



Presentation Overview

Background and Purpose of Legislation

- Senate Bill 4-D
- Senate Bill 154
- Florida House Bill 1021

DBPR Role

How the DBPR will implement and monitor the roll out of the requirements

Structural Integrity Reserves

- Who is affected
- Funding considerations
- Financial considerations
- Common findings
- Budgeting and accounting considerations
- Financial statement considerations
- Presentation and disclosures

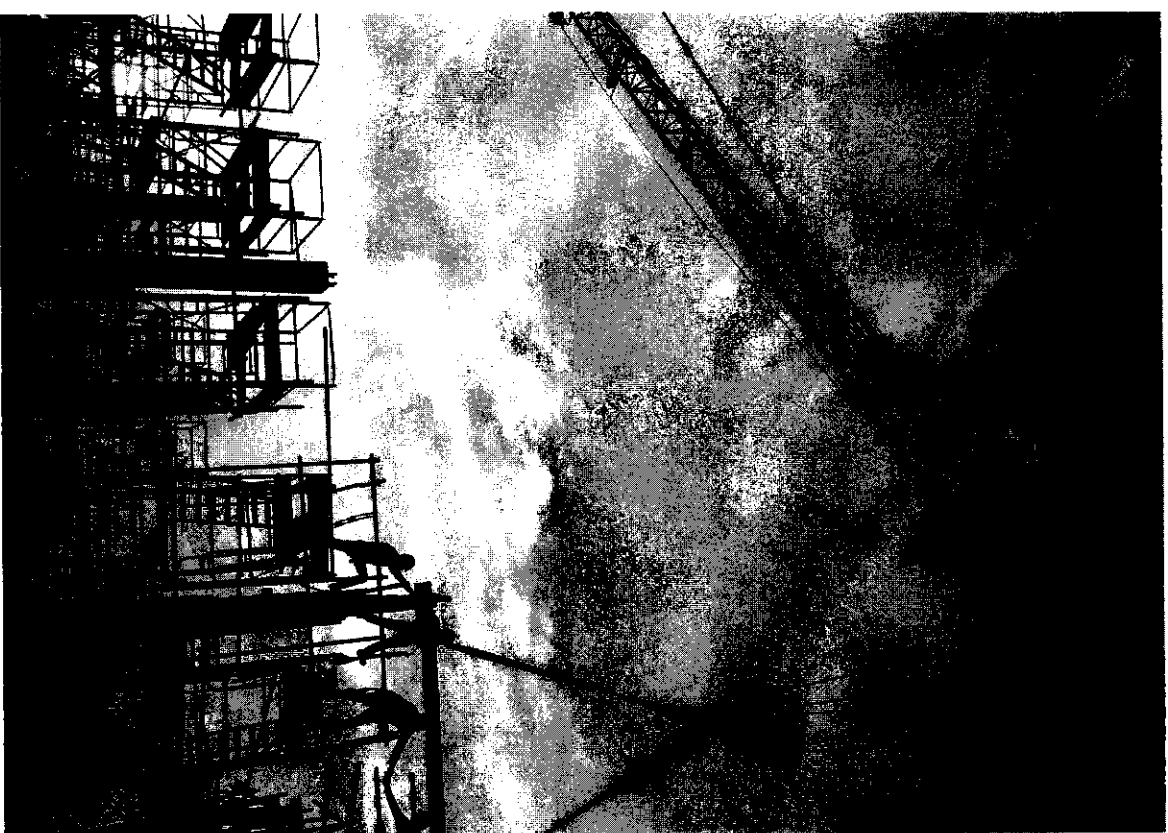


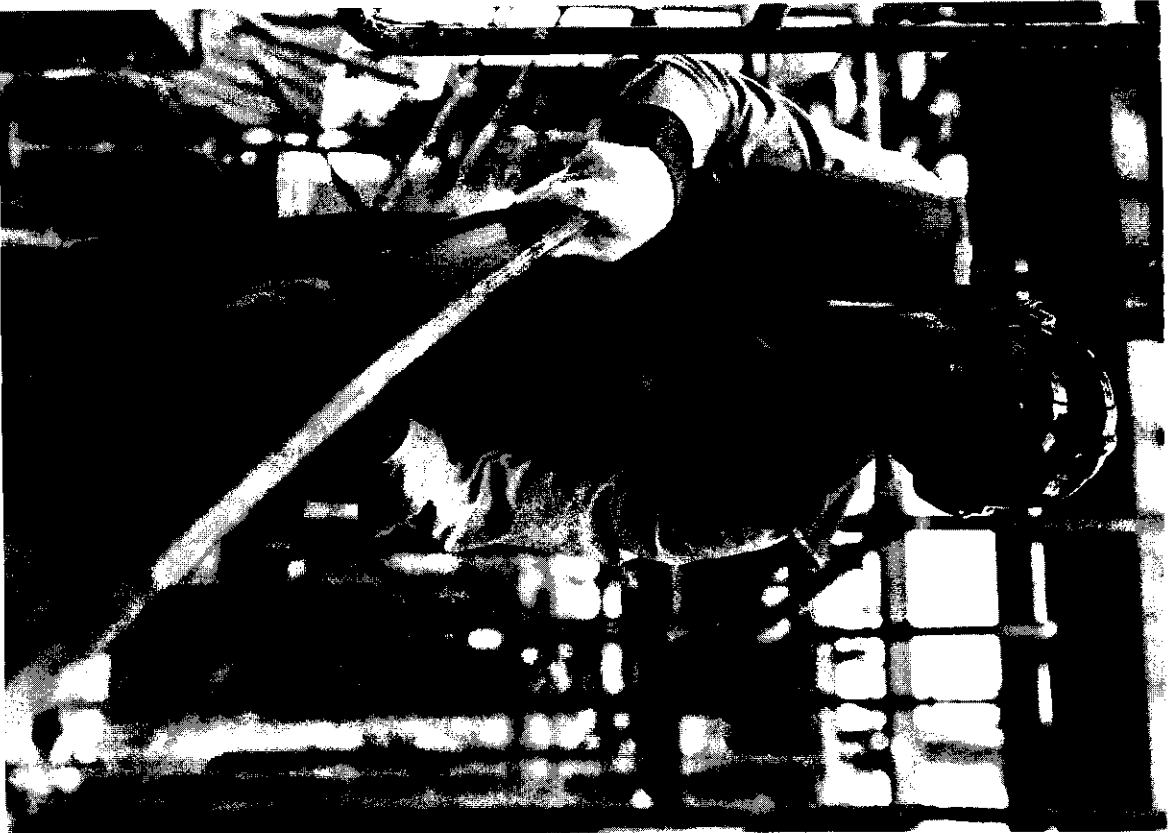
Senate Bill 4-D

- Enacted May 26, 2022
- SB 4-D increases the safety of Florida's condominiums by requiring inspections for all condominiums and cooperative buildings that are three stories or higher. SB 4-D requires the following for condominiums and cooperatives:
- Condominiums and cooperatives must conduct a Structural Integrity Reserve Study (SIRS) for buildings that are three stories or higher to ensure that necessary funding is available for any future structural repairs that may be needed. This study must be completed at least every 10 years after the condominium's creation, regardless of the condominium's age.
- Structural milestone inspections are required for condominium and cooperative buildings of a certain age, depending on their distance from the coastline.
- To increase transparency and accountability, all structural inspection reports and reserve studies are required to be part of the condominium association's official record and must be provided to potential purchasers of a condo unit.

Senate Bill 154

- Enacted June 9, 2023
- SB 154 revised the requirement for condominiums to collect reserves and allows a majority of voting residents to elect not to provide reserves or to provide less reserves than required. However, this legislation prohibits waiving or reducing reserve funding for repairs and maintenance of structural components identified in the SIRS.
- Additionally, SB 154 refined the requirements of the SIRS to provide clarification on the items required in a SIRS and expanded who can perform a SIRS.
