

AGENDA
FINANCE COMMITTEE
Administration Conference Room
Tuesday, April 15, 2014 – 9:30 a.m.

1. Call to Order
2. Pledge of Allegiance
3. Roll Call
4. Approval of Regular Meeting Minutes March 18, 2014
5. Chair's Announcements
6. Foundation Member Comment Period
7. Review Correspondence
 - Review opinion letter from NSBN regarding Mutual One Correspondence (pg. 1)
8. Investment Sub-Committee Report
9. Staff Reports
 - a. Controller – Financial Report Review – March 2014
 - b. Accept March Financial Statements for Audit
 - c. Executive Director
 - o Purchasing Department Report
10. Unfinished Business
 - a. Recommend to Approve Non-Budgeted Expense Policy (pg. 3)
 - b. Recommend to Approve Policy 5520 – Reserves (pg. 4)
11. New Business
 - a. Membership Fee (pg. 9)
 - b. Recommend to Amend Policy 5522 – Safe Deposit Boxes (pg. 12)
 - c. Recommend to Rescind Policy 5310 – Trust Asset Acquisition (pg. 13)
 - d. Recommend to Rescind Policy 5360 – Depreciation of Trust Assets (pg. 14)
 - e. Recommend to Rescind Policy 5370 – Capitalization of Fixed Assets (pg. 15)
 - f. Recommend to Rescind Policy 5525 – Night Depository Agreement (pg. 16)
 - g. Recommend to Rescind Policy 5526 – Review of Annual Financial Statements (pg. 17)
12. Committee Member Comments
13. Next Monthly Meeting: Tuesday, May 20, 2014 – 9:30 a.m. Administration
14. Adjournment

** Agenda is Subject to Change**



CERTIFIED PUBLIC ACCOUNTANTS
&
BUSINESS CONSULTANTS

March 20, 2014

Seal Beach Mutual One
Post Office Box 2069
Seal Beach, California 90740

To the Board of Directors:

NSBN is responding to your letter dated February 27, 2014, requesting an understanding of excess income, as it relates to Mutual One (the "Mutual") for both financial reporting and operations, and income tax reporting requirements.

We cannot be involved in the Mutual's decision regarding the ultimate disposition of any year's excess income, or how it is to be treated in the future. This is a management decision, and our involvement would impair our independence as your auditors. Our function is to assess that the Mutual is in compliance with the financial reporting requirements as defined by Generally Accepted Accounting Principles ("GAAP"), and the requirements of the Davis-Stirling Act (the "Act"). The Act states that any excess income must be applied to the next year's assessments, or refunded to the membership, and if applied to next year's budget, members must approve an excess income resolution. In the shareholder Occupancy Agreement, Article 3 Patronage Refunds (the "Agreement") states –

"The Corporation agrees on its part that it may refund or credit to the Member, within ninety (90) days after the end of each fiscal year, the Member's proportionate share of such sums as have been collected in anticipation of expenses, which are in excess of the amount needed for expenses of all kinds, including reserves, in the discretion of the Board of Directors of Corporation."

Therefore, the Mutual's Board determines the disposition of any excess income; thus, no shareholder vote is required to retain excess income. As part of the Mutual's audit, we have examined this, and the related accounting and financial reporting, finding both to be in compliance with GAAP, the Act and the Agreement.

With regards to the Mutual's tax filings, while Revenue Ruling 70-604 does apply, the tax returns have been filed applying Internal Revenue Code Section 277, Sub-Chapter T. This means that any income tax is determined on what is referred to as non-patronage income. Simply stated, any income earned or assessed by the Mutual that is to be used for the Mutual's management, operations, maintenance, current or future replacements is not subject to tax. The primary example of non-patronage income is the investment income earned on the CDAR's, money market, and municipal bonds held by the Mutual, less any direct expenses associated with these investments, such as investment management advisory fees.

