

I'On Trust Liaison Report November 20, 2014

FUNDING POLICY FOR THE I'ON TRUST

As the I'On Assembly Liaison to the I'On Trust, my role is to bridge communications between the HOA and the Trust.

Background

The I'On Assembly and the I'On Trust were created as two separate legal entities in the original governing documents of I'On.

The board policy, set by the HOA in 2011 is to allocate a 'not to exceed 5% of the HOA member dues' to the Trust in our HOA annual budget. It has not exceeded 2% and has been reduced to \$15,000 for 2015; less than \$20/household.

Not all the funds earmarked for the Trust from the HOA budget have been paid to the Trust. In 2011, the Trust turned down the 4th quarter payment from the HOA.

Last year, the table was turned and the HOA had to ask the Trust to forfeit their 3th quarter payment to cover its own budget. This year, the Finance Committee suggested a forfeiture of the 4th payment to cover overages in the HOA 2014 budget.

In the past few years, increased property turnover in I'On has provided higher than anticipated revenue to the Trust from their transfer fees. They have found themselves in the situation to either spend down their surplus or increase their budget with more programs. Preliminary research to establish a fund dedicated towards the establishment of an I'On Community Center (a donation to the HOA), were considered but rejected, earlier this year. Instead, the Trust Board has chosen to keep their program budget the same in 2015, and start to spend down their surplus before drawing on the funds available from the HOA.

The Trust transfer fees provide a legally separate source of income for the enhancement of the quality of life for all who live in I'On, as per our own bylaws.

Issue

I have met with the Trust about the HOA Board's concern that (a) we not overfund the Trust in our annual budget and (b) the Finance Committee's desire to have a more detailed policy with procedures for annual funding to the I'On Trust.

Currently, the draft proposal from our Finance Committee now requests a quarterly review of the Trust's financial status prior to release of the payment. The HOA is the only financial donor to the Trust and the I'On Trust has a professional obligation to provide their basic financial reports to their donor. However, this potentially subjects the Trust to a 'prove your worth' approach to all future HOA Boards. The Trust is concerned. How can this review process be qualified to limit the temptation to tell them how to run their organization? How can we avoid

any temptation to ‘help manage your budget so we can better manage ours’ thinking that could evolve with a change of committee members over the years?

The HOA and the Trust are structurally different. Each is bound by its own set of bylaws. The two organizations are different in the services they provide, their culture, their management and their operating income. While the Trust has income from transfer fees, it is always subject to fluxuations, based on the economy. This is their sole source of income outside of what they receive from the HOA. The HOA receives 96% of its revenue from guaranteed homeowner fees. The Board also has the authority to set that fee to cover our budget every year.

The Trust runs a very different operation – the ‘softscape’ of our community. Their priority is to inspire our neighbors to spend time together, get to know one another, be exposed to local culture and experience the special feeling of belonging in the place where they live. The unpredictable weather environment¹ in which the Trust must operate, has led them to a financial policy of maintaining a much higher contingency fund than what the HOA has.

Although the preamble of our HOA Bylaws highlights ‘building a sense of community’, our mandate as a HOA board, is to focus on the management of the property and the implementation of the bylaws as needed, for better governance of the neighborhood.

Both organizations have the ultimate shared mission of maintaining/enhancing the quality of life for all who live in I’On. This is the key reason why the I’On Trust “support” (not “expense”) needs to be kept in the HOA Annual Budget every year. It's the proof of our commitment to the heart of I’On.

Recommendations

The Trust has continually demonstrated good will with the HOA in their use of the Trust funds from the HOA. They deserve to be guaranteed the funding currently allocated. They deserve to be trusted by the Finance Committee to spend down their surplus and agree in writing. They do not deserve the supervision, advice or financial analysis from the HOA Finance Committee.

The HOA Board needs to review the recommendations from the Finance Committee for a **Trust Funding Policy**, but complete it with the consideration of what’s good for the community as a whole, by ensuring the continued independence of the I’On Trust.

Where is the contingency fund for the HOA?

Relying on forfeitures from the Trust to balance the HOA budget two years in a row suggest that the HOA Board needs to look at our own financial procedures and establish our own **Contingency Fund Policy**.

¹ Nearly 50% of trust budget expenses are vulnerable to the weather. A last minute cancellation doesn’t trigger a refund of expenses and hours spent in preparation. Decisions must then be made whether to reschedule (unbudgeted expense) or drop the event for the community that year.