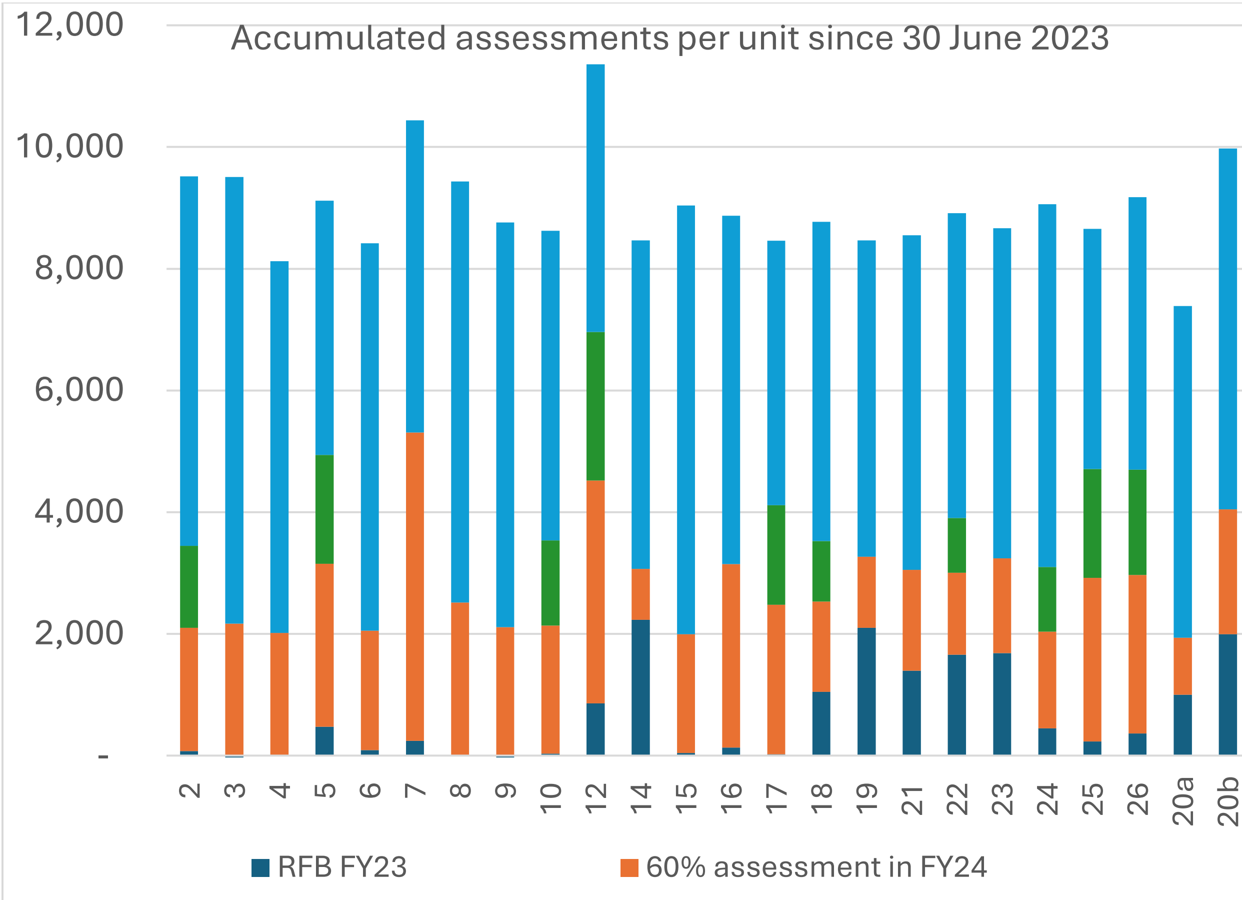
FINANCIAL FAQs updated January 21, 2025

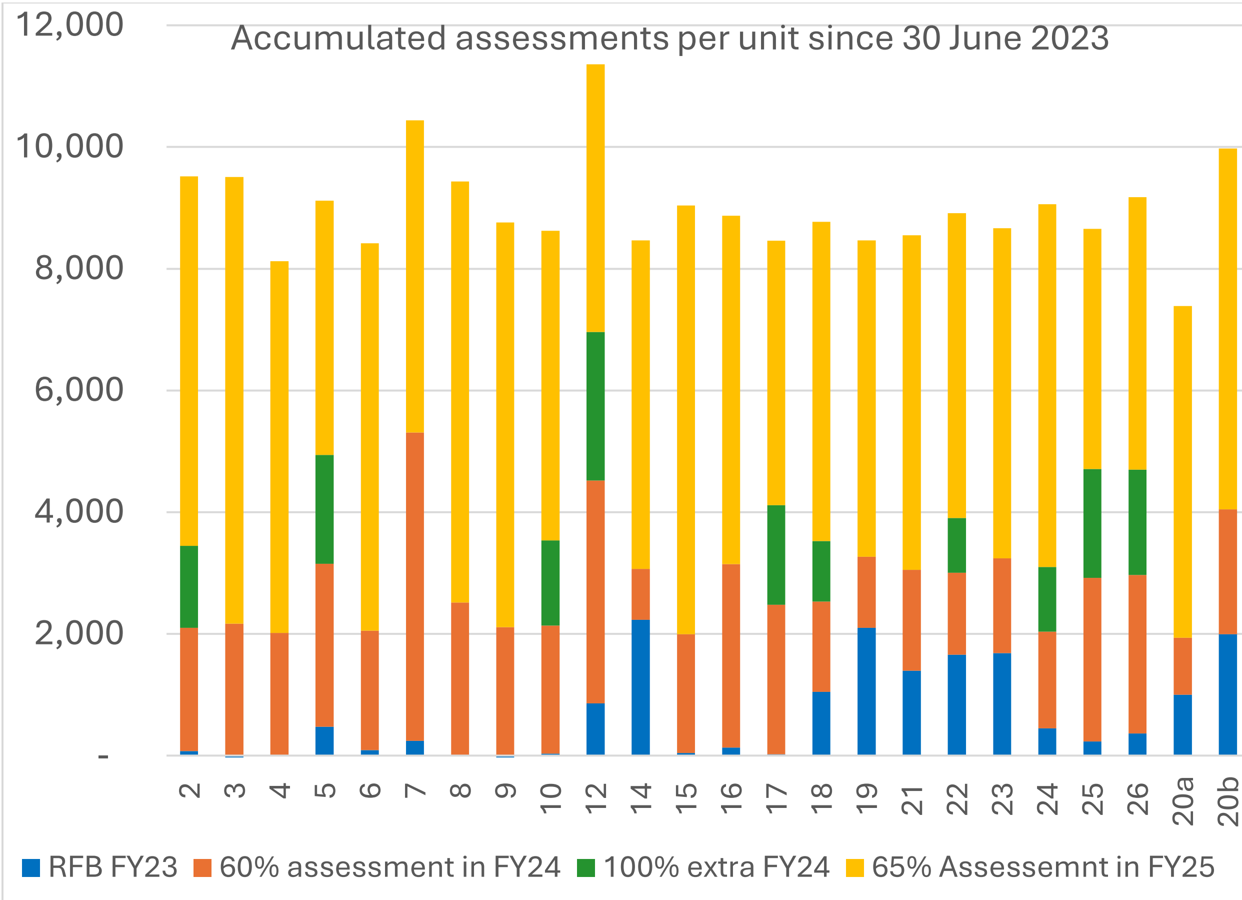
Q28: What happened to buildings who voted 100% in 2023?

It is important to remember that each building has its own reserves needed and its own Reserve Fund Balance (RFB). The accounting is completely separate for each buildings with no crossover of costs or cash remitted. The only exception is for the common areas.

