

Stagecoach

PROPERTY OWNERS ASSOCIATION, INC.

TO: Mark Rowland, Accounting Manager
Melrose Management Group
1600 West Colonial Drive
Orlando, FL 32804

FROM: Brian Troutman, Treasurer

DATE: September 29, 2004

SUBJECT: FY 2005 Budget and Accounting Plan

Attached is a spreadsheet of our Board approved budget for the Stagecoach community in Land O'Lakes, Florida. In the budget planning process, I have made several notes as to enhancements we would like to see in the coding structure and practices for FY 2005. As I do not know the limitations, either systemic and/or legal, under which you operate, we will have to work together to ultimately find a way to achieve our common goals.

GENERAL NOTES:

1. In reviewing the last 2-½ years worth of transaction level monthly data, there have been a significant number of coding discrepancies (similar costs charged to different codes, costs coded to one code then transferred to another code, etc.). While no system is fool proof and errors will never be completely eliminated, it is important to the POA that we improve the coding process. As best as I can tell, the coding discrepancies primarily exist for four reasons:
 - a. Different people determine coding of invoices (changing property managers, accounting staff, etc.) and each have their own opinion on where items should be charged.
 - b. The Board Treasurer has not proactively managed the coding of expenses.
 - c. Direction from the Board to the Property Manager to procure goods and/or services have not been made with specific written instructions as to where to code the subsequent invoice(s).
 - d. People make mistakes.

To deal with these issues from the POA's side, I have (1) included a scope document defining the parameters of each cost center (attached) as the board has budgeted and defined the code. Most of the definitions are dreadfully obvious, but several may require a change in the Melrose coding practices. Please review and comment. (2) I will make it a point to interject into any expenditure instructions from the Board to the Property

- Manager the coding for the expenditure and (3) I will provide monthly feedback to you regarding what I view as coding discrepancies. Obviously, it is less work for all if discrepancies are eliminated as opposed to corrected. Therefore, I would request that if there is a question regarding the proper coding of a peculiar invoice, that I be contacted (via e-mail) before the transaction is registered. I do not wish to become a bottleneck in the process and strongly believe with a mutually agreeable scope definition of the cost centers that only the most unique of invoices would require any consultation.
2. During this year, the Stagecoach Board has made a concerted effort to better understand our expenses (both current year and recent history) and have put some tools in place to more aggressively manage those expenses. To assist in this process, we would like to reduce the number of cost codes used to track our costs. It is our belief that a small amount of accurate information captured in consistent cost codes from year to year will be more beneficial to the board and POA members.
 3. The Board would like more back up for our monthly expenses. I have been attempting to define our costs more clearly for the Board with the transaction level data you have been sending me (by the way, thanks again) but many expenses have no back up and very little description in the spreadsheet. I feel the information would be much more clear if the Treasurer were to receive a copy of the invoice for each expense, including the reimbursable expenses to Melrose (copies, postage, etc.).

BUDGET PHILOSOPHY

The thought process used in creating the budget was to look at our costs over the last three years and determine either a trend or a three-year average. We did not plan a great deal of escalation in our line item budgets. Instead, we agreed to a (+/-) 3% contingency to allow for escalation and estimate accuracy. That line item is contained in cost code 7249 "Miscellaneous".

We formulated a longer-term reserve philosophy for both the amount of reserve we would like to ultimately achieve as well as our funding program. Basically, we broke our reserves into four subtotals, arbitrarily established the current value of each fund, a goal for each fund and the method by which we would ultimately achieve the fund goal. This program is defined on the "recap" tab of the attached spreadsheet. It would be nice if these balances could be included in the formal accounting reports generated monthly by Melrose but it is understandable if this is unique to Stagecoach and we need to track the subtotals internally.

At the board meeting we did decide to increase our quarterly assessment to include direct reserve funding in FY 2005 in the amount of \$9,000. This number is only on the recap spreadsheet and not the budget tab.

The budget intentionally ignores the revenue generated by Santa Fe. The plan for FY 2005 is to deposit all Santa Fe income directly into reserves.

