116,000
Expenditure						\$ 0	\$ (39,000)	\$ 0	\$ (12,800)
Ending Cash Balance						<u>\$ 295,600</u>	<u>\$ 372,600</u>	<u>\$ 488,600</u>	<u>\$ 591,800</u>

Reserve

Straight Line Method

2. Straight Line Method

Straight Line Method or Component funding requires independent funding of each common element. Each component is calculated separately.

This plan utilizes straight line accounting formulas. Straight line accounting is based on current costs and neither interest nor inflation are factored into the calculations.

Straight line accounting takes each individual line item component listed in the reserve schedule breakdown and computes its annual contribution amount by taking its unfunded balance (current replacement cost minus projected year end reserve balance) and divides it by the component's remaining life. This is the amount that should be contributed into the reserves accounts over the component's remaining life.

Reserves

Straight Line Method



Component	Current Cost	Useful Life	Remaining Life	12/31/2021 Balance	Unfunded Balance	2022 Contribution
Roofs	\$ 3,665,301	15 - 24	9 - 23	\$ 0	\$ 3,665,301	\$ 265,761
Painting	\$ 21,100	6	1	\$ 19,913	\$ 1,187	\$ 1,187
Paving	\$ 272,134	4 - 20	1 - 13	\$ 5,045	\$ 267,089	\$ 21,879
Mechanical & Electrical	\$ 199,780	5 - 30	1 - 23	\$ 6,699	\$ 193,081	\$ 27,389
Miscellaneous Building Components	\$ 890,377	5 - 25	1 - 25	\$ 57,267	\$ 833,110	\$ 102,679
Miscellaneous Site Improvements	\$ 511,939	4 - 24	1 - 19	\$ 10,687	\$ 501,252	\$ 82,798
Furniture, Fixtures & Equipment	\$ 591,198	4 - 20	1 - 17	\$ 104,765	\$ 486,433	\$ 84,886
Grand Total	\$ 6,151,829			\$ 204,376	\$ 5,947,453	\$ 586,579

Reserves

Reserve Study

A Reserve Study is made up of two parts, 1) the information about the physical status and repair/replacement cost of the major common area components the association is obligated to maintain (Physical Analysis), and 2) the evaluation and analysis of the association's reserve component inventory, condition assessment, and the Life and Valuation Estimates. The Components and Valuation Estimates will necessarily change from year to year.

Lists the major Assets of the Association funded through the reserves with their expected useful life and the remaining useful life and the current cost of replacement. The report should also evaluate the current strength of the fund as a percentage of fully funding, as well as a multi-year reserve funding plan.

Reserves

Waiver of Reserves

While a fully funded reserve schedule must be included in the proposed budget, associations may waive the requirement that reserves be funded or reduce the amount of the proposed funding. 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 vote of the unit owners.

The term "fully funded" has two meanings; first, it means that when the proposed budget is provided to the owners, it must show the amount of funds that will be required to ensure that, when the time comes, sufficient funds will be available for deferred maintenance or a capital expenditure; and second, it means that, as the association collects assessments during the year, it must set aside all of the funds included in the reserve schedule section of the budget.

Reserves

Waiver of Reserves (Continued)

After the proposed budget is provided to the owners (at least fourteen (14) days prior to the budget meeting), a vote to waive, or reduce the funding of reserves may be taken. Most condominium documents provide the board with authority to adopt the budget, but only the unit owners can waive or reduce the reserve funding requirements. It is helpful to plan the association meetings in such a way that the vote taken to waive or reduce reserves 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 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.

What happens if a meeting is called and the owners don't approve the proposal or a quorum isn't established? 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. Reserve disclosures must be included in the proposed budget regardless of whether a vote to waive or reduce reserves will be taken. Also, remember that general proxies cannot be used to waive or reduce reserve funding; a vote in person or by limited proxy must be used.

Reserves

VIII. Legal Requirements

61B-22.003 Budgets (Reserves)

Straight Line Method

- A schedule stating each reserve account for capital expenditures and deferred maintenance as a separate line item
- The total estimated useful life of the asset
- The estimated remaining useful life of the asset
- Estimated fund balance as of the beginning of the period

Pooled Method

- The total estimated useful life of each asset within the pooled analysis;
- The estimated replacement cost or deferred maintenance expense of each asset within the pooled analysis
- The estimated fund balance of the pooled reserve account as of the beginning of the period
- Include a separate schedule
- Restricted by the association
 - The intended use of the restricted funds
 - Estimated fund balance of the item

Reserves

VIII. Legal Requirements (Continued)

61B-22.005 Reserves

- The association may consider each asset of the association separately
- Commingling operating and reserve funds
- Collect operating and reserve assessments as a single payment
- Transferred to a separate reserve account
- Within 30 calendar days from the date such funds were deposited
- Calculating reserves
- Based on either a separate analysis of each of the required assets or a pooled analysis of two or more of the required assets