- SB 154 allowed a specific type of condominium (multi-condominium with 25 condominiums or more) to provide no reserves or less reserves than required if an alternative funding method was approved by the Division of Condominiums, Timeshares, and Mobile Homes. The Division received funding to contract with a third-party to review alternative funding methods submitted to the Division for review and approval.





House Bill 1021

- Enacted July 1, 2024
- HB 1021 increases transparency and accountability through changes to meeting requirements, voting, education for condominium directors, recordkeeping and reporting, and support from the Florida Department of Business and Professional Regulation (DBPR).
- Additionally, HB 1021 introduced criminal penalties for board members who act in bad faith, increased DBPR's ability to address resident complaints through investigations, and established a criminal referral process to streamline accountability for individuals that have engaged in criminal activity.



DBPR Role in Implementation

- DBPR is dedicated to an efficient, transparent and complete implementation of House Bill 1021. The Department proactively established an implementation team and began to meet the first week of March 2024 to best prepare the Department for potential implementation.
- HB 1021 appropriated the Department 65 new positions to conduct investigations on the newly added areas of jurisdiction and enhance public engagement by educating the public on the requirements outlined in Chapter 718, Florida Statutes (F.S.).
- In addition to enhancing education, Division of Condominiums, Timeshares, and Mobile Homes will create and establish a criminal referral unit responsible for referring any individual the Division believes has engaged in fraud, theft, embezzlement, or any other criminal activity to local law enforcement. The Division must have evidence to support an allegation relating to criminal activity before a referral can be made.
- Source: <https://condos.myfloridalicense.com/faqs/>

Who, What, and When?



