

# **M70 Annual Meeting Financial Report & Updates**

**June 18, 2021**

**Presentation Will Be Available On M70  
Website By June 25th**

# M70 Financial Goals

## (From October 2019 Town Hall Meeting)

To be considered *healthy and to protect our home values*, we need to address improvements in both **Operating** & **Reserve Funds**:

- **Operating Fund Goals:**

- Fiscal soundness requires no operating losses in any one year.
- Eliminate the current Deficit Ending Fund Balance caused by higher than expected expenses
- Repay Reserve Fund Borrowings to cover our cash shortfall from prior years
- Build Up Working Capital (Cash on Hand)-**MOD's standard** for well funded and performing Mutuals, defined by:
  - 2 months Working Capital (Operating Expenses **or**
  - Cash on Hand to pay for Insurance Premiums

- **Reserve Fund Goals:**

- Achieve a favorable Helsing Audit Opinion
- Have sufficient income and cash to address rather than defer projects

# State Law (Davis Stirling Act) Requires all HOAs to Budget in the following way, and the money for each fund must be kept separate!

## ***Operating Fund\****

- Day to Day building maintenance & minor repairs
- Landscaping Maintenance
- Utilities: PG&E, Water, Trash
- Insurance
- MOD Fee
- Working Capital-Cash to cover timing difference of expenses and coupon collections
- GRF component

\*Funds/income supplied by the Operating Fund portion of your total Monthly Coupon.

## ***Reserve Fund\****

- Major Building Repairs/Replacement
- Garage Doors
- Landscaping Rehab/Renovations
- Roofs & Roof Tiles
- Asphalt Replacement
- Replacement Gutters/Downspouts
- Painting
- Stucco/ Wood
- Patio & Balcony Decks

\*Funds/income are supplied by the Reserve Fund portion of your total Monthly Coupon.

# M70 Coupon Components



# Operating Fund- 5 Yr. Trend

Category	2015	2016	2017	2018	2019	5 Year Total
<b>Annual Operating Deficits</b>	<b>8,316</b>	<b>27,782</b>	<b>60,858</b>	<b>18,622</b>	<b>37,680</b>	<b>153,258</b>
<b>Ending Fund Balance (i.e. Net Worth or Equity)</b>	<b>90,643</b>	<b>62,861</b>	<b>2,003</b>	<b>16,619</b>	<b>54,299</b>	
<b>Borrowings from Reserve Fund for Insurance</b>	<b>4,225</b>	<b>40,000</b>	<b>0</b>	<b>125,000*</b>	<b>125,000*</b>	
<b>Ending Cash Position</b>	<b>106,920</b>	<b>110,938</b>	<b>11,048</b>	<b>147,567</b>	<b>165,000</b>	
<b>Coupon</b>	<b>764</b>	<b>789</b>	<b>820</b>	<b>845</b>	<b>875</b>	
<b>* Borrowing Not Paid Back</b>						

# How We Ended Up 2020

## Operating Fund

- Reversed operating deficits trend
- Return to *positive* Ending Fund Balance since 2017
- Borrowings: Paid back 2020 Loan & \$20,000 of 2018 Loan to Reserve Fund

## Reserve Fund

- Cash & Ending Fund Balance higher than forecast do to Covid restrictions & timing of major projects
- Positive Reserve Study Opinion

## 2020

- **Moving to Stronger Health with our Strategic 5 Year Financial Planning (see Oct 2019 Town Hall Presentation)**

	Operating Fund	Reserve Fund
<b>2020 Year End Audit</b>		
Expenses	835,156	347,956
Excess <b>/(deficit)</b> to Revenue	98,142	71,260
Cash	187,179	1,291,221
Ending fund Balance	43,843	1,337,128
Borrowing from Reserve Fund	105,000	

# M70 Operating Fund: May 31, 2021 Year to Date

Operating Fund	May YTD Actual	May YTD Budget	Variance (Act-Budget)
Revenue	491,759	488,370	3,389
Expenses	384,314	407,665	(23,351)
Excess / (Deficit)	107,445	80,705	26,740
Cash	169,901		
Borrowing from Reserve Fund	210,000		
Ending Fund Balance	151,288		

## Comments:

- Utilities especially water will be increasing
- Borrowing:
  - \$105,000 for 2021 Insurance Premium + remaining \$105,000 2018 RF Borrowing
  - Target pay down entire 2021 Borrowing & min. \$20,000 2018 Borrowing
- Insurance Costs...more details in next slide

