

# LakeRidge Falls

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Here are the more important stories we had this past and upcoming weeks:

**Pool and Reserve Accounts** – Back in late March, I promised to speak about a meeting the Pool Committee had. In the meeting, members of the Committee spoke about, among other things, potentially purchasing new pool furniture. In the process, a discussion started to develop regarding shade options, because after all, pool umbrellas are considered pool furniture. Different ideas and opinions regarding alternative pool shade solutions arose. Most Committee members seemed to agree that the Association should install somewhat permanent structures such as sails, covered pergolas (i.e. not to be confused with the decorative wood pergolas the Association had, which provided no shade), and/or retractable shade canopies. While all ideas were really great and came from a place that took the best interest of all residents in mind, the main question was... money. The Board of Directors' liaison, Mr. John Sullivan, who also serves as the Association's Treasurer, advised that at the current moment there are no funds for such items.

It was no surprise, therefore, that several members of the Committee were puzzled by this response. After all, the Association launched a renovation project that cost much more money than any proposed shade solution would ever cost. For this reason, the Committee asked to get clarification on how reserve lines are calculated and why planning is a required step in establishing a reserve line item. And indeed, a detailed explanation regarding reserve funds was provided to the Pool Committee during their next meeting. Following the explanation, the Committee suggested that this information be shared with the entire community because members of the Committee found it to be very helpful. After attending several other committees' meetings, I came to realize that there is indeed some confusion regarding reserve funds. Therefore, this is my attempt to explain this matter in the simplest way possible.

As reported in the past, any given homeowner association, such as LakeRidge Falls, has items, i.e. assets if you will, to maintain. This can be a clubhouse, a pool, roads, tennis courts, fitness center, grounds (i.e. landscape), etc. Therefore, homeowner associations create a budget that is composed of **Operating** and **Reserve** accounts. In really super simple terms and without going into legal definitions:

**Operating Accounts:** are funds that are used for day-to-day expenses. They are pretty much like checking accounts. The funds in these accounts are used to pay, for example, the landscaper vendor and the clubhouse cleaning company every month for the services they provide.

**Reserve Accounts:** are funds that are only used for capital expenditures and deferred maintenance. They are like a savings account established for a specific purpose.

The easy way to explain the difference between an **Operating** account and a **Reserve** account is the 1-year rule (i.e. a notion I made up to explain this matter). The pool is cleaned on a weekly base. Therefore, payments for the pool company for these services come from the operating accounts. However, if a pool heater breaks, this expense comes from the reserve accounts because this

maintenance work occurs less frequently than every year (i.e. we do not replace a pool heater each year but every 7 or so years).

We said that reserve accounts are used **only for** capital expenditures and deferred maintenance. What do these two terms mean? I know I throw lots of definitions right off the bat, but please stay with me for a little bit longer. The governing documents and the Florida legislature wanted to ensure that there will be no misuse of reserve funds. After all, we are talking big bucks here. Therefore, specific guidelines were placed to ensure that reserve funds will be used only in two situations:

**Deferred maintenance** – a situation in which reserve funds are used to perform preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset.

**Capital expenditure** – a situation in which reserve funds are used to acquire, boost, and/or maintain assets beyond their original or current state.

Using super simple terms, deferred maintenance is fixing or replacing an existing asset after it breaks. For example, fixing or replacing a pool heater. A capital expenditure, on the other hand, is upgrading an asset or purchasing a brand new asset, which didn't exist before. For example, buying an additional pool heater to the existing 7 the Association already has. Another example of capital expenditure is permanent shade structures the Pool Committee was debating. Can you see the difference?

Why is this so important to understand all these terms? Well, because this explains the restrictions the Association has on using reserve funds.

If you recall from earlier, Mr. Sullivan advised the Pool Committee that at the current moment there are no funds for the venture of the permanent shade structures. When reading this sentence, one may mistakenly assume, as some Pool Committee members did, that the Association is in a financial black hole. To be honest, I can personally relate to people who make this assumption. However, it is far from the truth. For starters, the audit that was just performed by a credible certified public accountant reveals that the Association has over 1.2 million dollars in cash in its operating and reserve accounts. Out of these funds, the audit continues to show, over \$800, 000 are designated to specific reserve line items. Why, a question must be asked, the Association can't use some of the \$800,000 plus funds to pay for permanent shade structures? Simple, more restrictions by the governing documents and the Florida legislature.