The reserve assessment in financial year from July 1, 2023 to June 30, 2024 (FY23/24) for each building was based on a 60% or 100% vote. However, the assessments were calculated using a total reserve needed of only $4.5M. So even if some buildings voted 100% in the budget FY23/24, the amount of cash accumulated for the RFB was not sufficient to reach 100% funding because the amount of reserves needed has increased to $13.9M by June 30, 2026.

All assessments for reserves collected are remitted in the RFB of their respective buildings. Those who remitted an extra amount for the 100% vote, have accumulated a higher RFB. This can be seen in the following chart where the amounts for each building are based on the average collected by each unit since June 30, 2023. It also shows that the RFBs as of June 30, 2025 for all buildings are now closer together than they were as of June 30, 2023.


Accumulated assessments per unit since 30 June 2023
12,000
10,000
8,000
6,000
4,000
2,000
-
2
3
4
5
6
7
8
9
10
12
14
15
16
17
18
19
21
22
23
24
25
26
20a
20b
RFB FY23
60% assessment in FY24



Q27: What do you mean by fully-funded reserves?

The term, “fully-funded reserves” does not mean that the total cost of replacing or repairing the item must be available immediately. It means that you put aside an amount that is proportionate to the age of the item so that by the time it “expires”, you will be able to repair or replace immediately. For example, if an item costs $100.000 and it will last 20 years, then it deteriorates at the rate of $5,000 per year, so you would need to ‘reserve” that amount each year. Thus, when the item is 6 years old, you would have reserved $30,000 but when it is 16 years old with just 4 more years of life left, you would have reserved $80,000 towards its replacement, and at 20 years, there would be the full replacement cost of $100,000 available. In other words, you reserve as you use the item – a most equitable arrangement. Should you sell, you would have contributed only for your time of use. And the new owner would continue paying to reserves as they use.

Q26: If I am paying just 65% to reserves this year but must fund to 100% next year, then in effect, I will be paying 135% of reserves?

The truth is that percentages, like ratios, are relative, relating to a base, unlike numbers which are absolute. Therefore, unless the base is the same, one can not just add and subtract percentages. And that is not the case here, therefore the mathematics is flawed. Let us look instead at the numbers. We want, in addition to what we already have, we estimate that we need to put $10 million more into our reserves by the end of fiscal year 25/26 to achieve 100% funding. Therefore, if we put $5 million this coming year and $5 million more the next year, we would have achieved our goal. To get $5 million this coming year, we needed the 65% funding level. The following year, at the 100% funding level, we will collect another $5 million. Funding at a level of 135% would be over-funding – unnecessarily burdensome.

Q25: As I review the budget for Bldg 4 , I note the reserves needed are not reflecting the life expectancy. Example, Asphalt Resurface $37750 10 year life expectancy equals $3775 per year to reserves. You are asking for it all now? Please explain.

There are two life expectancies in the reserves: "Total life" which is the life expectancy of a brand-new component, and, "Remaining useful life" which is the life expectancy of a used component. The reserve needed uses both. Here is an example for your building:

- Asphalt has a 20-year Total life expectancy and costs $37,750 to replace
- Current asphalt in building #4 is not new, it is 7 years old, so, it has a Remaining Useful Life expectancy of 13 years only.
- Normal use is $1,887.50 per year = 37,750 /20 to cover the predicted deterioration
- After 7 years of deterioration the reserve needed is $13,213 = 1,887.50 * 7

This calculation is determined according to the national Reserve Study Standards. All amounts are based on available information at the time the budget was prepared and will be reviewed each year.

Q24: **What has changed in voting for the reserves funding levels?**

Whereas, previously, reduced or waived funding for reserves was approved by a majority of the quorum, of the total membership for Common reserves, and of the building for building reserves, this year it is the majority of the voting interests that must approve the reduction or waiving.

