MEETING MINUTES

I. Call to Order
   a. The meeting was called to order at 7:05 PM
   b. Members Present: Chairman Jeff Gathers, Bill Blumberg, Alex Cebotari, Takis Taousakis, Joan Lampe
   c. Member Absent: Mahl Avila
   d. Others Present: Martin Menez, Treasurer and Board Liaison; Judy Johnson, Community Manager (CMC); Deirdre Baldino, Assistant General Manager (CMC); Rebecca Stalnaker, FAC membership applicant

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

III. Approval of Minutes
   a. The November 16, 2017 draft minutes were approved unanimously.

IV. Resident Open Forum
   a. Resident Rebecca Stalnaker joined the Committee meeting for the first time as an applicant for a vacant position on the FAC. Ms. Stalnaker provided the Committee with information on her professional background, including bookkeeping experience with two large law firms. She currently works for Deloitte to manage the “onboarding” of new employees. While Ms. Stalnaker acknowledged limited financial training, she stated that her principles on fiscal responsibility and overall professional background would enable a strong contribution to the CSCA through her work with the FAC. Ms. Stalnaker was unable to attend the entire FAC meeting and left shortly after her presentation. Her application is pending.

V. Review of Financial Results
      i. The year-end financial statements were reviewed, and the bottom line as of December 31, 2017 showed a favorable net variance result of $132,071 for the 2017 fiscal year. At the next level of detail, expenses were $141,258 under budget, far
more than offsetting a $9,190 shortfall of total income. There are certain amounts included in the financial statements that will require further discussion by committee members and CMC Management, specifically those several expense accounts that did produce an unfavorable variance. While committee members sometimes struggle with the format of the financial statements, including the variance analysis, Mr. Gathers noted that Ms. Johnson has agreed to meet with him and Ms. Lampe after the January board meeting to discuss opportunities for improvement in the financial reporting process and presentation, specifically concerning the variance report.

ii. Committee members had specific comments related to accounts (6414 and 6500) for Fire Prevention and Fire Suppression, and whether the budget variances in these two accounts may be the result of inconsistent coding of expenditures. Ms. Johnson noted there have been other similar examples of miscoding between accounts, notably including the Repair & Replacement Reserve (“RRR”) Account. Over time, certain operating expenses appropriately classified as RRR costs have been coded to an operating expense account, and vice-versa. Ms. Johnson does attempt to have these costs reclassified as appropriate by CMC Accounting. Several such cases were in fact corrected late – just prior to the final 2017 closing in January, A project to write more explicit rules for these classification decisions is already on the FAC agenda.

iii. Other variances cited by the committee members were discussed including the irrigation contract and bad debt expense (see comment below).

iv. Ms. Johnson reviewed the CMC Management invoice approval process with the committee members to provide a level of assurance. All vendor and third-party invoices are seen and signed off at multiple levels prior to approval for payment. The standard approval process includes review for substantiation, services provided, classification of costs in the financial statements, and amount due to the vendor/contractor. Much of the improvement in expense management between 2016 and 2017 is reasonably attributed to additional focus on “budget capacity” prior to go-ahead on non-critical projects. With backing of the Board, this will continue in 2018 and beyond.

v. Ms. Johnson mentioned the possibility of raising the variance reporting threshold from $1,500 to $2,500 in the Monthly Variance Report included with the monthly Board financial statement package. Mr. Menez asked if raising the variance reporting threshold is raised would require Board approval and/or further discussion. Ms. Johnson will confirm.

vi. Mr. Gathers pointed out a change in CMC’s reporting of the delinquency rate as a percentage of annual assessment income in the monthly Variance Report. Prior to October 2017, CMC had highlighted the “gross” amount of delinquent assessments at
month-end, both in dollars and as a percentage of annual assessment income. The resulting percentage was compared with an “industry standard” range of 3% to 5%. Beginning in October, however, the variance report (issued by Jan Ward during Ms. Johnson’s November leave) applied a reduction to the gross delinquency balance in the amount of the Allowance for Bad Debt, i.e., the “(negative current liability)” recorded on the balance sheet. No specific reason for this change was cited in the variance report. Mr. Gathers requested that CMC Management elaborate on the change in methods. Either method can be rationalized, but the FAC has some concerns about using the same industry norms (3%-5%) interchangeably between the two methods. Likewise, the change should be noted for any readers, e.g., the FAC, who may be tracking trends in the quoted percentages over time.