The Mutual is required to file both a Federal and California tax return each year. For Federal filing purposes, the Act states that the Mutual can file either a Form 1120 or Form 1120-H. The difference between the Federal filing requirements are:

9454 Wilshire Blvd., 4th Floor, Beverly Hills, CA 90212 - 2907
P 310.273.2501 F 310.859.0374

www.nsbnet.com



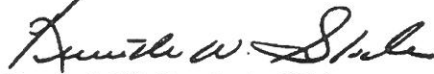
1. The filing of a Federal Form 1120 is a regular corporate filing with a 15% tax rate on the first \$50,000 of taxable income. Taxable income would be defined as the non-patronage income. Further, there needs to be a resolution regarding the disposition of any year's excess income.
2. The filing of a Federal Form 1120-H is specific to a Mutual, with a 30% tax rate on non-patronage income. There is not the same requirement regarding a resolution regarding the disposition of any year's excess income.
3. There is one filing requirement for California, a California Form 100, and this filing and taxable income determination must be the same as the Federal.

Therefore, in response to the Mutual's questions concerning any mistake on behalf of NSBN, and whether the Mutual is in compliance with its Federal and California tax filings:

1. Mutual One is in compliance with both applicable Federal and California tax filing requirements.
2. Mutual One is filing their Federal return in accordance with the Act and the applicable Internal Revenue Code in a manner most advantageous to the Mutual.
3. There is no need to cure or remedy any situation regarding the Mutual's prior or current tax filings.

Should the Board be in need of any further information regarding these matters, we would be happy to discuss.

Sincerely,



Kenneth W. Scurlock, CPA
Partner

KWS:yj



Policy Draft

Non-Budgeted Expense Policy

Committees

Operations of the Foundation are based upon the approved budget. Various needs of the Foundation may necessitate unexpected and unplanned expenditures: i.e. non-budgeted expense.

Approval of unanticipated expenditures not previously included in the approved budget shall be limited to the following:

Committees

Standing committees of the foundation may authorize non-budgeted expenses to an amount not to exceed \$1,000 per fiscal year by majority vote of the committee and duly noted within the committee minutes. In the committees review and deliberation of any non-budgeted expense the following line of questions shall be incorporated into the decision making process:

- Base upon the approved budget for the cost center, can we really afford to authorize this non-budgeted expense?
- Can we afford not to? (Risk migration or Safety)
- If we do, will it necessitate an adjustment from another cost center under committee purview?
- Does the nature of the request represent the best use of Foundation funds?
- Is the funding request in the best interests of a majority of the shareholders?

Upon approval of a non-budgeted expense the chairperson of the committee (or designated representative) is to provide notice to Controller, Executive Director and the Board, with the amount approved with a description of the non-budgeted expense.

Non –budgeted expenses greater than \$1,000 but less than \$2,500 required Finance Committee review and approval.

Non-budgeted expenses greater than \$2,500 require finance committee review and approval by the Board

Committee Subcommittees and/or Ad Hoc Committees

No authority: all requests for a non-budget expenses are required to be approved by the standing committee.

GOLDEN RAIN OPERATIONS**BOARD INTERNAL OPERATIONS****DRAFT FOR ADOPTION****Reserves****1. Reserve Funds**

- i. Reserve funds are monies that the Golden Rain Foundation (Foundation) has collected to defray future maintenance and replacement of major components/assets the Foundation is required to maintain in accordance with California Civil Codes.

2. Assets

- i. For the purpose of preparation and maintaining the Foundation's reserve study, an asset of the Foundation shall be defined as: an item or items that have a value or an aggregate value of \$2,500 and a minimum life expectancy of three (3) years.

3. Component

- i. For the purpose of preparation and maintaining the Foundations reserve study, a component shall be defined as: a major component and/or asset with an estimated service life of thirty (30) or more years. Such identified components may be included in the reserve study as a capital asset and disregarded in the reserve calculations.

