

# Structural Integrity Reserves:

Exploring the accounting implications of Structural Integrity Reserves for Community Associations.



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*Note: The information in this flyer is intended for guideline and example purposes only with respect to Structural Integrity Reserves, and not to be used in lieu of any official legal, CPA, or professional opinion or any Federal or State Statute. This flyer is not legal counsel and should not be used for such purposes.*

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## **Introduction**

“Structural Integrity Reserves Study” (SIRS) is a visual inspection of a building’s critical structural components performed to help identify an Association’s potential or existing significant structural problems and to determine the components’ estimated useful remaining lives. The resulting SIRS components identified have become colloquially known as “SIRS-Reserves” and require specific accounting and bookkeeping treatment. This report explores the necessary steps required to properly record and account for SIRS-Reserves.

## **Background**

SIRS-Reserves are part of a wider process mandated by the State of Florida for Condominium and Cooperative Associations after the tragic collapse of a Condominium tower in Surfside, Florida. Associations had typically either deferred necessary major repairs or replacements, or the Associations were unaware of any necessary major repairs and replacements because the Association had not completed an updated engineering or reserve study to identify such problems. As a result, the State of Florida mandated Condominium and Cooperative Associations that were 3-stories or greater to undergo a multi-step process to help maintain the Association’s building components.

### **Multi-Step Process – Milestone Inspection**

Pursuant to Florida Statute 553.899, an Association 3-stories or greater must arrange for a “Milestone Inspection” to be completed before December 31, 2024 for an Association’s building(s) that are at least 30 years of age before July 1, 2022. If a building reaches 30 years of age between July 1, 2022 and December 31, 2024, the Association has until December 31, 2025 to complete the Milestone Inspection. If a building reaches 30 years of age after December 31, 2024, the Association must complete a Milestone Inspection on December 31 of the 30<sup>th</sup> year of occupancy. The Milestone Inspection must subsequently be completed every 10 years thereafter. Local enforcement agencies may require more stringent regulations. The purpose of the Milestone Inspection is to ensure that the Association’s building(s) are structurally sound. If the first phase of the Milestone Inspection finds substantial deterioration to the Association’s building(s), a more intrusive phase two is required. *The Association’s licensed engineering or architectural firm should provide further information on Milestone Inspections.*

## **Background**

### *Multi-Step Process – Structural Integrity Reserve Study and Funding*

In addition to the Milestone Inspection, the Association must complete the Structural Integrity Reserve Study for buildings three (3) stories or greater generally before December 31, 2024; however, certain Associations that meet the criteria for an extended deadline may complete the Structural Integrity Reserve Study on or before December 31, 2026. An Association must subsequently complete a Structural Integrity Reserve Study every ten (10) years thereafter.

The Structural Integrity Reserve Study will identify, at a minimum, the following components estimated replacement costs and estimated remaining useful lives:

1. Roof.
2. Structure, including load-bearing walls and other primary structural members and primary structural systems.
3. Fireproofing and fire protection systems.
4. Plumbing.
5. Electrical Systems.
6. Waterproofing and exterior painting.
7. Windows and exterior doors.
8. Any other item that has a deferred maintenance expense or replacement costs that exceeds \$10,000 and failure to replace or maintain such item negatively affects the items listed above.

For a budget adopted on or after December 31, 2024, the above identified components (1-8) must subsequently be fully funded by the Association (the Association may not provide for no reserves or less reserves than required to fully fund items 1-8 above).

Fully funding reserves means that each year the Association contributes a pro-rata portion of the funds necessary to conduct the major repairs and replacements, as identified by a qualified and licensed engineer or reserve specialist.

For example, if the roof will cost \$1,000,000 to replace, the Association has \$500,000 in a roof reserve component already, and the roof has an estimated remaining useful life of 5 years, then the Association would be mandated to fund \$100,000 per year ( $\$1,000,000$  replacement cost [minus] - \$500,000 already reserved for in the roof reserve fund [equals] = \$500,000 necessary to fund, divided by 5 years remaining useful life = \$100,000 per year) ( $(\$1,000,000 - \$500,000) / 5 = \$100,000$  per year). In this example, the Association would under no circumstances be permitted to budget for less reserves than \$100,000 per year for the roof.

