

Subject:
Notes from Budget Meeting 12.21.24

About eight years ago the Association sold property to the IDEA school district and set aside \$500,000 as a financial safety net for ACC. Two \$250,000 Reserve Funds were established that provided a source of cash that could be borrowed under certain circumstances with a repayment schedule of not less than two years and not more than five years. The **Primary Reserve Fund** was available "...only for catastrophic occurrences, such as hurricanes or other destructive events...". The **Secondary Reserve Fund** was available "...for capital improvement projects and emergency maintenance that ***falls outside of the operating and Capital Improvement Fund.***" (*emphasis added*) (per Article 09 of the Bylaws) The cash for these two Reserve Funds was invested in Certificates of Deposit.

In accordance with Bylaw Article 09.01.02, the Association borrowed \$125,000 from the Secondary Reserve Fund to replace the clubhouse roof as part of the Solar Panel Project in 2020. The repayment schedule required that five \$25,000 annual installment payments be made beginning in 2021. The annual HOA dues were increased to repay the loan.

This internally financed loan was funded by redeeming Certificates of Deposit. No provision was made to segregate the Secondary Reserve Fund repayments from Operating Funds or CIF, and they were deposited in the Rio Bank Jumbo MMF. We discovered this situation in June 2023 and requested that the Treasurer open a separate money market account, Rio Bank Restricted MMF, for the repayments to be deposited. The final transfer of cash for 2023 to this restricted account was accomplished in December 2023.

In January 2024, the \$3,000 January payment was deposited in the Rio Bank Restricted MMF. This brought the cash balance of in this Reserve Fund to \$102,466.59. The scheduled \$2,000 monthly payments for the rest of 2024 were never made; therefore, the Association is \$22,000 in arrears at the end of 2024. If the monthly installment payments had been made, the monthly budget reports would provide an accurate picture of the current year-to-date disbursements and the outstanding loan balance at the end of each month.

The plan was to repay the internally financed loan over five years (December 2025). The Association would then enter into a second loan agreement with the Secondary Reserve Fund to pay off the Alliance Bank Solar Panel Loan, saving approximately \$38,000 in interest charges over the remaining life of the Alliance loan.

As we have repeatedly reported, the Association began comingling CIF transactions in the Rio Bank Restricted MMF in February 2024. Combining CIF transactions and Reserve funds is misleading and has created confusion. All CIF money should be transferred to the Operating account or a separate CIF account.

When the new Treasurer assumed responsibility for the accounting and treasury functions the balance in the Rio Bank Restricted MMF was \$102,466.59. As noted above, none of the monthly loan repayments have been made so this remains the balance. If the 2024 payments are caught up the correct balance on December 31, 2024, will be \$124,466.59.

At the budget meeting on Saturday, December 21, 2024, the Treasurer proposed that the Association use the \$102,467 in the Rio Bank Restricted money market account to pay for CIF expenses in 2025. The following is Article 09.01.02 of the Bylaws that describes the criteria and protocol for borrowing money from the Secondary Reserve Fund.

09.01.02 A Secondary Association Reserve Fund in the amount of \$250,000, which shall be used by the Association for capital improvement projects and emergency maintenance that falls outside of the operating budget and Capital Improvement Fund. Use of this fund requires approval by a 2/3 majority vote of the Members. When a project request is presented that calls for an expenditure from this fund, such request must address the repayment of the expenditure to this fund. A request may provide that any funds expended must be repaid in full, or only partially. Any project that is approved and that calls for repayment shall be repaid by adding a line item to the budget that repays the fund over a period of not less than two (2) years nor more than five (5) years.

If the Board chooses to borrow funds from this account, it must follow the protocol described in the Bylaws which includes establishing a repayment schedule. Also, if such a loan were approved by the members, this would preclude the Association from taking advantage of the \$38,000 savings discussed above.

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