

## **RESERVE FUNDING POLICY & PROCESS**

The Waterford Master Owners Association (WMOA) Reserve Policy and Process is to establish how funding is determined and managed, as well as defining specific responsibilities for all individuals that are part of the WMOA organization. Any future changes to this document must be approved by a vote of the majority of the WMOA BOD and must be in compliance with Florida Statute 720.303 (6).

**HISTORY:** During November 1995, the developer of Waterford met with the WIAC (Waterford Interim Advisory Committee) and turned over \$ 128,000.00 as the initial reserve fund. This fund was in total or a 'Pool Type' fund and did not have specific accounts tied to it. Over time, the Waterford Master Owners Association created specific reserve accounts to fund replacement costs for all major assets that WMOA is responsible for maintaining. In addition, during the years the WMOA board determined that in some cases the association should also set up reserves for certain deferred maintenance categories. The Florida Statute 720.303 (6) (b) states that the HOA budget may include reserve accounts for capital expenditure and deferred maintenance for which the association is responsible. If reserve accounts were established upon the affirmation approval of a majority of the total voting interest of the association, then the reserve accounts must be funded or maintained annually. All reserves are funded according to Statutory formula.

### **RESERVE TYPES:**

- **Capital Expenditures** – This type of reserve is designed to fund the entire replacement cost of any capital item (asset) that has a planned obsolesce. The asset life and replacement cost must be evaluated and updated annually by the responsible director during the annual budget process and must meet the WMOA reserve criteria for all reserves.
- **Deferred Maintenance** – This type of reserve is designed to fund periodic maintenance items that occur every three or more years and meet the WMOA reserve criteria for all reserves.

*Note: WMOA reserve criteria is that any reserve line item not less than \$5,000.00 (Replacement Cost or Deferred Maintenance Cost) and useful asset life is three years or more. To qualify for a reserve line, the asset must have a Useful Life that can be reasonably established and the replacement cost must be obtainable. All reserve line items must be managed under the WMOA Reserve Pool/Account structure within a WMOA Subsidiary ledger (aka Reserve Tracker) and must be reviewed by the WMOA BOD and updated as part of the annual budget process.*

**GUIDING STANDARDS:** There are three primary standards that determine the annual funding amount per Reserve Line Item. These are key since the annual funding commitments are

based off these assumptions and each of these standards need to represent to the best of the board's knowledge an accurate assessment.

- **Useful Asset Life (EAL)** - This should represent the number of anticipated years (Greater than 2 years) until the asset needs to be replaced or if a maintenance item, the number of years before the maintenance activity needs to be repeated. During every budget cycle, each asset is assessed to determine if the estimated Useful Asset Life (EAL) needs to be changed (increased or decreased) based on the current condition. These changes must be approved during the annual Budget meeting with the WMOA BOD.
- **Replacement Cost (ERC)** - This should represent the Replacement Cost at the end of the Estimated Useful Life or an estimated maintenance expense if the line item is a maintenance item. If during the assets EAL or recommended maintenance cycle, the WMOA BOD is notified or learns that the ERC has changed, the ERC should be reviewed & updated during the annual Budget meeting with the WMOA BOD.
- **EAL and ERC's** - These values shall be established with documented input from competent Service Providers or published data for each line item in the WMOA reserve and validated annually during the budget process.

***Example:** WMOA purchases a new maintenance cart in the current year at the cost of \$6,800.00. The new cart is expected to last 16 years. The estimated cost to replace the cart is \$ 8,000.00. Based on the above Guiding Standards, WMOA would need to fund that reserve line item with \$500.00 each year (\$8,000.00 divided by 16 years = \$ 500.00/year) in order that the Reserve Fund has \$ 8,000.00 in it at the end of the 16-year period to purchase a new maintenance cart.*

**RESERVE POOLS:** In accordance with Florida Home Owner Association Statue 720.303 (6), Reserve Pools (aka Accounts) need to represent capital expenditures and deferred maintenance categories within the WMOA Community and Funds cannot be moved between Reserve Pools/Accounts. Adjustments to reserve pools cannot be made during the fiscal year and must follow the previous stated guidelines and will be addressed during the next budget cycle. Reserve line items are used within a Reserve Pool to manage specific assets that have specific EAL's and ERC's. Line items can be added or deleted each budget cycle depending on WMOA reserve criteria. All reserve items need to equal a Reserve Pool Control total within the subsidiary ledger (aka Reserve Tracker) in order to reconcile with WMOA Financials. Overall pool funding and balances must comply with Florida Statute 720.303 (6) 1 and 2.