In other words, previously, for common reserves, 429 members had to be present for the meeting (in person, by proxy or electronically through electronic voting) to form a quorum, and the majority of that quorum (at least 215 members) had to vote to accept the4alternative funding. Now, it is the majority of all members, that is 429 members, that must vote for the alterative funding level. If not, the common reserves would default to 100% funding.

Similarly for building reserves, a building of 36 members used to need 19 members for a quorum and 9 members to vote for alternative funding level. Now, 19 members are needed to vote for the alternative funding level, or that building will default to 100% funding of building reserves.

Q23: Will the HOA reduce after we pay the reserve shortfall?

Yes, it will, barring an unexpected event (which can be underwritten by a special assessment), as the reserves thereafter will need to be funded only for that year's usage and to keep pace with inflation.

Q22: Who will monitor the reserves suppliers, m2e and Associate Reserves?

The Board of Directors and the Property Manager with advice and assistance from legal counsel, if needed, monitor the consultants, m2e and Association Reserves. The latter has had a long-standing and mutually satisfactory relationship with the association and were contracted since last year to conduct the routine tri-annual reserves study at a cost of $11,180 while m2e was contracted at a combined cost of $84,600 to conduct the Milestone Inspection and the SIRS. m2e's bid was only marginally higher than the lowest bid offer with a far shorter completion time than the lowest bidder.

Q21: When are the presentation and video going to be posted?

The link to the video is posted on the website for one week after the townhall has been held. The handouts for the first townhall are posted in all four languages on the Association's website under the "Financial Corner" tab. Those for the second and third townhalls should be posted very shortly, no later than 5/8/2024.

Q20: When are we going to use reserves?

Reserves are, and have been used when they are sufficient to cover the expense of repairing or replacing an item covered by reserves. The reality has been that until now, rarely have there been enough reserve funds to do so, and hence the need for assessments. As reserves grow, they will eliminate the need for assessments, except to fund unexpected, catastrophic events or large planned projects.

Q19: Are delinquencies considered in the shortfall?

No, they are not. The shortfall is the difference between the replacement value of the reserve item and what the Association determined should have been collected according to the funding level voted upon by members.

Q18: Can we relax the rental restrictions to allow yearly unit rentals?

The restriction of rentals to no less than three months and no more than six months is written in our condo documents. To change this requires a Board vote and members' approval. This was raised at a previous Board meeting and the Directors all voted against it.

Q.17: Why not make the default option, the partial funding rather than the 100% default?

Statute 718 which governs the operation of condominium associations mandates that associations' budgets must contain 100% funding of reserves.

Specifically 718.112 (2) (f)2.1a. states "*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 must be computed using a formula based upon estimated remaining useful life and estimated replacement cost or deferred maintenance expense of each 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. This subsection does not apply to an adopted budget in which the members of an association have determined, by a majority vote at a duly called meeting of the association, to provide no reserves or less reserves than required by this subsection.*"

So members have to vote against the default funding of reserves. It should be noted that the option to partially fund or waive will hold for only one more year.

Q16: Please clarify: Re: Handout, Page #10 of Financial 102- Normal Common - $20,000. I am not aware of any common funding for elevators, costs fall on particular building.

The expected repairs of $20,000 in common areas in slide #10 is not for elevators. It is meant only as a example of forecasted repairs of components in the common areas. It is illustrative only and has not been incurred.

Q15: **In the past, under a program called "Fairness to Buildings", some buildings have received compensation from the common area funds to pay for repairs or damages on their buildings. Is it safe to assume that this is no longer the case?**

Yes, it is safe to assume so. There are no such programs in place.
All buildings have to rely on their own Reserve Fund for damages or repairs needed to their own building. In turn, all buildings pay their share for the common area Reserve Fund, which serves only to repair common area buildings or amenities. There is no support or compensation from the common area funds to pay for individual buildings' operations or repairs.

Q14. Can reserve costs change?

