

Financial 101

A guide to understand your budget
and where your money goes



MARCH 28, 2024
PRESENTATION

Reminder about conduct

Respect other owners and the volunteers working for you

Respect agenda for today

- Focus on explaining basic financial concepts
- Not a meeting for airing complaints or personal financial problems

Time to ask questions will be limited to 3 minutes per participant at the end of the presentation

We will collect all questions and those sent to FinancialFAQ@LakeClarkeGardens.com

- Questions that cannot be answered today and others will be posted on the LCG secure website under a section called (“FAQ”) Frequently Asked Questions
- Questions about your payments or account should still be sent to office@lakeclarkegardens.com

Agenda

1. Where does my money go?
Operating and reserve expenses
2. What is a reserve?
Example of how it is determined
Why do we need it?
3. Building inspections
4. Role of the Board of Directors

Where does my money go?

Your money is used to pay for the maintenance of your building and for the maintenance of common areas like the auditorium

Two types of expenses:

1. OPERATING

- Insurance for the common areas
- Personnel / Administration
- Cable / Internet
- Water, sewage, thrash removal, etc

Relatively stable from year to year, except insurance!

2. RESERVE

- Repairs or replacements over \$10,000
- Concrete restoration
- Roof replacement
- Elevators

Deposited in a Reserve Fund

Where does my money go?



Each building pays its own expenses, such as water usage, roof repairs, etc

- Each building has its own Reserve Fund



Common area expenses are paid by everyone

- Common area also has its own Reserve Fund



Where does my money go?

- Using the current year budget for the period from July 1, 2023 to June 30, 2024
 1. Total amount for operating expenses was \$5.5 million dollars
 2. Total amount due for reserve expenses was \$2.5 million dollars
 3. Combined total was \$8.0 million dollars

On June 30, 2022, two years ago, the combined total was \$3.5 million dollars

1. Operating expenses

Security and Insurance	2,208,800	Insurance is by far the most expensive item
Personnel and Seacrest	851,000	
Breezeline cable / internet	714,092	
Water & sewer usage for buildings	508,327	<ul style="list-style-type: none">Our premiums for property insurance have more than doubled in the last two years!
Administrative	215,000	
Landscaping	149,500	
Building minor repairs / maintenance	133,983	
Roof minor repairs / inspections	117,610	Difficult to cut back on any of these items
Utilities for common areas	113,150	
Plumbing minor repairs / maintenance	85,600	<ul style="list-style-type: none">Details in your budget documentsIdeas and suggestions welcome
Elevator service contracts	82,892	
Pest control, recreation, bus maintenance, laundry, swimming pools, fire equipment and many other items	305,168	
Total for the year ending June 30, 2024	5,485,122	

What are reserve expenses?

An maintenance fee that goes into a fund, called the “Reserve Fund” that will be used to pay for major inevitable repairs in the future

Building maintenance is not just annual maintenance, but also major occasional repairs

- Repairs are inevitable
- Delaying repairs get more expensive
- Owners are always responsible for the repair bills

Goal of the Reserve Fund is to accumulate enough cash to pay all major repairs when they occur without using a special assessment

What are reserve expenses?

Laws of nature: materials will decay over time, and will need repair or replacements (e.g. roof, elevators, painting, concrete, etc)

Laws of Florida: requires two types of reserves, “Normal” and “SIRS”

- **“SIRS”** means **Structural Integrity Reserve Study**
 - Covers major items like concrete restoration and roof repairs
- **“Normal”** reserves cover items not considered structural but still important like elevators

2. Reserve expenses

	For all buildings	For the common areas	Total for both
“Normal” Reserve needed	3,920,075	639,452	4,559,527
Minus cash in Reserve Fund	(711,548)	(104,429)	(815,977)
Reserve shortfall	3,208,527	535,023	3,743,550
Vote funding in 2023-24	60% to 100%	5%	
Reserve expense in 2023-24	2,458,803	26,751	2,485,554

Total amount due for “Normal” reserve expenses was \$2.5 million dollars

However, the reserve needed excluded the important “SIRS” reserve expense

- The SIRS report was not available last year
- “SIRS” reserves will be added in the next budget, so we expect an increase

How do you determine the reserve expense?