BUDGET SPREADSHEET “SEE NOTES” COLUMN:

{A} Do not include this line item in the FY2005 Budget or account reports. These are either codes that were used in years past or codes we no longer feel we need.

{B} These codes have a combination of costs including monthly Melrose charges as well as charges incurred directly by the POA. The Board would like to separate these two expense sources and revise the approach, as follows:

8680 [Office Supplies] POA incurred office supply costs

8740 [Printing & Copying] The cost of creating and distributing the Community Newsletter and any other community wide notifications/publications, including copying and mailing, incurred directly by the POA

???? [Melrose Administrative Costs] All costs Melrose charges Stagecoach for copies, postage, office supplies, records storage, etc. on a monthly basis.

The exact cost codes don't really matter. If you have better or more appropriate cost centers, that's fine. I can break out the budget for FY2005 to the new codes once we establish the coding structure.

{C} The Board would like to move away from “Miscellaneous” codes. While it is convenient to have a “dump” code for timely data processing, it makes truly understanding costs, particularly from year-to-year, very difficult. The dollars expended in these codes are real dollars and obviously need to be accounted for, but our intent this year is to not code actual costs into “miscellaneous” accounts. Please see the scope document for their definition.

As always, thanks for your continued help and please let me know if you have any questions. Quite possibly it would make sense for us to meet and work through the various issues in this letter.

Cc: Dee Clarke, LCAM
Melrose Management Group

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FY 2005 Cost Coding Scope Document

6212 [Entrance Maintenance] – All costs for materials and subcontractors to maintain or repair the front entrance of the community, including the costs associated with the waterfalls, the fountains, the man-made ponds which contain the fountains and the rock façade. Also included in this cost is any specialty planting for the front entrance as well as any specialty signs for the front entrance. These two special costing needs are required as there is the potential for cost sharing with our neighbors in Santa Fe. If special lawn cutting, not included in our base lawn maintenance contract, for the grass area by Hwy 54 is required, we will cost that into this account. The normal lawn-cutting contract will NOT be broken out between its unique cost code and this account. NOT included in this cost is any electrical work (see 6225). For our purposes, the “Entrance” refers to the first large Oak Tree forwards to the border of Hwy 54.

6213 [Fence Maintenance] – All subcontractor costs associated with repairing, replacing or cleaning the fences throughout the neighborhood.

6225 [Grounds Lighting – Entrance] – All electrical costs for materials and subcontracts to repair, replace or upgrade any electrical in the front entrance, including lighting as well as security system(s).

6231 [Grounds Miscellaneous] – The scope of this budget is special repairs to our grounds due to unforeseen circumstances (replacing dead sod, repairing vandalism to grassy areas, etc.). If there is a more appropriately titled cost code, let's use it.

6245 [Lake and Waterway Maintenance] – All costs for subcontractors to maintain our ponds, including recurring periodic treatments and cleaning, monitoring, governmental reporting, as well as any special treatments.

6361 [Gate Transmitters/Clickers] – All costs for maintenance or upgrades on our clubhouse/pool security system (exclusive of the Front Entrance system) including the cameras, controlling software as well as the gate admission card reader and associated access cards. This cost center should also be credited with all monies collected for replacement access cards.

6383 [Sheriff's Patrol] – Both the checks written to the Sheriff's Officers for special periodic patrols as well as all costs associated with our neighborhood Security Patrol.

6430 [Irrigation Maintenance] – All costs associated with our irrigation system. This includes repairs, replacement or expansion of the system.

6515 [Erosion Control] – This cost center is reserved for any repairs required to the structure of our pond berms. With the current hurricane scenario as an example, any insurance settlement should also be credited to this account.

6545 [Lawn Maintenance Contract] – The costs to this code should be limited to the base Lawn Maintenance Contract. Often, our contractor does other work outside the contract. Those “other” tasks must be coded separately.

6555 [Mulch] – All subcontractor and/or material costs to mulch the community garden areas.

6590 [Tree Trimming] – All costs of a subcontractor to trim and/or “de-moss” our trees.