Yes, Reserve costs are reviewed each year. The mandatory Reserve Studies that are conducted every three years, give forecasts for reserve costs based on the useful life of the several elements whose repair or replacement must be funded. We expect to receive very shortly, a report for 2024 containing the results of a 2024 Reserves Study, (the last one being done in 2020 and the results are posted on the Association's secured website). Should this report be available before finalization of the budget, the results will be used to update the budget for July 1, 2024 to June 30, 2025. So, all numbers are subject to change.

Q13. Can we have a multi-year forecast of the fees?

Yes, the Finance Committee will prepare a three-year budget forecast, based on the 3-year projections from the reserve study.

As with any forecast, any costs beyond the first budget year are subject to change.

Q12. What is being done to lower the sky-rocketing fees?

Many of the factors impacting our sky-rocketing fees are external to and beyond the control of the Association and its Board. The legislation, the cost of insurance, the age of the building are all factors that impact our fees. We try to maintain our building so that its integrity is preserved despite its age but that is expensive. We have been trying to improve our financial management by reviewing our expenses, removing unnecessary services and replacing inefficient ones to get better bang for our buck, and investing our funds in higher-yielding but still protected instruments.

Q11. Why can't we achieve the 100% funding with a smaller increase over a longer period of time?

Because the application of Florida Statutes section 718 requires that our budget of July 2025 to June 2026 must reflect full funding of the SIRS reserves. Our choices therefore are large increases over these two years or a much larger lump sum now or in the last year. The opportunity for smaller increases by using a longer period has passed us and owners voted against it.

Again, LCG is not alone here, many condo associations in Florida and in other states have similar issues.

Q10. Why am I paying more than friends in larger units or single-family homes?

The requirement for full funding of specified reserves does not apply to family homes of 4-stories or less. Your friends may also be living in newer buildings whose elements still have a lot of useful life so they may have a smaller reserve shortfall. And some newer condos have their owners committed to full funding from time of purchase, so they too will be paying less, over a longer period.

There are many reasons why fees do not compare well between associations:

- Age, size, design of the buildings and their conditions;
- The level of funding they have done in the past;
- Whether they are subject to SIRS requirements or not;
- What services and common area amenities are available: swimming pool, lake pond, auditorium, etc.

Within the same LCG building, small unit owners will always pay less than larger unit owner of the same building. It is possible however that an owner of a small unit paid more than an owner of a larger unit in a different LCG building for many reasons:

- Level of past funding at each building: 100% or 60% funding in the FY24 budget
- The level of Reserve Funds that have accumulated up to June 30, 2023 at each building;
- The difference in age and replacement costs of some components used in the FY24 budget reserves varied considerably, e.g. Roof costs.
- Major repairs done in the past varied significantly between buildings, even when the two buildings are the same size;

With the new inspections in 2024, new roof costs, and the imminent SIRS requirement of 100% funding, there will be increasingly greater parity among buildings.

Q9. Will owners have to pay additional monies to monitor, manage and safeguard these funds?

No. There are no additional fees to manage and monitor either the Operating or Reserve Funds, as they have always been monitored, either by an external accounting firm or by an employed Controller, both under the instruction of the Property Manager and oversight by the Board, whose members (unlike the Property Manager, the Controller or the accounting firm), are not remunerated.

Q8. Who will oversee the management and security of the Association's reserves?

The Board is responsible for the management of the Association's reserves, as they do for all of our financial and physical assets. The Board may choose to form a new LCG Committee and to delegate some of the investment work to the Committee but the Board retains ultimate authority regarding all decisions. By voting for individual Board members each year, owners have a say in the management of the funds.

The Finance Committee will report, at least annually in your budget documents, the investment income or interest earned in the Reserve Funds. Furthermore, our finances are subject each year to the careful scrutiny of an independent auditor who reports to the authorities.

Q7. Will the funds be maintained in interest-bearing insured accounts?