Example of reserve needed

- Roof with a 20-year lifetime is 15 years old and costs \$200,000 to replace
- Replacement cost is the cost of the roof if it is repaired immediately, \$200,000
- Normal use is \$10,000 per year = $200,000 / 20$ to cover the predicted deterioration
- Reserve needed is \$10,000 per year which is set aside and accumulates in a reserve fund
- After 20 years the reserve fund will have \$200,000 which can be used to replace the roof
- After 15 years the reserve fund should have \$150,000 if each year a \$10,000 deposit was made
- If no deposits were made, then there is a reserve shortfall \$150,000

Reviewed every year and determined according to the national Reserve Study Standards

www.caionline.org

Example of a typical reserve

Component to repair or replace	Replacement costs	Total life	Age	Remaining life	Reserve needed
Roof repairs	200,000	20	15	5	150,000
Elevator repairs	50,000	20	18	2	45,000
Paving asphaltting	30,000	20	10	10	15,000
Total reserve needed					210,000
Minus cash in Reserve Fund					(15,000)
Reserve shortfall					\$ 195,000

The reserves in this example are partially funded at only 7% = 15,000/195,000

Reserve shortfall requirements

Since 2022, Florida law requires that there be enough money in the Reserve Fund to pay the SIRS repairs at all time (100% mandatory funding)

- Recall SIRS are major structural items, like roofs
- Any shortfall requires new money in the Reserve Fund
 - Cannot be ignored
 - For LCG it must be paid in full by June 30, 2026
 - Creates a large fluctuation for the current budget and also next year's



That is in 24 months!

“Normal” reserves can still be partially funded if owners vote to do so

Any surplus could be used to lower funding costs in the following year

Usage of Reserve Fund is restricted by law to its intended purpose

- Cannot use money set aside for the roof to pay for clubhouse renovations

Why do we need to pay for reserves?

Champlain South Tower collapse - 24 June 2021



3rd worst in US history

Causes include long-term degradation of concrete supports from corrosion, water leaks and inadequate construction

Problems were known and remediation was approved by unit owners but...

\$15M cost was not funded

Inspections

Three legally required inspections

1. **“Normal”** reserve report
 - our most recent complete report was in 2020
 - New report for 2024 expected shortly
2. **“SIRS”** (Structural Integrity Reserve Study)
 - Report for 2024 due shortly
 - Like the Normal reserve report but it includes more items and will increase reserves needed
3. Milestone Inspection Report for 2024
 - Just completed and available on the LCG website
 - No costs or reserve requirements, but a list of recommended repairs

Milestone Inspection Report (“MIR24”)

The good:

- No widespread wide cracks or easily visible deflections of beams, columns, or structural interfaces
- No "Substantial Structural Damage" anywhere

The bad:

- Urgent concrete restoration in #3, #8, #12, #14
- Termite activity observed in #2, #5, #18, #26
- All roofs need immediate replacing (except #10) with proper drainage (especially #7),
- All minor cracks to be sealed

MIR24 has no cost estimates but problems detected should be remedied

- Get your building’s full report on the LCG website for details

Fiscal responsibility

The Board of Directors has a duty to be fiscally responsible:

- Include reasonable assumptions and estimates
- Cannot ignore or minimize the reality of the situation
- Fair treatment of everyone, current and future owners
 - Cannot send tab to future owners.
- Prior years of bad funding is not an excuse to do it again
 - Digging deeper in the hole is not a solution

Fiscal responsibility

Finance Committee is exploring options

- to cut costs
- to accumulate enough funds to repair items recommended in the MIR24
- to achieve full reserve funding by June 30, 2026
- to stabilize our annual maintenance fees for both operating and reserve expenses

Ideas and suggestions are welcome

Summary



- Pays for annual maintenance
- \$5.5M last year
- Stable except for recent insurance increases

- Pays for major repairs
- \$2.5M last year
- Stable when the Reserve Fund is close to fully funded reserves for both “Normal” and “SIRS” reserves

Questions and Answers

