MEETING MINUTES

I. Call to Order
   a. The meeting was called to order at 8:19 pm. (after conclusion of Budget meeting also attended by FAC members)
   b. Members Present: Chairman Jeff Gathers, Bill Blumberg, Alex Cebotari, Takis Taousakis
   c. Members Absent: Joan Lampe, Mahl Avila

II. Approval of Agenda
   a. The agenda was approved unanimously.

III. Approval of Minutes
   a. The August 24, 2017 draft minutes, as proposed, were approved unanimously.

IV. Resident Open Forum
   a. Jon Dellaria, CSCA Board Chair

V. Review of Financial Results
      i. The variance report continues to reflect overall trends consistent with previous months. The majority of line-item year-to-date expenses are lower than the corresponding budget figure, with an overall favorable variance of $105,977.
      ii. The chairman suggested that we might improve the variance report terminology by using “favorable/unfavorable” instead of “positive/negative” or “under/over” for both income and expense variances. The chairman will follow up with the Community Manager.
   b. Several individual operating expense lines for the months of July and August required further discussion as to the appropriate general ledger codes, and Mr. Gatters will discuss those with Judy Johnson.

VI. Old Business
   a. The committee discussed the draft 2016 Audit report from Goldklang Group. The report found the accounting methods and practices to be appropriate. However, the committee would like to discuss a few issues raised by the auditors with CMC management:
i. Traditional Accrual Accounting versus Modified Accrual Accounting principles as applied by CMC
ii. Evidence of “late payment” charges on credit card and utility bills

b. During the July FAC meeting, Mr. Dellaria had proposed that the FAC draft a “post mortem” memo to the Board, summarizing CMC’s failures in 2016 to provide:
   - budget-sensitive management of operating expenses, most notably during the fourth quarter
   - timely notice to the Board of the emerging overages, and
   - a comprehensive after-the-fact analysis of the breakdown as requested by the Board Treasurer.

Mr. Gathers agreed to provide a draft of this “post mortem” memo, with assistance and review by other FAC members as needed.

c. Update on Budget Process for 2018: At the evening’s earlier meeting, Ms. Johnson had presented the latest draft CSCA 2018 budget. This version included updates in the line items for Trash Removal, the Fitness Center Contract, and the Repair/Replacement Reserve. The calculation of the assessment rates was updated accordingly. The 2018 budget will be presented to the BOD for final approval no later than October 24.

d. CSCA Pacific Premier Bank (PPB) Money Market Account: Members generally assume that there were good reasons why this account was originally established; however, the committee feels that these reasons may be less relevant currently. If there is no compelling financial management reason for the account, the funds could possibly be transferred to Morgan Stanley for investment in the CD account. Morgan Stanley already maintains a separate money market account for Cameron Station. The latter account is used primarily as a home for funds yielded by maturing CDs and awaiting reinvestment. However, funds in this account also contribute to the minimum “liquid” cash balance in the reserve fund, as stipulated in the CSCA Investment Policy. The return on assets in the MS money market account (0.01% per annum) is negligible. The current PPB Money Market account is earning 0.25%, which has been generating about $14 of income per month. A separate line of consideration is the option to transfer the PPB Money Market funds to another bank with at least a modestly higher rate of return (1.0% or higher). This return rate could be leveraged further if CMC and the Board agreed to transfer additional operating funds into the Money Market when (as is now the case) operating cash is at unusually high levels. Dialogue with CMC on these issues will continue.
VII. New Business

a. Classification of Cash Expenditures: Each of CSCA’s day-to-day cash outlays needs to be charged against a specific account in the General Ledger. The vast majority of these transactions use one of the roughly 80 “operating expense” accounts. Each of these accounts has a monthly and annual budget, and aggregate performance against these budgets ultimately affects gain or loss from normal operations during the fiscal year. Other classes of expenditures, typically “non-routine” and/or “major,” cannot be accurately budgeted on an annual basis. There are two such classes of expenditures:

- (Major) Repair and Replacement (R&R) Expenses, i.e., significant predictable expenditures to maintain appropriate quality and appearance standards for major elements of community infrastructure
- Capital Improvements (CI), i.e., additions to current infrastructure

Each of these can be effectively financed “in advance” by either or both of the following:

- regular allocations of owner assessments to one of the two “reserve funds,” – R&R or CI;
- ad hoc transfers from Unappropriated Owners’ Equity to one of the same reserve funds, provided the remaining owners’ equity balance is sufficient to meet sound business and audit standards.

Because the contributions to these funds are “expensed” when the money is added to these funds, there is no effect on current-period operating gain/loss when the actual outlays are made later on.

The Board, management, and committee members are well aware of the basic principles outlined above. However, in conducting day-to-day business, it can be challenging for management to determine whether a particular potential cash outlay is best described as (a) an operating expense, (b) a (major) replacement expense, or (c) a capital improvement. Is there a dollar threshold below which all expenses should be considered operating? Does a “replacement” item need to have been included in the formal reserve study to be charged to the reserve?

Mr. Bill Blumberg volunteered to put draft guidelines together for FAC and Community Manager review and comment.

The meeting was adjourned at 9:19 p.m.