*The Association should consult with their engineering/reserve specialist, Management (if applicable), and CPA to ensure proper funding of the mandatory SIRS Reserve Components.*

# **Accounting For and Recording Structural Integrity Reserves**

## **Separate Accounting**

Structural Integrity Reserve (SIRS) components, as identified previously in this report, must be accounted for and recorded separately from other non-SIRS components. An example of a non-SIRS component *could* be a component such as landscaping. SIRS components must be identified as such in the Association's accounting/bookkeeping records. **An example Balance Sheet can be found on page five (5) of this report. Under no circumstances should the Association, Bookkeepers, or Management commingle SIRS and non-SIRS reserve funds.**

Keeping the SIRS and non-SIRS cash and funds separate may help to ensure proper accounting records are kept in compliance with State Statute; however, moving existing non-SIRS Reserve Cash to newly formed SIRS Cash Accounts will require a vote of the membership. Certain reserve components could have already been established that relate to SIRS components, such as "Roof."

Importantly, an Association's budget is not limited by the 115 percent increase rule for repairs or replacement of the Association's property, anticipated expenses of the Association which the Board does not expect to be incurred on a regular basis, insurance premiums, or assessments for the betterments of the Association's property. Additionally, the Association may adjust the estimated replacement costs of the identified reserve (SIRS and non-SIRS) components for inflation.

Willful failure to comply with the reserve funding requirements by the Board of Directors is considered a breach of an officers' of directors' fiduciary responsibility to the unit owners, and applicable Director's and Office's insurance may not cover such willful failures to comply.

## **Conclusion**

Milestone Inspection and Structural Integrity Reserve Studies are required for all Florida Condominium and Cooperative Associations that are at least three stories. There are varying due dates for these studies. *The Association should consult with legal counsel and specialists to determine the proper due date.* For budgets approved after December 31, 2024, Associations are required to fully-fund components identified as part of the Structural Integrity Reserve Study. Reserve funds for non-SIRS components and SIRS components must be maintained and accounted for separately in the Association's accounting/bookkeeping records. Under no circumstances should the Association commingle these funds.

# Supplementary Information

**EXAMPLE ASSOCIATION, INC.**  
**BALANCE SHEET**  
**December 31, 2024**

**Assets**

**Operating Cash**

10-1001-00 Bank Operating	\$	150,000
10-1002-00 Bank Security Deposits		15,000

**Total Operating Cash** 165,000

**Reserve Cash**

11-1003-00 Non-SIRS Reserve Bank	75,000
11-1004-00 SIRS Reseves Bank	200,000

**Total Reserve Cash** 275,000

**Other Assets:**

12-1040-00 Accounts Receivable	5,000
15-1050-00 Prepaid Expenditures	2,500

**Subtotal Other Assets:** 7,500

**Total Assets:** \$ 447,500

**Liabilities and Equity**

**Current Liabilities**

20-2001-00 Accounts Payable	\$	6,000
20-2005-00 Prepaid Assessments		10,000
20-2010-00 Security Deposits		15,000

**Subtotal Current Liabilities** 31,000

**Non-SIRS Reserves**

25-3000-01 Landscaping	50,000
25-3000-02 Gate	25,000

**Subtotal Non-SIRS Reserves** 75,000

**SIRS Reserves**

25-5000-01 Roof	50,000
25-5000-02 Structure	60,000
25-5000-03 Fireproofing	10,000
25-5000-04 Plumbing	30,000
25-5000-05 Electrical	20,000
25-5000-06 Waterproofing	10,000
25-5000-07 Windows	20,000

**Subtotal SIRS Reserves** 200,000

**Total Liabilities** \$ 306,000

**Equity**

Operating Fund Balance	\$	125,000
Current Year Income		16,500

**Total Equity** \$ 141,500

**Total Liabilities and Equity** \$ 447,500

SIRS-Reserve Fund Cash is held separately from non-SIRS Reserve Fund Cash, and the Fund components themselves are accounted for separately.