4. Reserve Study

- i. The Foundation is required to prepare a reserve study at least once every three years based upon a diligent visual inspection of the accessible areas of the components/assets.
- ii. The board is required to review the reserve study annually as part of the annual budgeting process and determine whether intervening events over the past year warrant adjustment of the reserve funding.

5. Use of Reserve Funds

- i. For Reserve Expense – Reserve funds cannot be spent for any purpose other than the maintenance and replacement of Foundation components and assets for which the funds have been set aside except in limited situations as allotted by the Civil Code.

(month year)

GOLDEN RAIN OPERATIONS**BOARD INTERNAL OPERATIONS****DRAFT FOR ADOPTION****Reserves**

- ii. Reserve funds set aside for a particular line item in the study need not be restricted to expenditures on that line item alone, but rather the aggregate of all reserve funds may be used for the aggregate of all reserve expenses at a particular time.
- iii. Reserve funds should not be used for expenses not included in the list of components and assets included in the reserve study. If a major component and/or asset meeting the description of an assets as noted in section 2 are in need of repair and/or replacement, by a majority vote of the Board at a duly noticed meeting of the Board open to all Shareholders/Members, include the component and/or asset into the study with an adjustment to the funding plan.
- iv. Reserve funds may be transferred to the operating account to meet short-term cash flow requirement or to cover other expense by a majority vote of the board. However the board must fulfill the following procedural requirement before transferring any funds. The Board must provide no less than four (4) days written notice to the Shareholders/Members, of the intent to consider a transfer, the options for repayment in accordance with the civil code, and if a special assessment may be required. Upon approval, the minutes of the meeting must reflect the amount, reason for the transfer, and describe when and how the funds will be repaid to the reserve account.
- v. Repayment of transferred funds contingent upon section 5 (iv): Funds transferred from the reserve account must be restored to the reserve account within one (1) year of the date of the initial transfer.
- vi. Reserves Funds may be transferred for litigation purposes provided that:
 - a. Such transfer is in full compliance with the civil code, and
 - b. The Foundation must notify the Shareholders/Members of the decision to make the transfer and the availability of an accounting of expenses in the next mailing to the Shareholders/Members. The Foundation is required to make an accounting of expenses related to litigation to all Shareholders/Members on at least a quarterly basis. The accounting

(month year)

GOLDEN RAIN OPERATIONS**BOARD INTERNAL OPERATIONS****DRAFT FOR ADOPTION****Reserves**

need not to be sent to all Shareholders/Members, but must be available upon request at the Foundations Administrative offices.

6. Banking of Reserve Funds

- i. Reserve funds shall not be comingled with any other Foundation funds and be maintained in suitable FDIC insured bank accounts.

7. Withdrawals/Transfers from Reserve Funds

- i. Require the signature of two Foundation Corporate Officers.

8. Investment of Reserve Funds

- i. The Board shall exercise prudent fiscal management in maintaining the integrity of the reserve account.
- ii. The Board's primary goal in investment of the Foundations reserve funds shall be the preservation of the funds.
- iii. Liquidity of the reserve fund shall be preserved to ensure that funds are available for:
 - I. Scheduled replacements/repairs
 - II. Emergency replacements/repairs
 - III. Repair and/or replacement of components and assets that have reached the end of their useful life earlier than expected.
 - IV. Litigation as allotted by the civil code
 - V. Short term operational needs, provided that terms as set forth in 5 (iv) are in compliance.

9. Reserve Fund Expenditures

- i. Scheduled Replacements/Repairs
 - I. All Foundation policies referencing standards of purchasing shall be applicable unless the replacement or repair is an emergency (see definition of emergency in section 10).
 - II. Scheduled replacements/repairs less than \$50,000 may be approved by two Board members (one must be an officer of the Board)

(month year)