6595 [Tree/Shrubs Add/Remove] – All costs of plantings (or removal) for the community, including trees, shrubs and flowers.

6940 [Electricity – General] – Electric bills.

6969 [Water / Master Meter] – Water bills.

7219 [Janitorial] – All costs for supplies used for cleaning our clubhouse and common facilities, including the meeting room/kitchen/office, gym, bathrooms as well as items like deck/fence wash and other cleaning products used by our maintenance person. This cost center should also include any subcontractor hired to do specialty cleaning (rug shampoo, etc.). All credits received from withholding the refund of a security deposit for the meeting room rental should be applied to this account.

7221 [Building Maintenance] – All costs for maintaining our clubhouse or other common facilities should be applied to this account. This includes material costs including specialty tooling or equipment used by our maintenance person or community volunteers. Also included would be any subcontractors hired to perform any maintenance and/or restoration. If, through our security system, vandalism is detected and either the offender or the insurance company settles all or a portion of the incurred costs, the credit should also be applied to this account.

7225 [Television] – Satellite / cable bills.

7231 [Pest Control] – Subcontractor costs for periodic pest control as well as any potential termite bond. Purchased OTC pest control products should be charged to 7219 [Janitorial].

7238 [Equipment Repair] – Costs associated with the maintenance of the gym equipment as well as the procurement of new equipment for the gym.

7246 [Telephone] – Telephone bills.

7248 [Neighborhood Activities] – All costs for neighborhood association activities including seasonal parties, picnics, children’s activities and any other function open to the neighborhood at large. Could possibly include sponsorship of neighborhood volunteer functions outside the Stagecoach community. Does NOT include any Board functions or the costs of doing business of the POA.

7249 [Miscellaneous] – This is a contingency account and is not meant to have any actual costs applied to the account. The budget dollars have been allocated as “actual costs expected but not clearly defined”. This will include escalation of costs from last year, unplanned emergency expenditures and expenditures in excess of the budget. Each of these costs will be captured in their unique cost codes and the Board, in our internal cost projecting, will manipulate this budget line item to record either potential savings or cost overruns. If Melrose has a more appropriately titled cost code (i.e. “Contingency”), please let me know, as I would prefer not to use the “Miscellaneous” code.

7250 [Pool Service] – This code is restricted to the basic pool service contract.

7260 [Pool Repairs & Supplies] – This code should be used for all subcontract and material costs to maintain and repair the pool outside the basic pool service contract. Although the same company will probably do a great deal of this work, its important to separate these costs for proper cost controls.

7272 [Pool Permit] – The pool permit costs.

7292 [Recreational Area – Trash] – Trash hauling bill.

8091 [CPA Tax Preparation] – Annual tax prep bill.

8100 [Bad Debt Expense] – Each year we budget for this but actual costs are not recorded as expenses, they are recorded as an offset to income. Obviously this cost needs to be recognized via the budget. The Board needs a better understanding of the Melrose methodology. This is certainly a cost we would like to have more visible.

8120 [Bank Charges] – All charges from the bank as a cost of doing business including monthly fees, NSF/returned checks, stopped checks, etc. Ideally, the Board would like to see the credits for the reimbursement of things like NSF/returned checks, etc. applied to this same account to get a clearer picture of our costs of doing business. Again, the Board needs a better understanding of the Melrose methodology.

8200 [Corporate Annual Report] – Annual report

8340 [Insurance – Directors & Officers] – Specific insurance policy

8400 [Insurance – Liability] – Specific insurance policy

8480 [Legal Expense] – All legal fees for all attorneys should be charged to this code. Also, the portion of any settlement for offsetting previous legal costs should be credited to this account.

8500 [Licenses & Fees] – I don't understand this code.

8560 [Management Fees] – The monthly Melrose fee

8600 [Miscellaneous Administrative Expense] – The budget for this code is meant to cover the costs traditionally charged to this code. However, the Board does not want to use this code for actual charges. Instead of charging anything to this code, we will either create a more definitive code for a unique charge or we will apply the cost to one of our existing codes. As previously noted, we want to do a better job defining our expenditures, particularly when generating historical data.

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