

Finance Committee Meeting Minutes

Location: Charleston Pool Office

Date: Wednesday July 25, 2007

Time: 10:00 am – 12:00 noon

Attendees:

Ron Murphy (chairman)

Frank Ingrassia

Ron Weismehl

Jan Hicks (Vice President)

Unable to attend:

Cheryl Anderson (ad hoc)

Alasdair MacLauchlan

Jean Gregory (Treasurer)

DISCUSSION

Reserves on the Balance Sheet

The Finance Committee's main focus for this meeting was to review Reserves, including the initial report of the Reserves Study recently performed for the HOA property. Reserves are money set aside for the replacement of facilities, plants and equipment as they age, including the pools and adjacent facilities, the pumps and other fixtures in the neighborhood.

From the June Balance Sheet, we noted that \$22K of money in the category "Reserve for Working Capital" actually belongs in the "Reserve Account" category (not working capital). It is being held in this higher interest bearing account for convenience only, but should be tracked properly on the books.

We expect to gain \$226K from the Debt Service Reduction (DSR) during the refinancing schedule for the CDD bond. The BOD has yet to decide how much of that money will fund our "Reserves".

CDD First Quarter Shortfall

The CDD for UP has to float expenses for a quarter because they start their Fiscal Year In October, and the tax money collected for the CDD by the county does not arrive until January. The CDD budget has a shortfall for their first quarter, and may have to borrow money to cover the first quarter expenses, incurring an interest penalty. An idea was floated that the HOA could "lend" the CDD some money to cover their first FY quarter, at low/no interest. The scheme would be too complicated, and we may have to charge some interest, and pay taxes on that profit, etc. – all in all the scheme is too complex for us to undertake, and the Finance Committee voted unanimously to oppose this loan to CDD as presently contemplated.

Reserve Funding – Clarifications

Replacement Reserves are ‘flexible’, and can be used for any item needing replacement. These are not statutory items, in which case we would have to earmark *specific* dollars for replacing *specific* items only.

Surplus money can be put into a “deferred Revenue” account and we have one year to decide what to do with it, or how to spend or reallocate it.

We maintain several “*types*” of **Reserve** funds in our accounting:

- (a) Replacement Reserves – for replacing worn equipment;
- (b) Working Capital Reserves – purchase of new capital items that are unexpected and required immediately
- (c) Contingency Funds – for unforeseen expenses that may arise

In 2008 we should have about \$300K, and we recommend allocating \$50K to Working Capital, and the remaining \$250K to Reserves.

Reserve Study – comments and recommendations

The following is an excerpt from Finance Committee Chairman Ron Murphy’s advisory letter to the HOA board and the Reserve Study providers, as guidance from the FC before re-running the final numbers and strategies. The Reserve Study indicates costs and timeframes for replacing various parts of our community facilities. The FC reviewed the preliminary study report and discussed various changes based on our updated knowledge of the current situation. Ron then further discussed with the HOA board before summarizing our position. Synopsis follows.

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Scenario 1: The University Place Homeowners Association Board of Directors has reviewed the draft results of the Capital Replacement Reserve study. They have decided that a revision of the study is in order. The current study used \$110,052 as the amount of replacement reserves that would be available at the end of 2007. It now appears that there will be **\$118,000** at the end of the year. The study will re-run projections based on this revised number for calculations.

Scenario 2: Alternative run with a different reserve starting point. The only difference between this case is that here they will use an end of 2007 year replacement reserve amount of **\$250,000**.

Summary of Capital Replacement Items:

Items With No Change:

- Item 1: Asphalt Pavement, Crack Repair & Patching
- Item 2: Asphalt Pavement, Repaving, Mill and Overlay
- Item 3: Concrete Curbs and Gutters, Partial Replacements
- Item 8: Mailboxes
- Item 9: Playground Equipment
- Item 13: Building Services Equipment

Item 15: Pool Fence

Item 17: Pool Mechanical Equipment

Item 18: Pool Plaster Finish Replacement

Item 19: Pool Houses, Renovations, Complete

Item 20: Pool Houses, Renovations, Partial

Item 21: Water Feature

Items to be Deleted from Study:

Item 7: Landscaping, Partial Replacement

All of this will be budgeted in the operating account, as is currently done. We will be budgeting \$30,000 for 2008.

Item 11: Ponds, Maintenance, Erosion Control and Re-grading

By agreement with the developer, the responsibility for this item now rests with the CDD, not the HOA.

Modified Items:

Item 4: (Irrigation System Controllers) and Item 5 (Irrigation System Pumps)

These should be combined into one item called "Irrigation System". This new line would include both the pumps and the controllers. The reason for doing this is that we want to have full flexibility to use funds for whichever breaks down and not worry about what it might have been specifically allocated for. We recommend the replacement costs of these items be \$25,000 every 5 years, starting in 2012. Given our rate of failure, this is probably more appropriate.

Item 6: Irrigation System, Aquifer Pumps.

The HOA just replaced one of these pumps at a cost of about \$5,000. There are a total of 4 pumps, for a total replacement cost of \$20,000. Therefore, we recommend that you use a \$20,000 replacement cost every 10 years, starting in 2013

Item 10: Ponds Maintenance, Aerators. We need to break this item into two items, (a) Fountains and (b) Bubblers.

- a. Fountains: There are 6 fountains that cost about \$9,000 each to replace. That would be a total of \$54,000 to replace all of the fountains. We should use a period of replacement of 10 years starting in 2012.
- b. Bubblers: There will be bubbler systems in three ponds (#11, #1 and #7) by the end of the first quarter of 2008. These will be paid for with funds outside of our Replacement Reserve account. The cost to replace these bubblers is a total of \$10,000. We should use a period of replacement of 10 years starting in 2018.

Item 12: Security System:

The total cost of the cameras, connections, and DVR installed in the Adult pool was \$12,000. In 2008 the board wants to place an identical system in the Family Pool at the same price. Thus in the calculation of replacement capital we should use a cost of \$24,000 over a 12 year period, starting in 2020. The cost of the new camera system will not come out of the Replacement Reserve.

Item 14: Concrete Decks, Inspections, Coating, Partial Replacement and Repairs:

We are currently in the process of refinishing both decks at a total cost of \$8,000. According to the vendor we will need to repeat this every 5 years. Therefore, we should decrease the frequency to every 5 years and use \$12,000 as the “per phase” amount. The additional \$4,000 over the \$8,000 should cover additional work that might be needed. This should start in 2012.

Item 16: Pool Furniture:

We have completed a rather detailed approach to replacing the pool furniture. We believe that we need \$15,000 for replacement every 10 years, starting in 2008.

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The Finance Committee also recommends that the HOA consider investing our reserve deposits in CDAR accounts, which are super-CDs spread across banks throughout the country to maintain the FDIC insurance, while gaining more competitive CD rates. For more information, try link at <http://www.cdars.com/> or contact LandMark Bank (941-954-5100) a local participant.

2008 Budget Planning

The initial worksheet for the 2008 budget plan was reviewed, and the FC will take their first cut at projected 2007 plus 2008 budget forecasts for the next meeting. Ron also reviewed the schedule of budget preparation, culminating with a mailing, presentation (meet the candidates) and the HOA Annual Meeting.

Frank will also look into the Tax issues facing the HOA, corporate status, etc.

The FC meeting adjourned at 12:00 noon.

Next Meeting

The next Finance Committee meeting is scheduled for **Wednesday, August 22nd at 10:00 am** in the Charleston Pool office.