GOLDEN RAIN OPERATIONS**BOARD INTERNAL OPERATIONS****DRAFT FOR ADOPTION****Reserves**

- III. Scheduled replacements/repairs over \$50,000 require a majority vote of the Board.
- ii. Non Scheduled Replacements/Repairs
 - I. All Foundation policies referencing standards of purchasing shall be applicable unless the replacement or repair is an emergency (see definition of emergency in section 10).
 - II. Must be approved at a duly posted Board meeting and approved by majority vote of the Board.
 - III. If the replacement/repair constitutes an emergency requirement, the Executive Director and no less than two (2) Board officers may take appropriate actions to protect the Foundation's Components/Assets to a limit of \$50,000 with immediate notification of all Board members clearly noting the need and emergency. Such emergency action shall be reviewed at the next regularly scheduled meeting of the Board. Emergency actions that result in an expenditure greater than \$50,000 require an emergency meeting of the Board, with the minutes of the meeting clearly stating the emergency and the actions taken.

10. Emergencies

- i. Emergency reserve fund expenditures for the replacement/repair of components and assets shall be defined as:
 - I. The need to repair and/or replace a component and/or asset involving the imminent danger to life or property, or immediately necessary for the preservation and safety of the property.
 - II. For the safety of the Shareholder/Members.
 - III. Required to avoid the suspension of any necessary service to the Foundation and property under the oversight of the Foundation.
- ii. The Board and/or Executive Director is to use prudent determination in cases of a emergencies and take steps as required as noted in section 10 (i).

(month year)

GOLDEN RAIN OPERATIONS**BOARD INTERNAL OPERATIONS****DRAFT FOR ADOPTION****Reserves**

- iii. The Board and/or Executive Director shall within a reasonable time of the emergency but no less than six (6) hours, notify the Board of the event and actions to protect and secure the Foundations components and assets.
- iv. At the next regularly scheduled meeting of the Board, a full account of the emergency shall be presented including but not limited to:
 - I. Nature/cause of the emergency
 - II. Actions taken.
 - III. Full accounting of all expenses.
- v. All applicable sections of this policy shall remain in effect.

Sources

- 2014 Condominium Blue Book, by B. Bickle
- Advising California Common Interest Communities, second edition, by C. Sproul, M. Howell and K. Rosenbury (2014 edition)
- The Revised Davis-Stirling Common Interest Development Act, by Fiore Racobs & Powers
- Community Associations Institute (www.caionline.org)
- Adams Kessler (www.davis-stirling.com)

Policy

Adopted: date month year

GOLDEN RAIN FOUNDATION
Seal Beach, California

(month year)

**Golden Rain Foundation
Calculation of Foundation Membership Fee
For Period Beginning July 1, 2014
Per Policy 5061**

Net Trust Equity @ 12/31/2013:		
Contingency Reserve Fund	685,047	
Beneficial Interest in Trust	<u>9,903,365</u>	<u>10,588,412</u>
Resident Status Code:		
01 - Owner Count	9,555	
08 - CoOccupant; NonOwner; Not Stock Count	<u>441</u>	
Qualifying Members		<u>9,996</u>
Net Trust Equity / Qualifying Members	-2.93%	<u>1,059.00</u>
Current Membership Fee as of 4/1/2014		1,091.00

New Membership Fee* **1,091.00**

* Change in Calculated Fee < 5% of Current Membership Fee - No Change

Membership Information as of 12/31/2013:

Member Code	Count
01-Owner Count	9,555
03-Incoming; in Escrow; New Resident Count	23
04-Outgoing, Moving Out, Deceased, In Escrow, Estate	459
05-RENTER Count	31
06-Non-Resident CoOwner Count	1,742
08-CoOccupant; NonOwner; No Stock Count	441
09-Executor Count	345
10-Trustee Count	2
11-Power of Attorney Count	9
Grand Count	12,607

GOLDEN RAIN OPERATIONS**PERSONNEL****Membership Fee****1. Membership Fee**

The membership fee for a Golden Rain Foundation member represents a buy-in for access to the community facilities and amenities.

Each owner and co-occupant non-owner will be required to pay a one-time membership fee.

