I. Call to Order
   a. The meeting was called to order at 7:06 PM
   b. Members Present: Chairman Jeff Gathers, Bill Blumberg, Takis Taousakis, Joan Lampe
   c. Members Absent: Mahl Avil, Alex Cebotari
   d. Others Present: Judy Johnson, Community Manager

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

III. Resident Open Forum
   a. No residents were present.

IV. Approval of Minutes
   a. The February 22, 2018 draft minutes were approved unanimously.

V. Review of Financial Results
   a. February 28, 2018 Financial Statements

Chairman Gathers noted that he had already reviewed with Ms. Johnson the monthly budget “spread” of the Assessment Income accounts and its effect on reported operating results when compared with the year-to-date budget. As initially prepared, the February 28 financial statements had correct budget spread entries for January and February but not for the remaining months of 2018. As a result, the year-to-date budget for assessment income was still overstated – suggesting a year-to-date total income shortfall and a correspondingly inaccurate net result when compared with expenses.

As to actual vs. budget for “Other (non-Assessment) Income and Operating Expenses,” CSCA is almost “on target” through the month of February and has reported a modestly favorable year-to-date (YTD) variance of $10,310. This favorable 2018 variance would have been larger if not for several significant expenditures recorded in the month of January. The latter items will ultimately be charged back to 2017 in the course of the 2018 financial audit. This adjustment will reduce, but not materially, the previously reported
(but not yet audited) net surplus of $132,000 for 2017. Mr. Gathers asked Ms. Johnson to provide committee members a full list, once finalized, of the expenditures that have been recorded in 2018 but will ultimately be identified as 2017 operating costs.

An additional question was raised related to the “PPB-Google” bank account entry on the Balance Sheet. As part of the current “cash consolidation strategy,” this account had been highlighted for its low balance and lack of recent transaction activity. Discussions prior to this meeting with CMC Management suggested this cash account may need to remain open for certain transactions. [Subsequent research confirmed, however, that this account has no ongoing purpose for Management. It has been closed and assets transferred.]

b. February 28, 2018 Variance Report

Mr. Gathers acknowledged that he and possibly other readers can struggle to interpret CMC’s commentary in the Balance Sheet paragraphs of the Variance Report. He referred specifically to the cumulative dollar comparison of balances in Unappropriated Owners’ Equity and the two “Reserve” Accounts with the corresponding total of Cash and Investments. FAC members discussed whether different vocabulary in the Variance Report might be more informative – or easier for a layperson to interpret. Ms. Lampe agreed to draft potential alternative language for the Balance Sheet section. She will share this first for comment from the FAC Chair and Ms. Johnson. If FAC/management consensus can be reached, the Committee would like to include the alternative/additional language in future Variance Reports. To support this effort, Ms. Johnson agreed to provide samples of recent variance reports prepared by CMC managers for other client associations.

Mr. Gathers asked for clarification of the circumstances that had resulted in a voided $1,360 check written against Account #6600 (General Repairs & Maintenance). Ms. Johnson indicated that the item was a 2017 expenditure that was “adjusted” in 2018. As noted above, she will be providing FAC members with a full list of the 2017 expenses and adjustments that were neither accrued nor recorded until 2018.

Mr. Blumberg asked Ms. Johnson about the process to collect past due assessments from condominium owners– and specifically to confirm that the assessments were subject to the same collection procedures as other CSCA HOA assessments. Ms. Johnson responded that past due assessment income receivables are ultimately pursued in the same manner as any other delinquent income account. However, the initial point of follow-up in these cases is typically through the management of each condominium sub-association, i.e., where the condo-specific portion of gross assessment payments is “separated” from amounts due the “master association.” Mr. Gathers noted that it would be helpful (if practical) for Ms. Johnson to report separately the portion (if any) of the CSCA Assessment Income Receivables balance (#1500) that is related to bulk income transfers from one or more condominiums to the CSCA. Historically, when A/R balances “surge” from one month to the next, the reason is often traced to an administrative delay in transferring funds to the
CSCA prior to month-end closing. We have noted that the delay – and the high receivables balance tallied at month-end – have typically been resolved by the time the variance report is published. If this occurs, a note of explanation would reassure readers.

VI. Old Business

a. Investment Realignment Proposal

The FAC’s Charter includes, among other responsibilities, a charge to provide the Board of Directors with “recommendations concerning investments.” After a period of relative stability in the make-up of the CSCA balance sheet, FAC members and the Board Treasurer had agreed that the asset side had apparently become “unbalanced.” Specifically, amounts held in zero-interest checking accounts had grown to levels that were arguably excessive, i.e., when compared with the rates of cash income and outflow. To that extent, financial resources were not as productive as they should be.

In the absence of Treasurer Menez, Mr. Gathers reported on work the two of them had been doing to “rebalance” CSCA’s assets. The primary technical reference for this project has been the CSCA Investment Policy, per the most recent update drafted by the FAC and approved by the Board in 2014. This policy effectively obligates the Board (via the Treasurer, with assistance from a professional Investment Manager and the FAC) to deploy the Association’s money assets prudently and with a cautious margin for condition changes.