What types of buildings or structures are excluded from the Structural Integrity Reserve study (SIRS) requirements?

- The SIRS requirements **do not apply** to buildings less than three stories in height; single-family, two-family, or three family dwellings with three or fewer habitable stories above ground; any portion or component of a building that has not been submitted to the condominium form of ownership; or any portion or component of a building that is maintained by a party other than the association.

Who is required to do a Structural Integrity Reserve study (SIRS)?

- A **residential** condominium association must complete a SIRS for every building in the condominium that is three stories or higher, as determined by the Florida Building Code.

When is the Structural Integrity Reserve study (SIRS) due, and how often does my association need to complete a SIRS?

- Unit owner-controlled associations existing on or before July 1, 2022, must have a SIRS completed by December 31, 2024.
- A residential condominium must have a SIRS completed at least every 10 years after the condominium's creation.

The deadline to complete a SIRS is December 31, 2024. When does my association have to start reserving for a SIRS?

- If your budget is adopted on or before December 31, 2024, you may vote to waive or provide less than the required SIRS reserves with a majority vote of the total voting interest of the association. You will need to begin funding your SIRS reserves in accordance with the reserve study January 1, 2026.
- If your budget is adopted on or after January 1, 2025, you may **not waive** your SIRS reserves and need to begin funding your SIRS reserves in accordance with the reserve study January 1, 2025.

Funding Reserves

The SIRS will indicate which items needs to be reserved for and what the remaining useful life of each structural component is. The association should rely on the SIRS for guidance on how to fund each component.

718.112(2)(g): *Structural integrity reserve study*. - A residential condominium 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, as determined by the Florida Building Code, 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) structure, including load-bearing walls and other primary structural members and primary structural systems as those terms are defined in s. 627.706.
- c) Fireproofing and fire protection systems.
- d) Plumbing.
- e) Electrical systems.
- f) Waterproofing and exterior painting.
- g) Windows and exterior doors.
- h) 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.-g., as determined by the visual inspection portion of the structural integrity reserve study.



Funding Reserves (Continued)

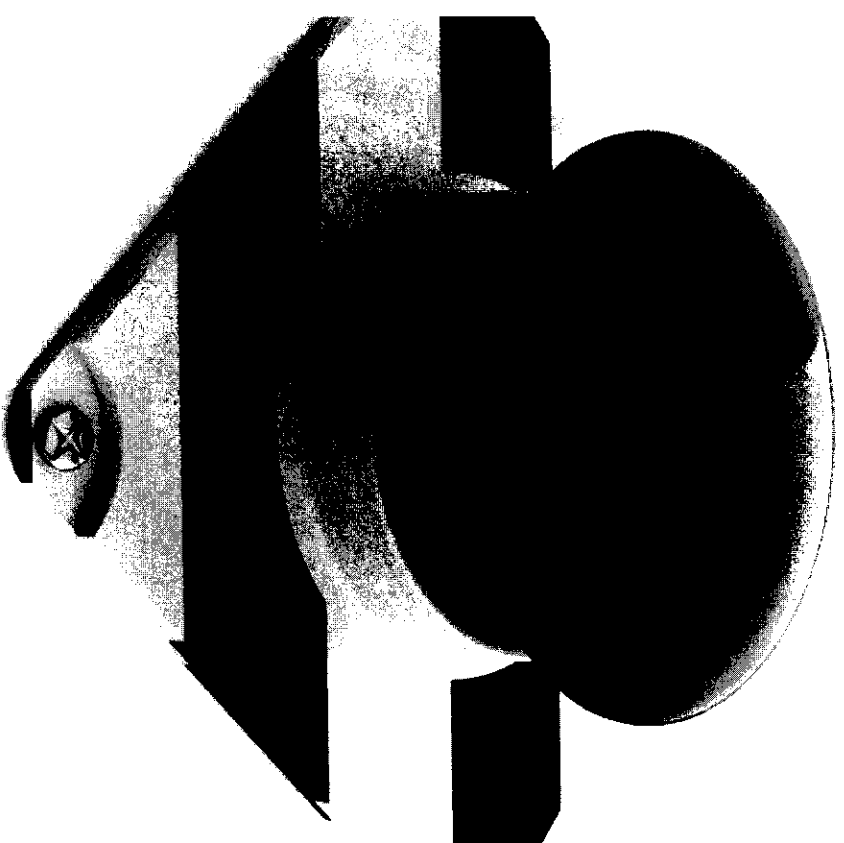
- With respect to items for which an estimate of useful life is not readily ascertainable or that have an estimated remaining useful life of greater than 25 years, an association is not required to reserve replacement costs, but an association must reserve the amount of deferred maintenance expense, if any, that is recommended.
- By requiring independent reserve studies, this law ensures each condominium is properly prepared to keep its occupants safe.
- Unless there is an immediate safety problem, the law **does not** require reserves to be fully funded at the completion of the reserve study.
- The amount that needs to be reserved is calculated based on the estimated remaining useful life and estimated replacement cost of the item.
 - For example: If the cost required to replace the roof in 10 years is \$100,000, the association **is not required** to have \$100,000 immediately reserved for repairs. Instead, the association must reserve sufficient funds each year to have the required funding available at the time of anticipated repairs.
 - The calculation of how this \$100,000 will become available can be performed utilizing the straight-line (component) or pooled (cash flow) funding method.
- The association may adjust replacement reserve assessments annually to take into account an inflation adjustment and any changes in estimates or extension of the useful life of a reserve item caused by deferred maintenance.



