

## DECISION PAPER

### Governing Documents Revision Costs- Funding Source

May 24, 2019



#### ISSUE:

The Board approved 2019 Budget includes a Replacement Reserve Fund (RRF) Expenditure expense for \$101,000 for Governing Documents update project. Recent opinion of legal council is to not charge RRF for this expenditure. At the April 27<sup>th</sup> Board meeting, the Board directed staff to prepare a budget amendment if necessary to address this issue.

#### BACKGROUND:

The Board approved 2019 Budget includes a Replacement Reserve Fund (RRF) Expenditure expense for \$101,000 for Governing Documents update project. The project is far from a regular, routine operating cost. The initial draft 2019 budget had the expense in Operating Fund (OPF). Over the course of Fall budget meetings, the project was added to Reserve Study as a component and an RRF expense expenditure, at Board direction.

Generally Accepted Accounting Principles (GAAP) are clear the project should be an Expense, not Capitalized. GAAP does not address which Fund of an HOA the Expense should be incurred.

Upon a recent inquiry of our legal counsel regarding the subject, legal counsel's opinion indicates this item does not qualify as a reserve component and should be funded from the Operating Fund (OPF). This is not a black and white issue, there is no law requiring funding a specific way. However, to address counsel's opinion and Board direction on April 27<sup>th</sup>, I present the following three options:

- 1) Board approve a 2019 Budget Amendment –
  - a) lower RRF funding by AA \$15 (\$97,000), drop the component from study & 2019 expenditures
  - b) increase OPF funding by AA \$15 (\$97,000) add \$97,000 Governing Documents expense to General department in 2019 budget.

This option 1 formally changes the funding from RRF to OPF. There is no change in total Annual Assessment of \$1965 per owner. I would suspect 5-10+ years of Budget confusion going forward if this amendment is made. Accounting impacts: lower RRF Revenue and increase OPF Revenue by \$97,000. Add \$97,000 expense item to General and drop RRF Gov Docs expenditure item. Revise online PDF 2019 Budget Report, publish a notice in TD News magazine July issue, include the revision in a weekly e-news newsletter. YTD April variance to Budget of \$522,000 remains the same. Staff time impact, 10-15 work hours at a minimum impact.

- 2) No formal changes to 2019 Budget and charge the project costs incurred to OPF.
  - a) Operating Fund YTD April NOR is favorable \$522,000 to Budget. Summer is unknown, but less overall volatility than Winter months. December has snowmaking as a partial insurance hedge to snow/weather volatility.





- b) Let expense overrun in Operating Fund expenses. Create a unique, separate from legal fees account, 'Governing Documents' expense / reporting account in General Department.
- c) In RRF, the project forecast line would be zero dollars, with footnote reference that project was changed by Board to be an OPF expense.

Net impact with Option 2 – Operating Fund pays for the expenditure, which is the revised direction. This cost would erode the current YTD April \$522,000 favorable variance to Budget in OPF. RRF received the funding for the project, while OPF was underfunded. However, the real net impact is \$100,000 less transferred from OPF to RRF, which equates to the same net effect, as option 1. Staff time impact, 1 hour.

- 3) Take no action for 2019
  - a) The Expense is a cost for all members, whether funded from RRF or OPF.
  - b) The Expense was disclosed during the budget process as a component of study and a planned expenditure for 2019 from RRF
  - c) Charge project expense to RRF as budgeted for 2019.

Net impact, no change from Budget for 2019.

**With all three options, the governing documents update project would be removed from the Reserve Study when updated for 2020 Budget in fall 2019.**

**Either of the three options are acceptable to management.**

**RECOMMENDATION:**

**Option 2. Make no Budget 2019 Amendment, charge governing documents revision's costs incurred in 2019 to Operating Fund – Governing Documents specific Expense account.**

Prepared by: Michael R. Salmon, Director of Finance 5/24/2019

Reviewed by: Annie Rosenfeld, Director of Risk and Facilities 5/24/2019

Board Meeting Date: 6/1/2019

General Manager Approval to Place on the Agenda: RPE