The membership fee will be calculated April 1 of each year and will be based on the following data as of December 31 of the preceding year: net trust equity divided by the sum of the members defined as Resident Status Codes 01 and 08 by the Finance Department. If the new fee varies by more than 5% of the current fee, it will be presented to the Finance Committee in May for recommendation to the Board. If applicable, the new membership fee will be implemented in July.

Member(s) may transfer from one mutual to another without having to pay another membership fee provided that the member(s) remain(s) the same. The member(s) will, however, be charged a membership certificate processing fee for this transaction.

2. Membership Certificate and Processing Fee

The Golden Rain Foundation shall issue one membership certificate per unit. The membership certificate may contain one or more names.

A certificate processing fee of \$150 will be charged to the unit's account each time the membership certificate is changed or altered to cover the cost of preparing, recording and/or replacing a membership certificate.

4. Payment of Membership Fee

New members are encouraged to pay the membership fee in full at the close of the purchase escrow; however, the Golden Rain Foundation has established a finance plan to pay the remaining amount of the outstanding membership over a seven-year period for those members who wish to finance their membership fee.

Members who opt to finance the payment of their membership fee must complete a

(Jul 12)

GOLDEN RAIN OPERATIONS**PERSONNEL****Membership Fee**

Promissory Installment Note and agree to the terms of the Note. One Promissory Note is required per unit.

If a member opts to finance their membership fee, each member shall pay a one-time upfront payment of 25% of the total membership fee at the close of the purchasing period, and make seven (7) equal annual installment payments. Each annual payment will be due and payable on the anniversary of the date of purchase until the principal amount, including the finance charge, is paid in full.

The annual finance charge on matured, unpaid amounts shall be one (1) percent per month paid annually on the outstanding balance.

In the event that the member(s) sell(s) their Mutual share of stock before the membership fee is paid in full, the balance will be paid from the sale escrow.

Policy

Adopted: 21 Apr 70
 Amended: 31 Aug 73
 Amended: 20 Nov 73
 Amended: 19 Aug 75
 Amended: 31 Aug 77
 Amended: 16 Jun 81
 Rescinded: 20 Oct 81 (Amendments passed 16 Jun 81)
 Amended: 16 Dec 86 (Effective 01 Jan 87)
 Amended: 21 Jul 87 (Effective 01 Aug 87)
 Amended: 20 Sep 88 (Effective 01 Jan 89)
 Amended: 21 Nov 89
 Amended: 16 Nov 93 (Effective 01 Dec 93)
 Amended: 18 Nov 03 (Effective 01 Jan 04)
 Amended: 15 May 07 (Effective 01 Jul 07)
 Amended: 17 July 12 (Effective 01 Sept 12)

GOLDEN RAIN FOUNDATION
Seal Beach, California

(Jul 12)



GOLDEN RAIN OPERATIONS

DRAFT

BOARD INTERNAL OPERATIONS**Safe Deposit Boxes****RESOLUTION:**

~~RESOLVED, that the President and Treasurer of this corporation be and are authorized, any two acting together, to enter into agreements with First Interstate Bank for safe deposit boxes, in accordance with their requirements, conditions, regulations and rules. This resolution shall remain in effect until the Association is given written notice to the contrary at the office or branch at which said boxes are maintained.~~

The Corporate Officers of the Foundation are authorized (minimum of at least two acting together with the approval of the President) to maintain the Safe Deposit box/boxes located at Wells Fargo for the sole purpose of secure storage of the Foundations back up data storage.

Persons authorized to access the Foundations Safe Deposit box/boxes:

- Offices of the Board
- Executive Director, Controller, HR Manager and ITS Manager

Resolution

Adopted: 19 Sep 72

Revised: 20 Jan 76

Revised: 16 May 95

GOLDEN RAIN FOUNDATION**Seal Beach, California**

~~Note: First Interstate Bank was purchased by Wells Fargo Bank in August 1996, and funds are held in custody with Wells Fargo Institutional Brokerage and Sales.~~

(May 95)

GOLDEN RAIN OPERATIONS**RESCIND****CAPITAL IMPROVEMENTS****Trust Asset Acquisition**

The actual acquisition date of trust assets is not being used by the Mutuals in their individual depreciation calculation.

