

**Del Mesa Carmel Community Association**  
**Finance Committee (FinCom) Meeting**  
Minutes of Regular Meeting  
September 18, 2020

**1. CALL TO ORDER:** Committee Chair, Nancy Jones, called the meeting to order at 10:00am in the Del Mesa Carmel Crystal Room.

**2. ROLL CALL:**

*Committee Members Present*

Nancy Jones, Chair, Maryellen Eisenberg, Susan Franks, Tom Mallett, Marty Rubin, Mark Vanlerberghe, and Lori Silver (participated via Zoom). The Agenda was Approved.

*Others Present*

Richard Cox, General Manager, Anthony Lombardi (via Zoom), Finance Director, Fran Farina, Board President, and other Board members attended via Zoom.

**Approval of the August 21, 2020 Meeting Minutes.** August 21, 2020 Minutes approved. A discussion ensued regarding putting the FinCom Minutes on the DMC website. Nancy Jones recommends placing the FinCom Minutes in the FinCom Section of the Del Mesa Website.

**Announcements:** the fact that the Finance Committee had developed 2021 budget goals and objectives was noted at the Board meeting and they were sent to each Board member, but they were not read. Some became member-suggested projects.

**4. GENERAL MANAGER AND FINANCE DIRECTOR REPORTS.**

General Manager Richard Cox did not have any separate report for the meeting.

**August Financials and 2020 Reforecast.** Anthony Lombardi stated that he started out reviewing the past three year's budgets to develop a 2020 reforecast. He and Richard Cox went over the data, including salaries and utilities. Anthony combined the Reforecast with the Detailed Departmental Profit/Loss Statement including variances. He predicts that we will be \$22,000 to the good at year end.

Department 10 - Administration. Nancy asked if Legal Fees includes election help and the review of our governing documents. Richard Cox indicated that it does.

Department 60 – Utilities. Nancy questioned if the new Comcast Charges are reflected in the Reforecast. The response from Anthony Lombardi is that they are.

As of the end of July we have expended \$388,000 from the Reserve Fund. We have been charged for some of the roofing, but not the repaving. Mark Vanlerberghe noted that based on current data, to reach the 1/1/2021 projected Reserve Balance shown in the ARA Reserve Study, there is \$157K left to spend in Reserves this year.

We will not be getting the generator this year. Richard Cox says the production of generators has slowed down due to the COVID pandemic. \$43,250 will be pushed into next year. This was a capital expenditure to come out of the new Capital Fund.

Lori Silver asked about clearing out the rain gutters. Richard Cox says it is occurring right now.

## 5. TREASURER'S REPORT

**August Reviews/Reconciliations per Civil Code 5500/5501.** Not all the financial accounts have been reviewed as of this date, but will be before the Board Meeting to meet the Davis Stirling requirements.

**August Delinquencies.** As of the end of August, there were four delinquencies. Two are in foreclosure and a third was due to the owner's change in health. Anthony Lombardi is working to get that owner's dues set up with autopay, but things have stalled and he is not getting a response. The fourth is a renter who is behind on their dining room charges. \$60,000 was reserved for bad debts at the end of last year, but this will not be adequate. Tom Mallett thinks we should have the policy that the minute someone becomes delinquent we should go after the person through a lien. Richard says that sometimes there are mitigating circumstances; for example, if someone winds up in the hospital. We have reached out to the family in one instance.

## 6. OLD BUSINESS

**Update on Reserve Study Worksheet:** Mark Vanlerberghe has created an Excel Spreadsheet based on the data of the 2021 Reserve and thinks we need to make changes based on what the committees wish to do on new projects and what Richard Cox wants to do. We should update the document with changes.

Richard Cox recommends that we track the changes and then submit the changes to ARA. In other words, an updated version of what is projected.

Anthony Lombardi will be taking charge of the Excel Spreadsheet from Mark Vanlerberghe. The Excel Spreadsheet is a staff document with information provided to FinCom by Anthony Lombardi or Richard Cox.