Financial Considerations For Funding

- Starting Balance of SIRS v Non-SIRS
 - Get legal representation involved.
 - Utilize most current audited financial information to determine the beginning balance of available funds for allocation.
 - Evaluate anticipated expenditures and funding per the study to available funds.
 - Consider any amounts currently owed to the reserve fund.
- Allocate current reserves between SIRS and Non-SIRS
 - Work with engineer and legal to determine the amount of current reserves that can be allocated to each group.
 - The beginning balance will impact the future funding calculation of each grouping.
- Decide on Pooled vs Component method
 - Calculation may have significant impact on the funding burden.
 - Consider a subjective threshold calculation and an absolute minimum (\$0) calculation.



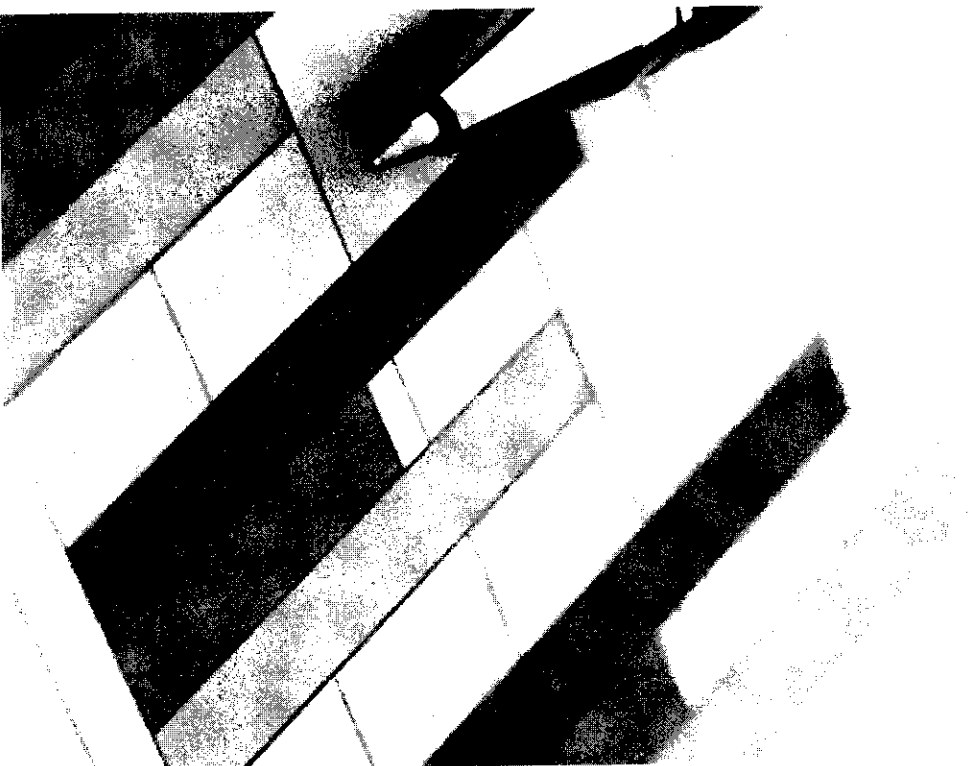


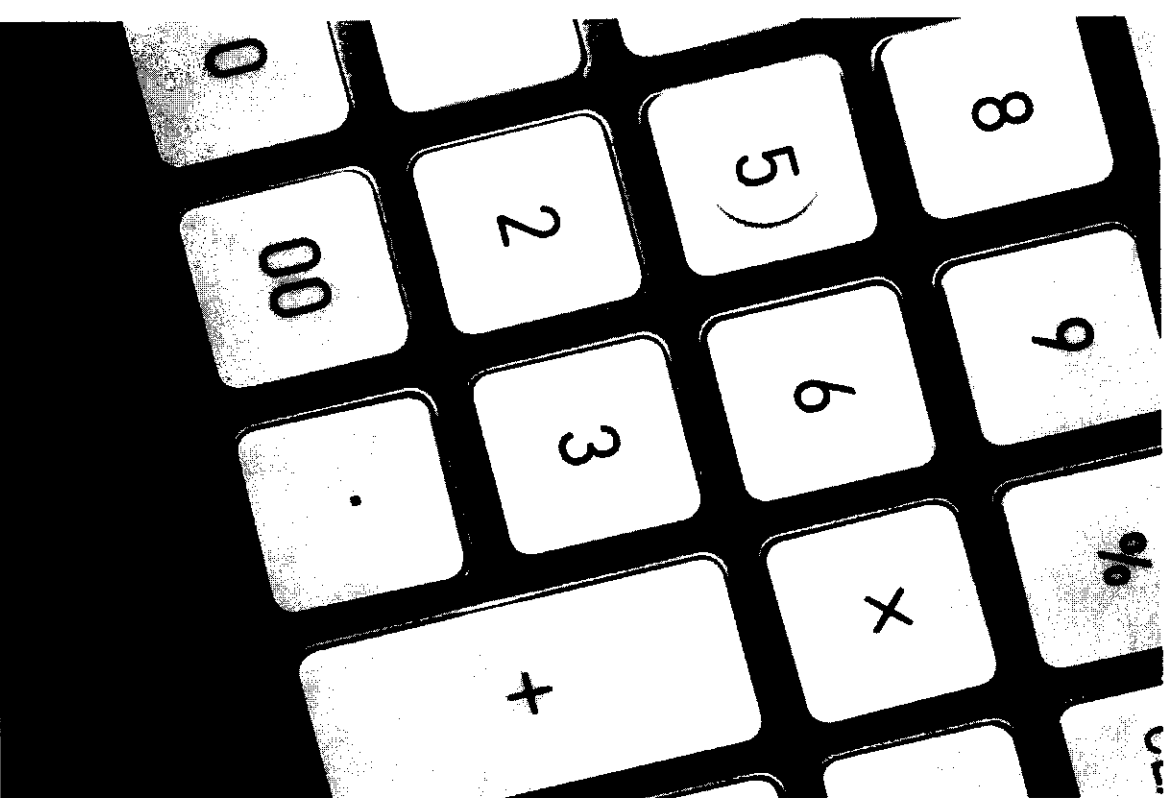
Common Reserve Study Findings

- Beginning balance is not in line with most recent accounting record balances.
- In an attempt to keep the funding amount low, the funding plan contains a loan or special assessment that has no repayment plan or has not yet been formally approved.
- Per admin code (61B-22.005 Reserves), the funding plan may not contain a balloon payment.
- Fully funded cash flow method calculation is based on a subjective threshold rather than \$0 threshold.
- Study has not been updated to reflect recent modifications and/or projects.

Budgeting Considerations

- In a budget adopted by an association that is required to obtain a structural integrity reserve study, reserves must be maintained for the items identified in paragraph (g) for which the association is responsible pursuant to the declaration of condominium, and the reserve amount for such items must be based on the findings and recommendations of the association's most recent structural integrity reserve study.
- Utilize reserve studies to incorporate funding amounts
- Be sure the amount presented is in line with each study and any adjustments are documented.
- Present the amount of funding for SIRS and Non-SIRS
 - Display separately on budget
 - Include reserve funding schedule which include:
 - Component
 - Replacement cost
 - Useful lives
 - Remaining useful lives
- **REMINDER:** For a budget adopted on or after December 31, 2024, members of a unit-owner-controlled association that must obtain a structural integrity reserve study may not vote to use reserve funds, or any interest accruing thereon, for any other purpose other than the replacement or deferred maintenance costs of the components listed in paragraph (g).





Accounting Considerations

In the accounting records of the Association, it may be prudent to segregate the activities of SIRS from Non-SIRS reserves.