The Policy identifies three specific objectives listed here from highest to lowest in priority order:

1. Security of Principal
2. Liquidity (immediate access to funds without penalty)
3. Return on Investment.

It is important to keep in mind that the total amount of “cash and investments” the CSCA will have on hand at any particular point in time will not – and should not – be constant. It is true that, long-term structural inflation aside, normal operating expenses will change from month to month, but not significantly from year to year. However, this stability does not apply to funding for Reserve expenditures, which include high-cost infrastructure projects that are executed only infrequently. The classic example of this phenomenon is street repaving, which projects are recommended by our reservist to be tackled in “three-year bursts” that are separated by intervals of 15 years or so. The management challenge is to smooth out the effect these fluctuations would otherwise have on residents’ assessment income requirements. Assessed costs for reserve projects represent about 12% of total assessments and should adjust as smoothly as possible through the “lifetime” of the Association.

The CSCA projection of reserve contributions is designed to do precisely that. In turn, this means that reserve fund balances will grow rapidly (income exceeding outgo) in periods of
fewer and smaller projects, e.g., 2018-2020 – then fall as the bigger jobs are actually undertaken, e.g., 2021-2023.

These descriptions of priority for cash management present clear principles, but not a formula for compliance. To be sure, the Investment Policy offers some “explicit” guidelines, such as: “150% of [Capital Expenditures] to be incurred within 12 months of any date shall be invested in [the same types of cash and money market funds as for operating reserves] as of any date.” Read literally, this rule would require a 12-month budget projection for each project in the pipeline, updated on a daily basis – with transfers in and out of the fund to match. More creativity and sound judgment is required to capture the spirit of this guideline in a practical plan to monitor and manage cash and interest-bearing investments.

There are three forms of money that are suitable for an association like the CSCA to hold:

- Plain old cash in a checking account – received through quarterly assessment income and used to pay all of the daily bills, whether for normal operations or for capital projects. Banks pay no interest on checking account balances, but there are no limitations on access (“total liquidity”) to checking accounts.
- Certificates of Deposit (CDs) – securities that guarantee a fixed rate of return for a fixed period of time. Fixed rates are determined by the market at time of purchase. Funds are not available (“Illiquid”) prior to the maturity date. In some cases, a CD can be liquidated through a sale, but this would cause a loss of principal.
- “Money Market” accounts – These are checking accounts that do accrue interest, but also have some limitations on accessibility, e.g., one withdrawal per month. Interest rates are market-based but generally lower than for CDs. As such, money markets can provide a useful “midrange” option in the earnings/liquidity spectrum between checking accounts and CDs.

Mr. Gathers distributed an exhibit titled “Suggested Realignment of Cash & Investments” as of February 28, 2018, which listed in round numbers the current and proposed balances in each of the current and proposed cash, Money Market, and CD investment accounts. The Morgan Stanley Money Market account, despite a low rate of return, is assumed to stay in place at least for the time being. It is used as a short-term parking place for proceeds from maturing CDs. The PPB MM account, on the other hand, will likely shift to a different bank – that is, to secure a better return on what will be a much higher $ balance. The increase in the balance will come from a substantial reduction in the amount of cash that is currently “idle.” Other risk factors need to be considered, such as security of balances in any bank that exceed the FDIC insurance limits. Mr. Gathers also distributed a schedule with a listing of CMC-affiliated banks and their current Money Market rates. The committee members reviewed the information and also discussed shopping the local banks and credit unions to compare rates. Mr. Blumberg and Mr. Taousakis had expressed interest in participating in this process with Treasurer Menez.
Mr. Gathers reviewed the Suggested Realignment of cash & Investments and requested that the committee members provide their feedback to both him and Treasurer Menez. Discussions will continue with other banks as the strategy is pursued further.

b. PPB Money Market (MM) Account:
    See comments above, as possible unaffiliated banks are included in the listing provided by CMC.

c. Repair & Replacement Reserve: Project Planning
   Mr. Gathers requested that Ms. Johnson provide an update on capital projects, specifically the John Ticer gazebo reconstruction. Discussion followed. Ms. Lampe and Ms. Johnson briefly reviewed the capital project list for items completed year-to-date. Ms. Johnson indicated that the following projects have been substantially completed:
   
i. Duke Street Brick Wall Repair
   ii. Fence Work- Damage Repair due to Wind Storm
   iii. Exercise Equipment Replacement Purchases
   iv. Light Pole Acquisition and Installation

VII. New Business
   a. No new business issues presented at the meeting.

VIII. Homework: Policy Refresher

   Mr. Gathers noted that Ms. Lampe suggested one or both of the following items be added to the agenda and discussed at the next meeting:
   a. FAC Charter
   b. Investment Policy

   Ms. Lampe stated she has reread the FAC Charter and its listed responsibilities. This may be a good time to review the charter to help formulate the FAC’s priorities for this year and ongoing.

VIII. Adjournment
   a. The meeting was adjourned at 8:23 pm.