VI. Old Business

a. The chairman distributed a confidential draft of a “2016 Post Mortem” memo and a related spreadsheet. These documents attempt to respond to February 2017 challenges directed to CMC by Megan Brock (then Board Treasurer; now President). The challenge was for CMC to explain “what the heck happened” that allowed such a large excess of actual expenditures over the corresponding line item budgets. CMC’s responses to date had focused on the long series of approvals required before any invoice is paid. No significant breaks in this chain were identified, which generally rules out larceny or theft. The more important cause, however, was most apparently the authorization of purchases and contracted work without consulting the line-item budget “capacity” before agreeing to proceed. The significant majority of these decisions were made by the then-incumbent Community Manager, who ended active employment with CMC in February 2017. The chairman indicated that this document is a confidential draft. He is seeking comments and suggestions from the FAC to complete the documentation as soon as possible.

b. PPB Money Market (MM) Account: Committee members agreed on a set of general recommendations that can now be advanced to the Board. The proposal is to move forward with a project to reorganize some of CSCA’s current banking arrangements. Specifically, we would replace the CSCA Pacific Premier Bank (PPB) Money Market Account with one that provides a higher return – most likely using another financial institution. Ideally we would also help CMC make more proactive use of this account in situations where cash balances are clearly higher than necessary in the daily operating account. In addition, the committee has identified two potential opportunities to consolidate small-balance checking accounts that still require additional bookkeeping, with dubious added value: First, the PPB Merchant (Balance = $1001.45 at 12/31/2017) was created in 2016 for the “test market” snack bar as initially managed by CMC. Now that this service is provided by an independent vendor, this account is unnecessary. Second, the PPB Google Account (Balance = $2,115.65 at 12/31/17), likely had a purpose at some time, but current management is not able to describe it.
Ms. Johnson has agreed to determine the origins of the PPB Google Account and whether it needs to survive. The committee members all agreed that the ultimate recommendation would comprise the following:

i. To work with CMC Management to identify one new Money Market account at a highly-rated bank as a secure temporary home for “idle” funds. PPB is a potential partner for this purpose. However, we expect to find higher crediting rates than the current PPB Money Market return (0.25% - 0.35%), with balances still counting against the liquidity requirement in the CSCA Investment Policy. To the extent practical, PPB Merchant checking, and Google Accounts would be liquidated with their very modest assets transferred into the new MM Account or the PPB Operating Account.

ii. At the discretion of the Board and Management, the new MM Account could also be used more proactively to provide tangible returns on funds now remaining in the Operations (zero-yield) checking account. Cash balances in the Operating Account do tend to fluctuate significantly throughout the year, affected by the quarterly assessment cycle, larger than normal project expenditures, etc. An MM Account with more impressive yields could permit discretionary transfers into the MM when operating cash reached high levels, then returned to cash when more short-term liquidity was needed.

iii. Once more specific, the recommendations identified above would be brought to the Board of Directors, in a single request.

There was further discussion by committee members on the collaboration with Morgan Stanley to review the CD maturities as they may affect investment planning for the Repair & Replacement Reserve in 2018. Mr. Menez, the Board Treasurer, will be in communication with the MS contact and coordinate the process going forward.

c. Codification of Expense Category Definitions: The chairman indicated that there would be no new discussion at this meeting.

VII. New Business

a. Chairman Gathers noted that planning for the Repair & Replacement Reserve projects scheduled for 2018 completion is well underway by CMC Management. Certain projects are already in process, including several originally scheduled for 2017. Replacing the original reserve study estimates with updated costs and completion dates is an ongoing process – but a necessary one in support of those planning longer-term cash flows.

VIII. Adjournment

a. The meeting was adjourned at 9:10 pm.

IX. Executive Session