Set up new GL accounts for:

- SIRS and Non-SIRS revenue
- SIRS and Non-SIRS reserve liability
- The liability GL accounts should align with the funding method
 - Separate GL for each component (i.e. roof, pavement, painting, etc.)
 - Separate GL for each pool (SIRS v Non-SIRS)
- SIRS and Non-SIRS contra-liability spending accounts to offset liability
- Separate GL for each component
- Separate GL for each pool
- SIRS and Non-SIRS cash

If the accounting system allows, a new fund or class could be set up to segregate the activities

Balance Sheet Considerations

- In the financial statements of the Association, it may be prudent to segregate the activities of SIRS from Non-SIRS reserves.
- One option is to set up a new fund to track the SIRS activities separate from the Operating fund and Non-SIRS reserve fund.

ASSETS	Operating Fund		Non-SIRS Reserve Fund		SIRS Reserve Fund		Total	
Cash and cash equivalents	\$	-	\$	-	\$	-	\$	-
Assessments receivable, net		-		-		-		-
Prepaid expenses, principally insurance		-		-		-		-
Due from (to) other fund		-		-		-		-
Total Assets	\$	-	\$	-	\$	-	\$	-
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable and accrued expenses	\$	-	\$	-	\$	-	\$	-
Assessments collected in advance		-		-		-		-
Insurance premiums financed		-		-		-		-
Deferred reserve revenue		-		-		-		-
Security deposits		-		-		-		-
Total Liabilities		-		-		-		-
Fund Balances								
		-		-		-		-
Total Liabilities and Fund Balances	\$	-	\$	-	\$	-	\$	-



Balance Sheet Considerations

- Another option is to use one reserve column and split the deferred reserve revenue account.

	Operating Fund	Future Major Repairs and Replacements Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Assessments receivable, net	-	-	-
Prepaid expenses, principally insurance	-	-	-
Liability deposits	-	-	-
Due from (to) other fund	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	\$ -	\$ -	\$ -
Assessments collected in advance	-	-	-
Insurance premiums financed	-	-	-
Deferred reserve revenue	-	-	-
SIRS	-	-	-
Non-SIRS	-	-	-
Security deposits	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances			
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



Income Statement Considerations

- Revenue recognition would follow the same accounting as legacy reserve assessments. (ASC 606)
- Income statement should segregate the activities of each reserve type.

	Operating Fund	Future Major Repairs and Replacements Fund	Total
REVENUES			
Assessments	\$	\$	\$
Reserve revenue recognized	-	-	-
SIRS	-	-	-
Non-SIRS	-	-	-
Interest	-	-	-
Late fees	-	-	-
Other	-	-	-
Total Revenues	-	-	-
EXPENSES			
Administrative and general (Schedule)	-	-	-
Contract services (Schedule)	-	-	-
Insurance	-	-	-
Major repairs and replacements expenditures	-	-	-
SIRS	-	-	-
Non-SIRS	-	-	-
Repairs and maintenance (Schedule)	-	-	-
Utilities (Schedule)	-	-	-
Total Expenses	-	-	-
Excess (Deficiency) of Revenues over Expenses	-	-	-
Fund Balances - Beginning of Year	-	-	-
Fund Transfer	-	-	-
Fund Balances - End of Year	\$	\$	\$



NOTE XX – RESERVES

In 2024, an independent specialist conducted a study to estimate the remaining useful lives and the replacement costs of the structural integrity reserve components ("SIRS") and other components of common property. Remaining useful lives were based on published guidelines and the observed physical condition of the components during the site inspection. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The funding plan is designed to provide an annual contribution amount to provide positive cash flow over the period of analysis (pooling method), considering inflation and interest factors.

As recommended by the study, the Association's 20XX budget includes funding for reserves of \$XX and \$XX for SIRS and Non-SIRS, respectively.

Components of Deferred Reserve Revenue	Balance at 12/31/20XX	Assessments		Expenditures		Transfers	Balance at 12/31/20XX
		Billed					
<u>SIRS Items</u>							
Building components				\$ -			
Mechanical and electrical				-			
Painting and waterproofing				-			
Roof				-			
Total SIRS items	\$ -	\$ -		\$ -		\$ -	\$ -
<u>Non-SIRS Items</u>							
Furniture	\$ -	\$ -		\$ -		\$ -	\$ -
Spa components	-	-		-		-	-
Total Non-SIRS items	\$ -	\$ -		\$ -		\$ -	\$ -
Total deferred reserve revenue	\$ -	\$ -		\$ -		\$ -	\$ -
<u>Components of Fund Balance</u>							
Interest	Balance at 12/31/20XX	Interest Earned		Expenditures		Fund Transfers	Balance at 12/31/20XX
	\$ -	\$ -		\$ -		\$ -	\$ -
Total fund balance	\$ -	\$ -		\$ -		\$ -	\$ -
Total deferred reserve revenue and fund balance	\$ -	\$ -		\$ -		\$ -	\$ -

