

Chapter 4 – Section 4.3

Reserves

4.3.01 Policy:

In order to minimize the requirement for special assessments and protect the property values of Association members, the Board of Directors maintains voluntary reserve funding for future repairs or restoration expenditures. Reserves will be utilized for future expenses of maintaining common property, and to fund capital expenditures that have a long-term benefit for Rotonda West. The funding is recorded as a line item in the annual budget, and when collected, it is placed in an interest-bearing savings account.

The RWA:

- may only use reserve funds for their stated purpose, unless the stated purpose ceases to exist.
- may not commingle reserve funds with operating funds.
- must add all interest earned back in the reserve fund, not into operating funds.
- must have a method of funding the reserves.
- must utilize a reserve study to determine the reserve budget.

4.3.02 Procedures:

Definitions

RESERVES:

Reserves funds are funds set aside for future expenditures that extend the useful life of an existing asset/component.

Capital improvements, unlike repair or replacement of existing assets, are funds designated for the acquisition or construction of a new component such as a memorial park. For practical purposes, all of these funds are included in the reserve funds.

Whether for replacement, deferred maintenance or capital improvement, a component eligible for reserve funding must have:

- a limited useful life expectancy;
- a predictable useful life expectancy; or
- a cost greater than \$3,000 per category.

Expenditures from reserve funds are based on an ongoing review of the condition of reserve assets. This review by the RWA Board of Directors identifies and anticipates the need to expend reserve funds for specific assets. Actual expenditures may vary from cost estimates due to inflation or unanticipated problems encountered as a project develops. Variations will require a determination by the Board of Directors as to how to deal with such variances, prior to making any expenditures that were not in the original budget or scope of work.

RESERVE REQUIREMENTS:

Reserve requirements are the amount of money needed to fully fund the future repair and maintenance of Association assets. The reserve requirements are based on a reserve study approved by the Board of Directors.

RESERVE STUDIES:

The RWA Board of Directors will engage a professional firm to conduct a study which provides information regarding the physical status and repair/replacement cost of major common area components. The study also provides a financial analysis to determine a recommendation for an appropriate reserve contribution rate (Funding Plan). This study along with year-to-year input from the Board, Committees, and membership is used to determine reserve funding requirements. Generally, a reserve study should be conducted at least every five years. The RWA Board of Directors will determine when it is appropriate to have an updated study done.

RESERVE FUND CALCULATION METHODS

Various methods are available based on the funding plan goal. The RWA uses the straight-line segregated method (also referred to as the component method). This method requires:

- An assessment of the condition of the asset;
- Replacement cost and how it is determined;
- The age of the asset;
- The useful life of the asset;
- The remaining useful life of the asset.

The straight-line method consists of dividing the replacement cost of an individual component by its remaining useful life to arrive at its yearly reserve contribution amount for that item. The process is repeated for each asset and added together to determine the total reserve requirements. This process takes place until an asset is either repaired or replaced taking into account current circumstances, e.g., increase in costs or change in the estimated useful life.

SELECTING A FUNDING PLAN:

Various methods are available for funding the reserves. These are:

- I. Full Funding
- II. Baseline Funding
- III. Threshold Funding
- IV. Statutory Funding

Funding plans may be selected to achieve different levels of funding. The RWA has been using Full Funding since the 2007 Reserve Advisors Study. This requires that the reserves are maintained at or near 100%. For example, if a component (asset) has a 10-year life and a replacement cost of \$10,000, \$3,000 is set aside for its replacement after 3 years ($\$10,000 \div 10 \text{ years} = \$1,000 \text{ per year} \times 3 \text{ years} = \$3,000$). The \$3,000 based on annual funding equals Full Funding. The RWA Board of Directors may change the funding method as deemed appropriate at any given time.

It is the responsibility of the Budget & Finance Committee to monitor the reserves on a monthly basis to ensure that the funds are at or near 100%. The Treasurer will keep the Board of Directors informed as to the status of the Funding Plan. The Treasurer will also prepare the annual reserve expenditure budget.

INVESTMENT POLICY FOR RESERVES:

As authorized by the RWA Board of Directors, reserves shall be invested in accordance with the following policy:

- I. No funds shall be invested except in authorized financial instruments. Authorized investments are those that are in accordance with the governing documents of the RWA, Inc. and are obligations of, or fully guaranteed by the U.S. Government.
- II. All accounts, instruments, and other documentation of such investments shall be subject to the approval of, and may from time to time be amended by, the RWA Board of Directors as appropriate, and shall be reviewed at least annually.
- III. Investments shall be guided by the following goals listed in decreasing order of importance:
 - a. Safety of principal;
 - b. Liquidity and accessibility;
 - c. Minimal cost;
 - d. Professional management;
 - e. High level of return consistent with preservation of principal and interest.

ANNUAL AUDIT REPORT:

For voluntary reserves that are not governed under Florida Statutes, Chapter 720, Section 6(c), the annual audit report must include a disclaimer statement consistent with the language in Chapter 720.

4.3.03 Sources:

CAI. Best Practices Report #1, Reserve Studies Management.
AICPA, CIRA Guide.
Florida State Laws, Chapter 720.