Yes, they will. We are working to obtain the benefits of association banking: higher interest rates, better protection and more adapted service. We are currently completing an application to an Association Bank (Centennial Bank) and will shortly be transferring our Reserve Funds. In the meantime, we have moved funds to a CD and started collecting competitive interest each month on $150,000 (to date, nearly $2,000 in 3 months). All buildings have and will receive the same interest rates on their respective Reserve Fund.

Q6. Will the reserves be held in separate accounts for each building instead of jointly?

The reserves are held in separate ledger accounts for each building so that each building is easily accounted for. They are not in separate bank accounts as having 26 additional bank accounts would be difficult to manage for us and for the banks. We are currently seeking to consolidate the several accounts we already have, to attract higher interest rates.

All budgets, reserve and operating expenses are managed separately for each building. There are no transfers or cross subsidy between any buildings.

Only common areas expenses and reserves are shared by everyone.

Q5. Once 100% funding is achieved, will the maintenance fees be decreased?

From the Financial 101 presentation on the LCG website, you will see that maintenance fees have two types: annual maintenance called "operating" and major repairs called "reserves".

Yes, if all assumptions used in preparing the budget FY25 hold true, in particular if:

- Final SIRS report reduces its costs to a level comparable to the ones used in the budget FY25;
- repair cost estimates do not change beyond expected inflation, we used 3% per year;
- no new or unexpected damage occurs;
- the deterioration occurs as expected, for example roofs have 2 years of remaining life;

then the portion of maintenance fees for “reserves” will reduce significantly to a low maintenance level.

On the other hand, the portion of the maintenance fees for “operating” is expected to grow with inflation each year.

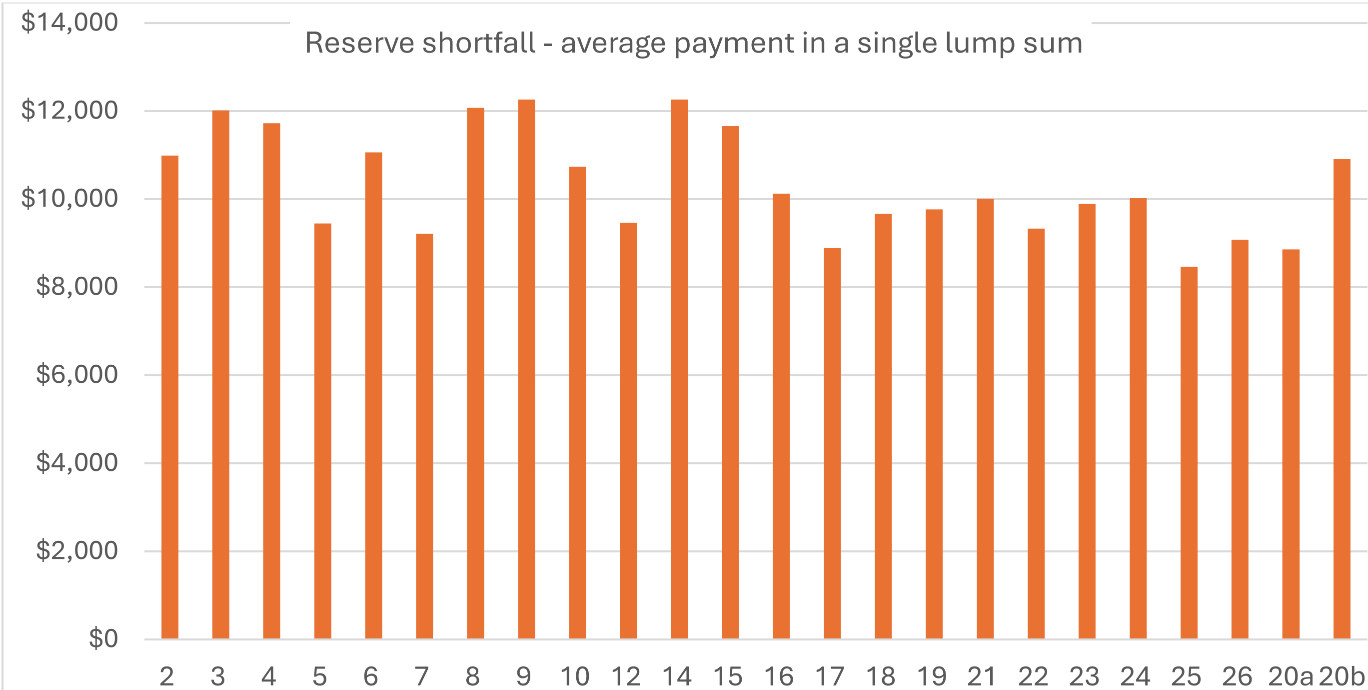
We plan to show expected levels with a three-year budget forecast.