**ANNUAL RESERVE FUNDING CALCULATION:** The WMOA BOD requires use of the formulas established in Florida Statute 720.303 (6) 1 and 2 to determine how much of the WMOA Annual Assessment should be required to fund each of the Reserve Pools. By Line item within each Reserve Pool, take the Line Items Estimated Reserve Costs (ERC) divided by the Estimated Useful Asset Life (EAL) = Annual Reserve Funding Requirement. Then multiply the Annual Reserve Funding Requirement by the number of years the reserve/maintenance item has been in service which should equal how much Funding has been reserved for each line item. Upon replacement of any item, any Reserve Funds will be kept in the reserve for that item and used to reduce the ERC value of that line item for the purpose of calculating the annual funding amount of that line item. Any reserve shortfall must be funded from operating funds for the year. Interest on reserve funds remains in the reserve. For simplification, the annual interest can be applied to the reserve line item with the largest balance and the annual funding requirement is recalculated.

- **Annual Reserve Funding Amount** = Estimated Replacement Costs (ERC)/Estimated Useful Asset Life (EAL) plus/minus any annual true-ups determined during the annual budget cycle.

- **Reserve Fund Balance** = Annual Reserve Funding Amount X Number of Years asset has been in service

**RESERVE PAYMENTS:** The WMOA BOD **cannot** approve a payment against a reserve if the line item is not part of the reserve.

**ROLES/RESPONSIBILITIES:**

**Director with Reserve Responsibility:**

- All Directors responsible for managing reserve items are required to review each of the reserve line-items to ensure that the estimated replacement costs, estimated life, years in service, and scheduled replacement date are accurate and up-to-date during the budget process.
- All reserve spending must be approved by the BOD before any contractual activity is initiated with vendors.
- Directors are required to inform both the Board-of-Directors and the Finance committee of any planned replacements and/or any planned deferred maintenance activity by month in order that the appropriate cash flow requirements can be provided to support the planned replacement.

**Treasurer/Finance Committee:**

- The Finance committee is required to reconcile the Line-item Reserve Subsidiary (aka Reserve Tracker) details to the Finance Reserve Account/Pool at the end of December (Post Audit Report) to ensure the year end reserve balances match; the end of January to ensure that all funding deposits match; and the end of September to ensure the reserve pool accounts match since those balances will be the basis for the next year's budget.
- Track all planned replacement and deferred maintenance activity and ensure that there are sufficient cash flow to support the planned replacement (as determined by each responsible director).
- Reconcile all reserve actuals on a monthly basis between the line-item detail worksheet and the corresponding Property Management Company Financial reports.
- During the annual budget process, the Finance Committee is responsible to present the updated Reserve Line-Item detail with the Board of Directors and update the line-item details based on all information presented at that Budget Meeting.
- Once the new budget is approved, then the Finance Committee is responsible to ensure that all updates are properly reflected in the next years Property Management Company Financial Reports.
- The Treasurer will validate all payment requests to ensure that the item is part of the reserves, the estimated life is as planned, and that there are sufficient funds in the reserve to support the requested payment and notify the specific director and BOD of findings.

**Board-of-Directors:**

- Review all requested updates during the annual Budget meetings and approve each of the changes as presented by the individual director responsible for each of the reserve line items.
- All reserve payments (aka expenditures/spending) must be approved by the WMOA Board prior to any planned replacement or deferred maintenance activity. The WMOA BOD **cannot** approve a payment against a reserve if the line item is not part of the reserve. All reserve payments must be discussed

and voted on during a WMOA BOD meeting and documented as part of the WMOA Board minutes.

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