**Policy on Budget Surplus and Deficit.** Tom Mallett announced that FinCom's Subcommittee on Budget Surpluses and Deficits (the "Subcommittee") met and recommends the following policy to FinCom and the Board:

- Policy for Budget Surpluses:

First, any budget surplus should **not** be returned to the residents. *(The rationale for this is as follows: Over the past 5 years cumulative deficits in excess of \$700,000 have severely depleted DMC's fund balances, mainly the reserve fund. The Subcommittee feels that any surplus should be used to restore these reserve fund balances rather than returning the surplus to the residents.)*

Second, any budget surplus should be used for two purposes: (i) restore the reserve fund; and (ii) fund special projects that have been approved by the Board, with the emphasis on restoring the reserve fund. *(There is a footnote to this part of the policy. So long as DMC files its federal income tax return using form 1120-H (which it does), there is no problem with this policy as Exempt Function Income (EFI) is not taxed on that Form. However, if DMC was ever to file its federal income tax return using form 1120, the Board would have to ensure that the additions to the reserve fund constitute capital contributions by the residents as any amounts received from residents that cannot be classified as capital contributions may create excess member income under IRC Section 277 that is subject to taxation.)*

- Policy for Budget Deficits:

First, the Subcommittee recommends that Staff do all in their power not to have a budget deficit at the end of the year.

Second, the Board should “borrow” the amount of any budget deficit from its own reserve fund in accordance with DMC’s Bylaws (Article V, Section 7) and Davis-Stirling, which requires that the loan be repaid within one year.

Third, any deficit that cannot be alleviated by borrowing as set forth above, should be addressed and alleviated by the Board on a case by case basis, balancing the adverse effects of cumulative deficits on DMC’s fund balances against the adverse effects of increasing the monthly HOA Membership Dues.

On a motion duly made and seconded, FinCom voted to approve and recommend to the Board the Budget Surplus and Deficit Policy.

At the end of the report, there was discussion between FinCom members and Anthony that DMC’s filing of IRS Form 1120-H seems inconsistent with DMC’s annual resolution that any surplus should be carried over to the following year rather than returning it to the residents (“DMC’s Annual Surplus Resolution”). DMC’s Annual Surplus Resolution generally causes confusion among the residents. Tom Mallett voiced his opinion that filing IRS Form 1120-H and DMC’s Annual Surplus Resolution are mutually exclusive of one another to the end that filing IRS Form 1120-H obviates the need for DMC’s Annual Surplus Resolution. Anthony was going to check with DMC’s auditor on this issue.

**2020-2021 FinCom Calendar.** Nancy Jones created a draft FinCom calendar that extends through 2021. Except for November and December, all FinCom Meetings will take place on the Wednesday of the week before the Board meeting which takes place on the last Thursday of the month. Nancy Jones asked when we will see draft budgets. She proposes to meet three times regarding the 2021 Budget with the first meeting on September 30 (Anthony Lombardi expects to have a draft budget for this meeting), the next meeting to take place on October 14 and then a final special meeting on November 4.

Lori Silver spoke about the fact that we need to put the critical dates with regard to contracts on the FinCom Calendar. Many of the contracts have onerous clauses stating that if we do not renegotiate in a timely fashion they are renewed for a period of time and often times at an unfavorable rate. This contract review began when Fran Farina and Sandy McKeith read each contract and looked into its terms and expiration dates. Nancy will revise the calendar to include the contracts with critical dates and tracking CD expiration dates as well. Nancy will include both to enable FinCom to know, in advance, what needs attention.

**CD Renewal:** Anthony said that a Schwab CD will be maturing this week and recommends replacing the \$248,000 with a new CD. Tom Mallett moves that Anthony Lombardi reinvest the funds with a new CD. Seconded, Approved,

## **7. NEW BUSINESS.**

**Review of Member-suggested Projects.** We will review each of the 24 projects at a workshop on 22 September and make our recommendations to the Board at their 24 September meeting.