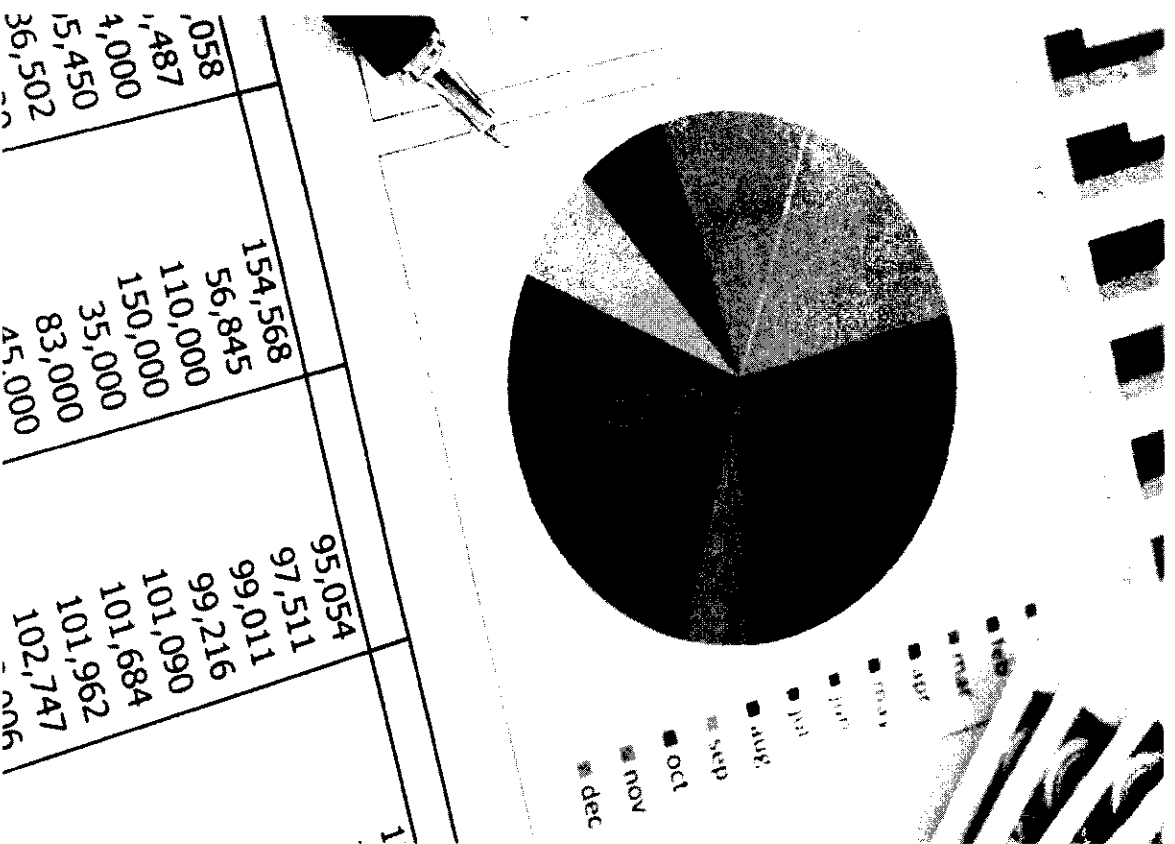
Financial Disclosure Considerations

- If one reserve fund is used for presentation purposes, in the disclosures of the financial statements, it may be prudent to segregate the activities of SIRS from Non-SIRS reserves.
- Disclose the funding amount approved in the year for SIRS and Non-SIRS
- Disclose the method of funding (Component or Pooled)
- Show the activity for the year in SIRS vs Non-SIRS
- Total deferred revenue should agree to the balance sheet
- Can be included in the footnotes or in the Supplemental Information.

Supplementary Information

- In the supplemental information portion of the financial statements of the Association, it may be prudent to segregate the information from the SIRS and Non-SIRS reserve studies.