Q4. When will these large payments end?

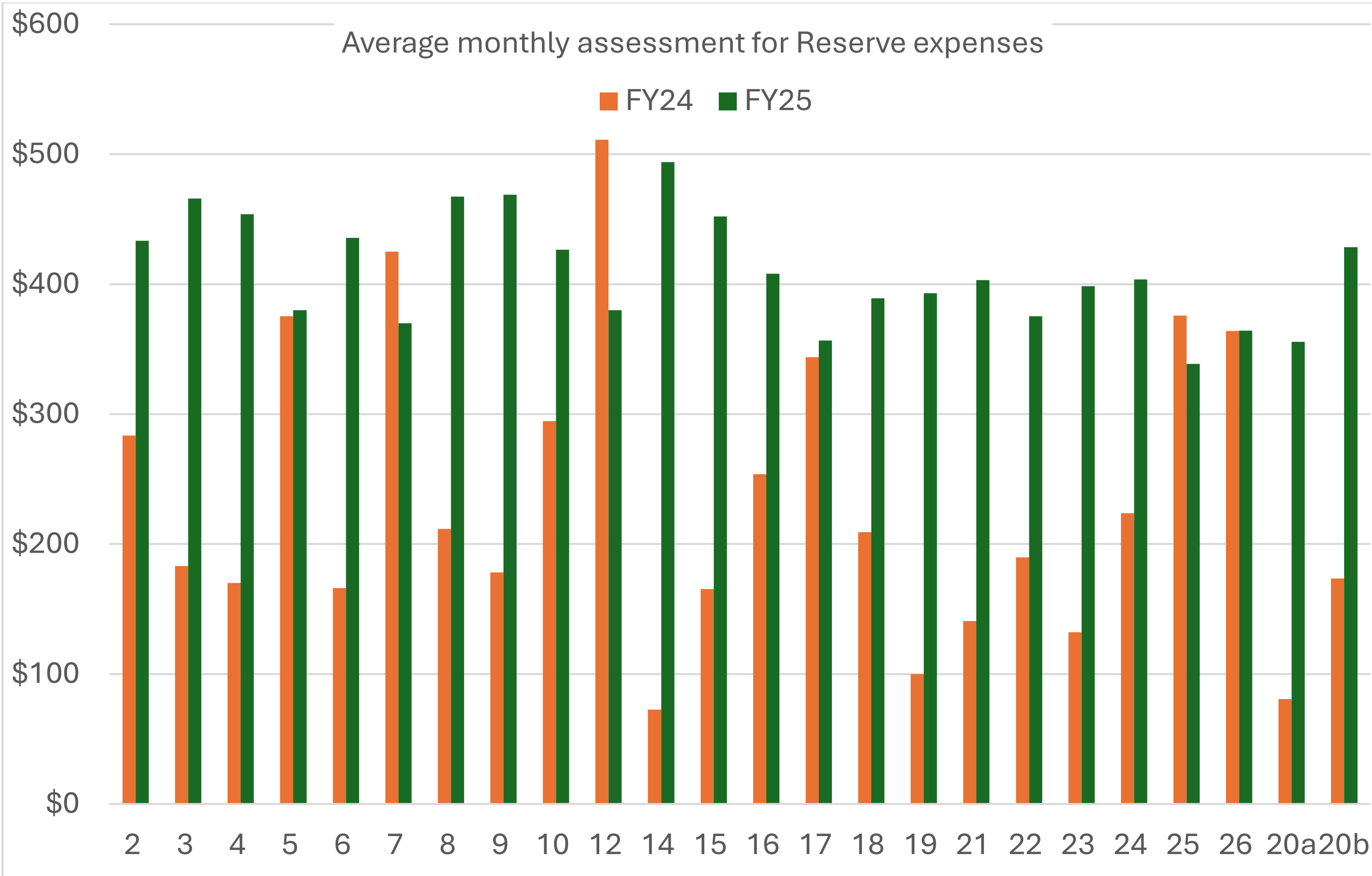
The large payments are to catch up for not funding reserves during the “lives” of the several elements that allow us to enjoy living at LCG. It is most unfair that someone should live under a roof for 19 years, sell and when the roof has to be replaced in the 20th year, the new owner would now be responsible for that entire cost. Far more equitable is having each owner pay each year, 1/20 of the cost of replacing the roof. In other words, you pay as you use, thus the replacement cost is shared by all who have used or benefitted and are using the reserve element. Because this did not happen, we must now catch up to match what should have been in the kitty as we used. Once this occurs, payments would decrease to reflect the annual usage for reserves and normal operating expenses, allowing for inflation.