# Insurance Costs Trends

	2017	2018	2019	2020	2021
<b>Total Insurance Expense</b>	96,222	116,135	176,616	255,237	339,360
<b>Less Agent Rebate</b>	0	0	0	(18,728)	(20,252)
<b>Net Insurance Costs</b>	96,222	116,135	176,616	236,509	319,108
<b>Total Operating Expenses</b>	654,244	682,128	735,667	841,665	978,369
<b>% Net Increase from Prior Yr.</b>	<b>0.5%</b>	<b>20.7%</b>	<b>52.1%</b>	<b>33.9%</b>	<b>34.9%</b>
<b>Insurance % of Expenses</b>	<b>14.7%</b>	<b>17.0%</b>	<b>24.0%</b>	<b>28.1%</b>	<b>32.6%</b>

Wait till November to decide to apply rebate against 2018 RF Borrowing



# M70 Reserve Fund: May 31, 2021 Year to Date

	May YTD	2020 Full
Reserve Fund	Actual	Year Budget
Revenue	172,082	412,800
Expenses	238,390	544,835
Excess / (Deficit)	66,308	132,035
Cash	1,148,953	
Ending Fund Balance	1,270,819	

- Projects placed on hold during Shelter in Place time period.
- Board with MOD have been reviewing projects to restart.
- **SB 326 Balconies**
  - Covers Decks, landings, stairs & walkways
  - Jan 2025 deadline for first cycle of inspections
  - Then every 9 years thereafter
  - Inspections beginning June with AS Entry 2 buildings
- Addressing dry rot issues
- Painting Phase I beginning Mid June
- **Our Total Cash Position: OF +RF= \$1,318,854**

# Reserve Fund

## Large Upcoming Projects

Projects 2021-2030	Yrs. 2021-2025	Yrs. 2026-2030	10 Yr Total
Paint Stucco Wood	930,000	186,000	1,116,000
SB 326 Balcony Inspections	121,989	-	121,989
Patio Deck & Balcony Repair & Recoating	629,000	495,000	1,124,000
Asphalt Replacement	474,000	158,000	632,000
Landscaping (irrigation, renovation & tree removal)	404,200	282,250	686,450
Gutters & Downspouts	176,000	265,200	441,200
Roof Tile	-	1,140,000	1,140,000
<b>Subtotal Major Projects</b>	<b>2,735,189</b>	<b>2,526,450</b>	<b>5,261,639</b>
<b>Other Projects</b>	<b>600,427</b>	<b>383,876</b>	<b>984,303</b>
<b>Total</b>	<b>3,335,616</b>	<b>2,910,326</b>	<b>6,245,942</b>

# Reserve Fund Projects Per our 2020 Reserve Fund Study

Ten Year Periods	Amount	% of Total
2021-2030 Total Project Expenses	6,245,942	21%
2031-2040 Total Project Expenses	10,997,059	37%
2014-2050 Total Project Expenses	12,526,951	42%
<b>Total 30 Year Expenses</b>	<b>29,769,952</b>	<b>100%</b>

# Coupon Comparisons of Comparable Mutuals (Building Types)

	2019	2020	\$ inc	% inc	2021	\$ inc	% inc
M70	875	1,017	142	16%	1,059	42	4%
MA	1,017	1,075	58	6%	1,145	70	7%
MB	921	981	60	7%	1,090	109	11%
MC*	1,017	1,017	-	0%	1,017	-	0%
* Mutual 2-3 Special Assessments within last 3 years							

**It's not just comparing numbers.. Need to know for other Mutuals:**

- Helsing Audit Opinion **and**
- Historical Ending Fund Balances of **OF** & **RF** **and**
- **OF** & **RF** performance **and**
- Any Interfund borrowings **and**
- Cash Position **and**
- Meet MOD Working Capital Standard **and**
- Any Special Assessments in last 3 years and what is their strategic financial plan?

# Planning Comments

## Coupons: Rossmoor-wide

- 2021 Largest dollar increase in a Mutual's coupon: \$200 per month
- M70 dollar increase rank: 31<sup>st</sup> largest out of 41 Mutuals....we strive to balance financial goals of both M70 and M70 Owners.

## Challenges for all Mutuals:

- Dramatically increasing insurance expenses causing stress on Operating Fund Expenses & Operating Fund bottom line. Also causes stress on Cash Position to fund Insurance Premiums upfront in one lump sum payment.
- On going Mitigation of Dry Rot
- Mutuals working on strategies with complying and funding costs of new deck inspection regulation.

**M70 Board will be addressing these challenges within the framework of the 5 year plan we placed into action last year.**

# SUMMARY COMMENTS

- **Operating Fund**: Reversed our negative trends.
- **Reserve Fund**: Continued to maintain our positive Reserve Fund Study Opinion in terms of adequacy of funding projects
- **Overall: Have strengthened our financial sustainability while planning for future large RF projects.**

*On-line: Rossmoor.com>For Residents>Mutuals>M70>Miscellaneous*

*Rossmoor News, May 19, 2021 Edition page 17 A “How Rossmoor Works” & June 2<sup>nd</sup> page 4B, “Newcomer’s Guide to Understand How Rossmoor Works”*