

Finance Committee Meeting Minutes

Location: Charleston Pool Office
Date: Wednesday April 23, 2008
Time: 10:30 am – 12:45 pm

Attendees:

Ron Murphy (chairman)
Frank Ingrassia
Ron Weismehl
Armand Houze
Cheryl Anderson (ad hoc)
Ed Welt (Director)

DISCUSSION

The Finance Committee reconvened with chairman Ron Murphy welcoming new member Armand Houze and Board of Director's Treasurer Ed Welt. Returning members Ron Weismehl, Frank Ingrassia and Cheryl Anderson (contracts –ad hoc) were also present.

DSR Bond Sale –Impact on Reserves

Ron shared his concern regarding the stalled sale of the new DSR bonds. If this sale should be put on hold indefinitely, due to current bond market fluctuations, we may have to rethink our “reserves” philosophy and raise the amount we are committing each year, to offset higher costs down the road (more discussion later). The present “reserve” plan calls for a contribution of \$226K from the DSR bond sale, a portion of which may be subject to taxes (also, see later).

Review the 2007 Year Summary

Ron went over the final 2007 budget vs. actual expenditures, and noted the “deferred revenue” of \$92,760, which is technically a “Surplus”. At the Annual meeting, the home owners voted to turn this “Surplus” on the accrual balance sheet into a “Deferred Revenue” account, to avoid unnecessary taxes.

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Earmarks for First Quarter Deferred Revenue Spending

This “Surplus” money (\$92,760) constituting “Deferred Revenue” has been allocated as follows, thus far:

- \$20K to Capital Replacement (\$5K pool, \$15K irrigation)
- \$5K to income tax provisions
- \$10K to legal fees for the Water Issue
- \$20K to the Grounds Committee, to complete work deferred last year
- \$37K toward a contingency fund to cover any shortfall in debt collections/delinquencies

Capital Replacement Reserves

The Replacement Reserves at the end of 2007 were \$96,014. The planned input from the DSR sale (net \$195K) and other 2008 reserve deposits should yield a total account balance of \$351,514. After “planned” expenses to date, we should have a net of \$284,623 in the Capital Replacement Reserves account.

Ron took a very quick first cut at what would happen to the Reserves if we did not get the anticipated boost from the DSR, and it looks like we might be OK with our replacements until about 2023, when expenses would exceed the 4.2% growth rate of our earnings and increases in the HOA dues. Therefore, we would have to add some additional funding each year (up from \$40.5K) to offset that situation.

First Quarter 2008 Balance Sheet

Ron reviewed the first quarter results so far, noting a few minor reclassifications to come, where some charges were booked against maintenance, which should have actually been marked as capital replacements, etc. Nonetheless, we are running slightly *under* budget so far, despite an alarming rise in the pool heating costs, in which we have already spent half of our annual allotment in just the first 3 months – seasonal though it may be, this category will probably overrun, as energy costs continue to soar. Otherwise, our Reserves Accounts total \$114,479, which includes three CDs (\$75K et al) earning higher interest. The total of \$186K cash on hand is offset by certain Liabilities, including Prepaid Maintenance and Doubtful Debts (\$52,178 in Delinquencies). Overall we are doing well tracking our Actual vs. the Budget, and are currently running about \$17K under our planned expenses through the first quarter.

Capital Replacement Reserves Status

About \$20K of the Surplus funds (Deferred Revenue) has already been allocated to replace the Spa Heater and perform Irrigation System repairs. In addition, expenses have been targeted for the Bubbler System hookups (\$15K), Aquifer for Lake Wiley Jackson (\$15K), Pool Furniture (\$15.6K), and for unplanned Capital Replacements (about \$8K has been allocated, but not yet spent, on security cameras, gate locks and gutters, etc.). In fact, all but \$14K of the \$67K has been allocated already.

First Quarter Delinquency Report

About \$50.5K of the total \$59,923 in delinquent fees can be attributed to 33 home owners who are past due on their HOA payments. Of these 33, 16 are in some state of foreclosure and we can expect to recover some of this money. Still, we are vacillating at about \$60K of funds delinquent and overdue at the end of each quarter. Some pay up, some are collected out of foreclosure or new sales, but others are still joining the delinquent ranks. The FC will make a recommendation to the Board under separate cover to address accelerating collections. There is a possibility that a law may be passed limiting back due HOA fees collectible. That would really hurt our balance sheet and we need to get more aggressive in pursuing our non-foreclosure home owners who are in arrears.

Grounds Maintenance Summary

Not much has been expended from the \$33K budget for Grounds, in the first quarter, but we do expect more activity shortly in the areas falling under this committee.

All Contracts Reviewed and Summarized

Cheryl then gave a complete review of all our current HOA contracts, including payment schedules, renewal dates, etc. Cheryl also volunteered to track Warranty information, so that we do not pay for things that are under warranty in the future, but someone from AMI or the BOD will have to collect and provide this information to her for consolidation.

Questions regarding CIS Sale, Accounting Norms, Taxes, etc.

Questions posed by the FC in the past, and recently by home owner Bruce Gilleyen and new FC member Armand Houze, center around the treatment of the CIS sale, the tax basis for this sale (upon which Judge Wilbur spent considerable effort in defining), whether we can deduct our ongoing capitalized costs to replace part of the CIS to further reduce the tax basis, etc. There are also questions revolving our incorporated status, tax liability, how to “assess” the sale funds from the homeowners without actually distributing the funds to each owner, and other things that need clarification, any and all of which could possibly save the HOA a large sum of money.

An FC subcommittee, consisting of Armand, Ron W. and Frank, has been formed to study the situation and form a position, whereupon we can discuss the matter more intelligently with accountants, tax specialists and others, with BOD approval. The subcommittee will attempt to meet with Rich Wilbur for his expertise in evaluating our investment in the CIS, and will use their own research to further flesh out the issues, reporting back at the next FC meeting.

The FC meeting adjourned at 12:45 pm.

Next Meeting

The next meeting of the FC is scheduled for Wednesday, **May 28** at 10:30 am.

FJI 04/23/08