



**REGULAR OPEN MEETING OF THE BOARD OF
DIRECTORS OF THE UNITED LAGUNA WOODS MUTUAL**

A CALIFORNIA NON-PROFIT MUTUAL BENEFIT CORPORATION

**Tuesday, September 8, 2020
Laguna Woods Village Community Center 24351 El Toro Road
Virtual Meeting**

The following agenda item was not available with the agenda packet posted and distributed. It will be provided before the board meeting under separate cover:

12b. Entertain a Motion to Approve a Separate Reserve Checking Account for United Laguna Woods Mutual



STAFF REPORT

DATE: September 8, 2020
FOR: Board of Directors
SUBJECT: New Bank Account for Reserve Fund Deposits and Disbursements

RECOMMENDATION

Staff recommends the Board approve the Finance Committee endorsement to open a separate checking account to deposit and disburse reserve funds for United Laguna Woods Mutual.

BACKGROUND

Per California Civil Code Section 5500, the monthly financial review conducted by a board must include a review of the latest account statements prepared by the financial institutions where the association has its operating and reserve accounts. United Laguna Woods Mutual has maintained compliance with this requirement by reviewing the monthly bank reconciliations and bank statements for its bank account. While both operating and reserve fund monies are deposited and disbursed from the same bank account, the accounting for such funds is conducted in a manner allowing for the books and records to properly report the accurate balances of each fund.

Two primary views have developed regarding the number of bank accounts needed to meet the Civil Code requirements. The existing view holds that separate accounting for operating and reserve funds meets the requirements and therefore only one bank account is necessary to manage United Mutual monies. The alternative view holds that a separate bank account is needed, using the existing account for operating fund and a new account for reserve funds.

During the United Finance Committee meeting held on August 25, 2020, a motion was made and approved to open a separate bank account for the express purpose of maintaining the reserve funds deposits and disbursements.

DISCUSSION

Although this topic has been discussed for many years, to date a directive has not been given for staff to open a separate reserve account. To facilitate this decision, the United Board may consider the following pros and cons for opening a new bank account strictly for the use of reserve funds.

Pros:

- 1) Directors and residents requesting financial documents will be able to view monthly bank statements from a financial institution listing all incoming and outgoing monies specific to either an operating or reserve fund.

- 2) Section 5500 compliance will be met to the letter for those with the alternative view noted above whereby separate bank accounts must be maintained for operating and reserve funds.

Cons:

- 1) Less cash will be held in income producing investments as increased cash minimums will need to be maintained for day-to-day disbursements in each account, at least during a transitional period.
- 2) Wire transfers and resulting bank fees will increase to deposit monthly assessments. Additional mid-month transfers may be required to ensure sufficient funds are available for disbursements.
- 3) Additional staff time will be required to separate assessment cash receipts by fund type. Payments not matching the monthly assessments will require individual attention and judgement for fund application.
- 4) Additional programming in Dynamics AX will be needed to create a report that separates operating and reserve fund invoices / vouchers before checks are run.
- 5) Additional staff time to separately run each type of check batch.
- 6) Additional checks will need to be written for vendors that currently receive operating and reserve fund payments on one check

FINANCIAL ANALYSIS

The financial impact of adding a new bank account including monthly wire fees and staff time necessary for reconciling and accounting for the funds is estimated to be immaterial and can be absorbed by existing staff. The largest financial impact may be on the potential lost income from long term investment of available cash. To adequately fund both the operating and reserve cash balances, an estimated \$1.5 million of investible cash may be needed for daily operations. At a rate of 4.1%, the year-to-date return on Discretionary Investments as of July 31, 2020, the potential lost income from investible cash is \$61,500 annually.

Prepared By: Steve Hormuth, Controller
Jose Campos, Financial Services Manager

Reviewed By: Betty Parker, Chief Financial Officer

ATT1 - Resolution



RESOLUTION 01-20-XX

**Separate Deposit Checking Account for
United Laguna Woods Mutual**

WHEREAS, Resolution U-97-49 established a banking relationship with Bank of America;

NOW THEREFORE BE IT RESOLVED, September 8, 2020, that the Board of Directors of this Corporation hereby authorizes the opening of a separate United Mutual bank account for the reserve fund;

RESOLVED FURTHER, that the officers and agents of this Corporation are hereby authorized on behalf of the Corporation to carry out the purpose of this resolution.