Q3. How much do we need to have in our budget to have 100% funding of reserves by the due date? Also how much does each building need to have for full funding of reserves?

100% of reserves is $11.7M, reduced by our Reserve Fund of $2.9M, the reserve shortfall is $8.8M as of June 30, 2024. These amounts are based on a preliminary report for SIRS, and subject to change. If each owner pays a lump sum to cover the reserve shortfall, the average amount by building is shown the chart below:



Using monthly payments instead of a single lump sum, from July 1, 2024 to June 30 2026, we can spread the reserve shortfall costs over 24 months to cover mandatory “SIRS” portion and over a longer period for the “Normal” portion of the reserves such as 36 months. To do so, we need to budget a reserve expense for the next budget, the period from July1, 224 to June 30, 2025, called the “FY25” a significant increase compared to last year FY24 for most buildings:



Your exact amount will vary by your unit size and will be shown in your budget documents.

Q2. Why are we paying so much towards the reserves?

The cost of repairing a major item, like the roof, was always there, it was just not visible to owners until a special assessment was needed to pay for it. The goal of the Reserve Fund is to accumulate enough cash to pay all major repairs when they occur without using a special assessment. So, the reserve cost replaces the special assessments to some extent. The reserve basically changes the timing of when owner have to pay, an amount over several years now into a Reserve Fund or bigger amounts later in special assessments.

The Florida statutes in section #718 now requires condo associations like LCG to use reserve costs instead of special assessments. It also removes the option that owners could waive by voting the reserve costs for the "SIRS" portion. It can no longer be partially funded at 3% or 5% by a vote of the owners as we had done in the past. This means that we cannot use special assessments for "SIRS" repairs anymore.   It also means that when a condo association like LCG did not fully fund its reserves, it now has to catch up for missing payments, we call this the "reserve shortfall".

For LCG, the “SIRS” portion of reserves has to be 100% funded by 30 June 2026.

The reserve costs have increased dramatically for all condos in Florida, not just for LCG, because most condos need to catch up for several years of missing payments.

Q1. What are reserves?

A maintenance fee that goes into a fund, called the “Reserve Fund” that will be used to pay for major inevitable repairs in the future. Major repair costs are now required to be paid over time instead of a special assessment. The annual cost is called the reserve expense or reserve cost. There are two types of reserves in Florida:

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