The Golden Rain Foundation, as the trustee, will establish as accurately as possible, the true acquisition date. The useful life will be calculated from that date and depreciation allocated to the Mutuals.

Future acquisitions of trust assets will be recorded in the same manner.

Policy

Adopted: 18 Jan 77

**GOLDEN RAIN FOUNDATION
Seal Beach, California**

(Jan 77)

GOLDEN RAIN OPERATIONS**RESCIND****CAPITAL IMPROVEMENTS****Depreciation of Trust Assets**

In order to establish a program to effectively charge depreciation to obtain the best tax and other accounting advantages for the Foundation and the Seal Beach Mutuals, the following policy is set forth:

1. Trust assets will be depreciated over their useful lives as established by the Tait Appraisal Company in their capacity as independent appraisers. Where possible, assets, which have been grouped with the buildings and other assets that will last forty (40) years, will be separately broken out and recalculated to spread the remaining depreciation over the remaining useful life.
2. A salvage value will only be assigned when it can be determined that such amount can be realized from the asset at the end of its useful life.
3. The depreciation on Trust assets acquired before January 1, 1968, will be distributed on the basis of the original contributions to the Trust, which are the amounts listed on the Trust Agreement under "9501 – Parties." The depreciation on additional Trust assets, which are those acquired after 1967, will be depreciated on the normal apartment basis.
4. When a replacement of a portion of an asset is made for which no cost breakdown exists, the asset account will be relieved by an amount which is estimated to represent the original cost of that portion.
5. The "half-year convention" will be used for all Trust assets, which is treating all assets placed in service during the year as placed in service at the midpoint of the year.

Policy

Adopted: 20 Jan 76

**GOLDEN RAIN FOUNDATION
Seal Beach, California**

(Jan 76)

GOLDEN RAIN OPERATIONS

RESCIND

CAPITAL IMPROVEMENTS**Capitalization of Fixed Assets**

1. Capitalization of fixed assets will be in accordance with IRS guidelines.
2. The useful life of an asset is the period of time that it will be economically and practically expected to be in service.
3. These assets will be given a number by the Accounting Department and will be inventoried at least once each year by a member of the Accounting Department staff.

Policy

Adopted: 18 Jan 77
Amended: 09 May 79
Amended: 18 Dec 07

GOLDEN RAIN FOUNDATION
Seal Beach, California

(Dec 07)

GOLDEN RAIN OPERATIONS**RESCINDED**BOARD INTERNAL OPERATIONSNight Depository Agreement**RESOLUTION:**

RESOLVED, that the President, or any Vice President, or any other officer of this corporation, is authorized to enter into a Night Depository Agreement on behalf of this corporation, with the selected Bank, in accordance with the Bank's requirements, conditions, regulations and rules, and to designate the persons who shall be authorized to accept, and receipt for, delivery of our depository bag removed from said Depository or give instructions regarding the contents thereof. The authority herein conferred shall continue in full force and effect until written notice of its revocation shall be received by said Bank at its banking office.

Resolution

Adopted: 19 Sep 72

Amended: 11 Sep 90

GOLDEN RAIN FOUNDATION**Seal Beach, California**

(Sept 90)

GOLDEN RAIN OPERATIONS**RESCIND****BOARD INTERNAL OPERATIONS****Review of Annual Financial Statements**

1. The function of study and analysis of the Annual Outside Auditors Report on behalf of the Board shall be assigned to the Treasurer of the Foundation who will render a report to the full Board.
2. The Finance Committee of the board shall be made available to consult and work with the Treasurer for such services as it may be able to render to the Treasurer.
3. The Administrator and his staff shall make themselves available to the Treasurer for such assistance as he may request.

Policy
Adopted: 21 May 74

GOLDEN RAIN FOUNDATION
Seal Beach, California

(May 74)