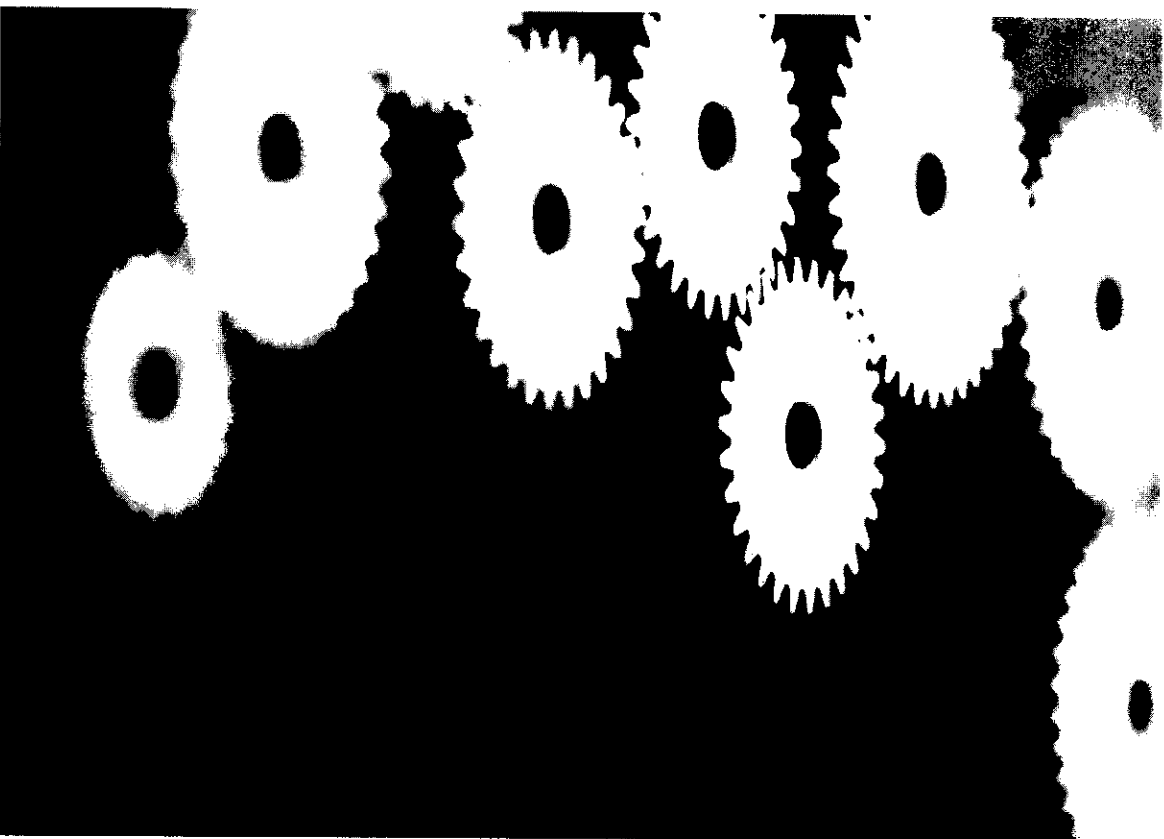
	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	2024 Full Annual Funding
Common Area Components			
Structural Components (SIRS)			
Mechanical	1-20	\$ 5,179,548	
Roofs	2-18	5,771,379	
Waterproofing and exterior painting	1-6	3,823,800	
		14,774,727	\$ 950,000
Other Components (Non-SIRS)			
Elevators	1-24	4,816,200	
Access control	1-13	412,355	
Pool and tennis	2-20	941,181	
Building and grounds	1-20	6,676,908	
Decorating	2-17	3,267,411	
Equipment	1-13	417,770	
		16,531,825	750,000
Totals		\$ 31,306,552	\$ 1,700,000



Client Communication Considerations

The client communications should make the BOD aware as to the Association's status with respect to SIRS compliance as of 12/31/24:

- The Association has completed its SIRS study and is utilizing it in its 2025 budget; show the supplemental information with the funding
- The Association has completed its SIRS study but is not utilizing it in its 2025 budget because the budget was approved prior to 12/31/24.
- The Association has not completed its SIRS study as of 12/31/24 but has engaged a specialist in compliance with the Statute.
- The Association has not engaged a specialist or completed its SIRS study as of 12/31/24.



Best Practices

- SIRS Study Checklist
 - Qualified engineer, beginning balance, components, funding method
 - Legal involvement in initial study design (beginning balance)
- Accounting Considerations
 - Separate GLs, cash accounts, pool vs component
- Financial Presentation
 - Separate SIRS fund or inclusion in current reserve fund
 - Method of funding, components, revenue and expense recognition
- RC Letter comments
 - Inform BOD of deadlines and requirements

Conclusion

The purpose of this presentation is for discussion and informational purposes only.

This is not indicative of any authoritative guidance.

We understand clarifications are underway and modifications may be necessary to the information provided.

