

## FINANCE/BUDGET COMMITTEE MEETING

MARCH 5, 2010, 10:00 A.M.

Members Present: Alan Stinson, Bob Frise, John Beattie, Paul James, Bob Luttrell, David Lisbon, ex-officio. Sandy Korein also was present for a portion of the meeting.

Background: At its meeting of February 15, 2010, the Board of Directors conditionally approved the expenditure of up to \$200,000, one-half from the Reserve Fund and one-half from a special assessment, for remodeling work in the lobby, social room, and guest rooms. The purpose of this meeting is to allow the Finance/Budget Committee to evaluate the merits of expending funds from the sources and in the amounts conditionally approved by the Board. The Committee expresses no opinion on the merits of the actual remodeling project.

The following questions and concerns were raised by members during the discussion:

- The existing reserve account of approximately \$377,000 may be inadequate to cover this expense and other potential expenses that may be incurred in the near future. If, in fact, a shortfall is determined to exist, it may not be prudent to expend funds from this source. Funds expended for cosmetic improvements may result in inadequate balances in the reserve account to pay for structural necessities.
- The accounting firm that performs the Association's annual audit has indicated that the past and current additions to reserves are substantially less than the statutorily prescribed amounts calculated by the firm.
- An engineering firm recently completed the field work for the statutorily-mandated "five year study" of the building's systems. However, the final report, which will include a section on the adequacy of the reserve account, has not been completed. If possible, the Board may choose to wait for the publication of this report before making decisions about expending reserve funds at this time.
- The preliminary engineering study recommends replacement of the lanai railings and installation of a waterproofing membrane on each lanai floor. Although no cost estimate nor specific time frame has been provided, this presumably would be a substantial project that would materially impact reserves.
- The exterior of the building is scheduled to be repainted in 2015, but the engineering report recommends advancing the job to 2013.
- Current economic conditions have adversely affected revenue receipts from quarterly fees; two units currently are in arrears.
- The Board may choose to consider financing all or a portion of the project with borrowed funds. The Association's bank provides financing for such projects; currently such loans are available for as long as five years at an interest rate of 6.5% plus one "point" (1%) paid at inception and various administrative fees.
- Regardless of the sources of funds for the project, unit owners should be made aware of the total cost of the project, not merely the amount of a special assessment that may represent only a portion of the cost.

The meeting was adjourned at 11:00 a.m.