Reserves

VIII. Legal Requirements (Continued)

61B-22.005 Reserves

- Two calculations:
 - **Shall budget total amount necessary, if any, to bring a negative component balance to zero.**
 - Take the total estimated deferred maintenance expense or estimated replacement cost of the reserve asset less the estimated balance of the reserve account as of the beginning of the period for which the budget will be in effect. The remainder, if greater than zero, shall be divided by the estimated remaining useful life of the asset. This the annual contribution.
 - If the association maintains a pooled account of two or more of the required reserve assets
 - Balance on hand at the beginning
 - Estimated useful lives
 - Annual cash outflows over the remaining estimated useful lives of all of the assets that make up the reserve pool
 - Shall not include any type of balloon payments.
 - Timely funding
 - Must be fully funded
 - Same frequency that assessments are due from the unit owners (e.g., monthly or quarterly)

Reserves

VIII. Legal Requirements (Continued)

Chapter 718 Section 718.112 (d10e)

- **Reserve funds** and any interest accruing thereon shall remain in the reserve account or accounts, and shall be **used only** for authorized **reserve expenditures unless their use for other purposes is approved in advance by a majority vote at a duly called meeting of the association.**
- WAIVING OF RESERVES, IN WHOLE OR IN PART, OR ALLOWING ALTERNATIVE USES OF EXISTING RESERVES MAY RESULT IN UNIT OWNER LIABILITY FOR PAYMENT OF UNANTICIPATED SPECIAL ASSESSMENTS REGARDING THOSE ITEMS.

Reserves

VIII. Legal Requirements (Continued)

Chapter 720 Section 720.303 (6b,c,d,e,f,g)

- If reserves are not provided, each financial report for the preceding fiscal year required by subsection (7) must contain the following statement in conspicuous type:

THE BUDGET OF THE ASSOCIATION DOES NOT PROVIDE FOR RESERVE ACCOUNTS FOR CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE THAT MAY RESULT IN SPECIAL ASSESSMENTS. OWNERS MAY ELECT TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, UPON OBTAINING THE APPROVAL OF A MAJORITY OF THE TOTAL VOTING INTERESTS OF THE ASSOCIATION BY VOTE OF THE MEMBERS AT A MEETING OR BY WRITTEN CONSENT.
- Budget of the association does provide for funding accounts for deferred expenditures.
- An association is deemed to have provided for reserve accounts **IF** reserve accounts have been **initially established by the developer (or documents obligate)** or if the membership of the association affirmatively elects to provide for reserves. Upon approval by the membership, the board of directors shall include the required reserve accounts in the budget in the next fiscal year following the approval and each year thereafter.
- Shall be computed by means of a formula that is based upon estimated remaining useful life and estimated replacement cost or deferred maintenance expense of each reserve item.
- **Shall budget total amount necessary, if any, to bring a negative component balance to zero.**
- **Reserve funds** and any interest accruing thereon shall remain in the reserve account or accounts, and shall be **used only** for authorized **reserve expenditures unless their use for other purposes is approved in advance by a majority vote at a duly called meeting of the association.**

Types of Reports

Requirements from the State

- **Audit:** Total Annual Revenues of \$500,000 or More.
 - Analytical Procedures
 - Match Accounts to Supporting Schedules
 - Examine Source Documentation
 - Confirm With 3rd Parties
 - Analyze Internal Controls/Risk Factors
- **Review:** Total Annual Revenues of \$300,000 or \$500,000.
 - Analytical review
 - Rely on Client Representation
 - Match Accounts to Support Schedules
- **Compilations:** Total Annual Revenues of \$150,000 or \$300,000.
 - No Analytical Work

Types of Reports

Different Types of Reports

What is Compilation?

The compilation is the least expensive of the reports. Essentially, the CPA reviews the financial statements prepared by the association and attaches an accountant's report to it. No further investigation is performed. It is really nothing more than a glorified disclaimer, stating that the CPA is providing no financial statement assurance.

What is Review?

A review involves essentially the same process as a compilation, except that the auditor does perform certain analytical reviews, i.e. reviewing account balances for reasonableness and questioning management about material modifications that might be made in order for the statements to be in conformity with Generally Accepted Accounting Principles. In a review report, the CPA expresses a “limited assurance” — not an opinion — of the reasonableness of the financial statements.

Types of Reports

What is Audit?

A financial audit provides the highest level of financial statement assurance. An audit normally takes considerably more time than either a compilation or a review. Every balance sheet account is proven, direct confirmations of account balances are mailed from the CPA to banks, owners, vendors, and other debt holders to validate the balances of cash, accounts receivable, accounts payable, and other assets and liabilities. A large amount of time is spent in non-financial areas to determine any claims, lawsuits, contingencies, or other events that could harm the association. The CPA also sends letters to all attorneys asking for full disclosure on any relevant matter.



The End

Questions / Comments?



Gerstle, Rosen & Goldenberg, P.A.

Certified Public Accountants