

*Finance Committee Report – IPOA
October, 2022*

The Finance Committee has met twice, initially deciding on its structure and meeting schedule. I'm serving as Chair, and John Chapman is Secretary. We set our initial priorities which include the 2023 Budget, the AUP Engagement and review of financial systems and reporting. Minutes from both meetings were provided to IMM for recordkeeping & availability on the website.

First Priority - 2023 Budget:

We worked in collaboration with Bob Johnson who had generated an initial draft. Additionally, we referenced the 8/31/22 YTD actual financials, and an expense analysis calculating 4 year averages. With additional consideration for an inflation factor (5% CPI) and Bob's insight, we went line-by-line through the Budget. The following are some of the key areas where we made specific changes/recommendations:

- 1. Interest income on Reserve Funds – revised to \$42,000 based on best CD rates available, at 3.50% on \$1.2M in balances.*
- 2. Design Review – our recommended figures represent a reduction in activity for both income and expenses. A tighter housing market and less activity is expected due to economic pressures (interest rates, costs, supply chain).*
- 3. Tax Return and Taxes - Calculation of estimated 20% tax on the increased interest income, plus cost of tax return.*
- 4. Legal Fees - based on \$66,000 spent YTD 8/31, and no known resolution yet on two lawsuits, we want to adequately prepare the homeowners for a potentially high level of fees necessary to protect their interests into next year. Perhaps the board has insight on developments. The Finance Committee is recommending the figure of \$61,475, but Bob has used \$55,932 in order to balance the budget as is.*
- 5. "Landscape Other" line item has been revised to "Landscape Maintenance" to properly describe purpose.*
- 6. Snow Removal – streets and bike path – increased based on 4 year average and to be adequately prepared for a heavy snow year. (\$68k this Budget; 2021-\$63k actual; 4 yr avg \$66k)*
- 7. Contingency – a new line item for unexpected expenses but will be re-classified if spent.*
- 8. Reserve Study – \$9,000 expense for new study was recommended to be removed. More on this is forthcoming.*

As it has been IMM's procedure, the operating budget is used to determine the Reserve Assessment amount in order to "balance" this budget. In this year's case, the amount was calculated using a split of \$119 to Operating and \$33 to Reserves, deviating from the current \$88 to Operating, \$64 to Reserves. This conclusion results in maintaining the same operating assessments for next year but allocating less to Reserves.

There is understandably a concern for adequate reserve funding. The committee performed a quick investigation by accessing the audited financials from other nearby HOA's to determine if we are consistent in our funding as a percentage of available funds to future needs; in our case using the reserve study prepared in 2019, and looking at projected 2023 levels.

Based on this comparative analysis, we found Aspen Glen at 72% (using 2021 data), several other smaller HOA's at a much lower %, and for Ironbridge - based on the proposed 2023 budget, we result in having

71% of estimated reserves needed. This is comparable with Aspen Glen and much higher than other communities in the area.

Outside of that comparative look, the finance committee believes this issue merits further consideration. We'd like to take another approach in assessing the adequacy of our reserve fund, especially since there is current road work to be completed and paid for this year. Dirk has offered to inspect and analyze the condition of our roads, and generate a projection of future needs and costs. We would like to have further discussion on this point before making a final recommendation on the reserve assessment.

Second Priority - Financial Systems and Reporting / AUP Engagement

A proposal has been requested of Reese Henry & Company CPA Firm (for our Agreed Upon Procedures – AUP)– review of current accounting processes and reporting prepared by IMM. While not an audit it will review select transactions, internal controls for collections & payables, and transfers between operating and reserve cash accounts.

We have not yet received their bid for these services. But we look forward to proceeding with this review, as the committee has concerns about current accounting procedures which include tapping into reserve funds for operating needs, and the confusing financial reports that result.

Among the ideas being considered are to change to “fund accounting” (GAAP) reporting reserve expenditures separately from operating activity, and adhering to a policy that reserve funds are to be used only for the maintenance, repair & replacement of the HOA's roads and common areas. This is stated in our current Reserve Investment Policy.

If the conclusion is reached to implement these changes, the committee believes it would potentially require a change to a more HOA-oriented accounting software system, revised booking procedures and financial statements which more properly and clearly provide homeowners with critical information about how funds are spent and needs are met. This will also ensure we are in compliance with CCIOA. For future budgeting, this accounting will allow us to accurately consider the community's needs without reliance on Reserve funds.

As mentioned earlier, the committee intends to proceed with the preparation of a separate Reserve Budget for the next year, instead of paying for a more extensive reserve study.

These are the current activities of the Finance Committee, and are subject to the formal process of recommendation to and approval by the Board.