You see, the governing documents and the Florida legislature wants to make sure that reserve funds that are collected over many years will not be misused. Therefore, they require that reserve funds that are collected for a specific purpose be used **only for this purpose**. Let's use an example to emphasize this point. The first reserve line item on the Association reserve schedule table is a line item called "Painting - Clubhouse/Craft/Guard." The funds collected under this line item are designated to be used for the painting of the exterior walls of the Clubhouse, Annex Building, and the Guardhouse. At the current moment, there are 24,000 dollars in this account. The governing documents and the Florida legislature state that the Association can **NOT** use this 24,000 dollar to any other cause besides painting the exterior walls of these buildings. A question came about in the last Budget Meeting, what if the Association wants to use these painting reserve funds for another purpose, such as permanent shade structures. Good question by all means. The simple answer is that the Association would need the approval of a majority of all members to designate these funds for a different purpose.

So you see, when Mr. Sullivan advised the Pool Committee that there are no funds for the permanent shade structures venture, he didn't mean the Association is in a financial predicament. He meant that the Association never collected funds for this specific purpose. The Association has 5 pool umbrellas, aka existing assets. Those are the pool shade option it had for the past 15 or so years. When they broke, reserve funds were used to replace them (i.e. deferred maintenance). Since then, more reserve funds are being collected for future deferred maintenance when they break completely.

If the suggestion is to go with an upgraded shade option, then a reserve line should be created and funds should be raised. Of course, the Pool Committee needs to come up with an action plan and related costs and the Board of Directors needs to review and approve such ventures if it feels it is in the best interest of the community as a whole. This is where careful planning comes into play. However, the general idea is that if the Association wishes to perform an upgrade to its existing assets, it would need to raise the specific reserve funds for this specific goal. Yes, there is always the option of using operating funds or obtaining a loan for this purpose, but I am sure those will not be acceptable methods as they involve increasing members' dues significantly next year.

So to sum up everything that was said today:

1. The Association has restrictions when it can use reserve funds.

- Reserve accounts can only be established for the purpose of deferred maintenance and capital expenditure;

\* Deferred maintenance – preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset.

\* Capital expenditure – acquire, boost, and/or maintain assets beyond its original or current state.

- Reserve accounts can be used only for the purpose they were collected for;

- Reserve accounts designated for one purpose can be used for another one only with the majority approval of all members.

2. Operating funds are used for asset maintenance on a yearly base.

3. Reserve funds are used for deferred maintenance and capital expenditures which should not occur on yearly base.

In the next few weeks, I will attempt to address other questions that came about regarding reserve accounts. But for now, I hope you find the above beneficial for your understanding of reserve funds and how they can be used. As I do every now and then, I am more than happy to sit with every homeowner who wishes to better understand this matter. Please also feel free to contact me via email with any questions you may have.

Because of the above, I will attempt to make the remainder of my report short and to the point.

**2018 Financial Audit** – The 2018 Audit of the LakeRidge Falls' financials have been completed and copies are now available in my office. If you wish, an electronic version of the audit is also available and I am more than happy to email you a PDF copy upon request. The audit was performed by Braxton & Holway, P.A. , a reputable CPA firm located in Bradenton. It is important to note that Braxton & Holway is a member of both the American Institute of Certified Public Accountants and of the Florida Institute of

Certified Public Accountants. In their opinion section of the report, Braxton & Holway concluded that to their opinion "the financial statements referred to above present fairly, in all material respects, the financial position of Lakeridge Falls Community Association, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America."

**Oak Trees** – Starting Monday, Aquatic Consulting Tree Care Division will be on site performing the yearly oak tree pruning maintenance. LakeRidge Falls' oak pruning practice divides the community into three somewhat equal sections based on the number of oak trees in each section. As can be seen in the picture below, each section was assigned a time frame in which it will be serviced. Therefore, all the oak trees that fall under the blue section will be trimmed this coming Monday. This means all oaks along Victoria Falls Neighborhood and Lockwood Ridge Rd will be trimmed this time around. This routine better serves the needs of the Community addressing the maturing nature of the oak trees and more importantly following best practice, which promotes a sound tree structure, provides clearance, and improves aesthetics.

**Renovation Project** – Mr. Tamas Pataki, the vendor hired by the General Contractor to be the painting subcontractor, started painting the inside of the clubhouse. Yesterday, Manatee County Building Department inspector was on site inspecting the plumbing work. We were notified that the mechanical and electric inspections are scheduled for next week; the fire alarm and sprinklers inspections to follow. We were also notified that the remainder of the kitchen is scheduled to be installed this weekend. As always, we will keep you posted on a weekly basis.

**Landscape** – Somewhat related to the renovation project, West Bay is on site today removing the remaining old plant material around the clubhouse. They are scheduled to be here next week to finish this job and start the installation of the new plant material as suggested by the Long Term Landscape Group and approved by the Board of Directors. Also, next week they will be on site to install a variety of red, pink, and white begonias. I didn't forget I owe you guys a detailed story of the history behind the annuals count. More to come in the next few weeks.

**Pressure Wash** – simple, H2O Cleaning Systems advised they will be done by next week.

Have a great and safe weekend.

Sincerely,

**Oded Neeman** – Community Association Manager

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