

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

January 26, 2022 at 10:00 a.m.

Bobcat Hall & Virtual

Members Present:

In Person: Alex Fernandez, Paul Hennessy, Jerry Honea

Virtual: Paul Hough, Bran Petronovic

Not Present: Jeff Porter, James DiLella, Lisa Mascolo

Board Members present: Brad McIlvain

Staff Present:

Shannon White - COO, Tony Elder – Director of Operations, Ellen Festa – Executive Assistant,
KICA Communications

Meeting Minutes

Alex F. called the meeting to order. Motion made to approve December 22, 2021 minutes. So moved by Paul Hennessy, seconded by Jerry Honea.

Paul Hough made a recommendation that the Finance Committee do a second or final reading of any policies before they go the Board for approval to ensure all changes and questions discussed by the committee have been captured. Alex F. indicated that he has no problem with this and commented that none of the policies are set in stone, we can always review and make changes as we move forward. Let the minutes reflect that all in attendance agree with this recommendation. Minutes passed unanimously.



CTR

Alex F. read out final numbers for our 2021 CTR Revenue which came in at \$4.584M – far above what we projected and puts us in a good position with our reserves.

Emergency Storm Policy

Board approved with one addition on Line 4 that stated in the event that a storm occurs, prior to the emergency storm fund being replenished, the board will make a decision how to fund expenses up to and including a special assessment of the membership. The Board has the right to do that and wanted that included in the policy. The policy was approved by the Board and is being posted to the KICA website.

Financial Controls Manual

As discussed at the last meeting, the FCM was sent to the Auditors for review and they have approved it and stated they had no issues with it. This will now go to the Board for initial review at their February 7th meeting.

Fund Balances

Alex discussed with Auditors that our two main reserves (Depreciation and \$1M Storm policy) will be clearly identified in our balance sheet. Paul Hennessy said that he finds that unsatisfactory. He requests that we provide a schedule that reconciles each fund to the balance sheet so that the community can see this detail and know where our cash is. He does not feel it's the Auditors responsibility to do this, but the Staff's responsibility. Alex stated that he needs to give the Auditors the opportunity to fulfill their responsibility. There are 3 main reserves, MR&R, Storm and Depreciation. We have asked the Auditor's to show these in our audit and once the audit is complete, we'll take a look at the final report and determine if this is sufficient to meet the needs of reporting to the Community as Paul has suggested.

Additional discussion on what this reconciliation statement should show: Statement could fit on one page and should show an opening balance, what uses of the reserves were made, what reinstatements were made and from where, and a few data points (ex: is there a policy for this reserve). Shannon stated that Jane is working on all these figures with the Auditors and once that work is finished, we can take a look and see if that information meets the request.

Director of Finance



Shannon gave an update on interview process. We received 6 resumes, interviewed 4 and are bringing 3 forward to meet with Alex, Dave M and Jeff Porter in next week or two. All 3 have CPA backgrounds.

Review of Debt Policy and Line of Credit Policy

Paul Hough suggested we have some discussion and look at the policies – we may not need a separate sub-committee to do this review. They seem to be straightforward and may not require many changes. Line of Credit Policy should be aligned with Emergency Storm Policy. It was decided that since there's a couple of points that might need to change since our financial situation has changed since 2017. (ex: before we go to debt, we should consider using our surplus position. KICA borrowing capacity should be reviewed). FC agrees with the approach that since there's not significant changes to be made, Alex will sit down with KICA staff and make the appropriate changes for review and final approval with the FC Committee and have a revised document by next meeting.

Separate Audit Committee

Discussion about separate Audit Committee. Shannon shared Jeff Porters' comments that he feels we should have a separate Audit Committee which is considered a best practice.

Typically, a Treasurer can be in a financial or accounting function. Our Treasurer has no signature authority, no accounting functions or access, no involvement in day to day financial activities – this is unique to KICA.

Paul Hennessy shared some research and personal experience on what an Audit committee does: Two broad responsibilities – first - appoint and oversee what an Auditor does. Second – oversee, guide and manage internal control procedures of an organization such as record keeping, policies, procedures, practices and guidelines and compliance with all of the above.

If KICA does form a separate audit committee, how do we define what they do? KICA has existed without an audit committee for 40 yrs. FC today performs the roles of Audit committee functions described by Paul Hennessy. If you create a separate audit committee, it's not clear what functions the FC would do that can't be done by KICA management and KICA Board. What incremental value to the Association or board is created by having a separate Audit committee over and above what exists today.

Bran stated we effectively already perform functions of an Audit committee – perhaps form a separate sub-committee under FC that focuses on just Audit – doesn't make sense to have a separate audit committee. Suggestion made to just change the Finance Committee to Audit Committee.



Jerry H. commented that creating a separate committee where who does what, who's responsible for what, could create a disharmony – also puts staff in a tough position. Currently all instructions come through one entity – staff could be stuck in the middle of conflicting instructions and not know what the different entities are doing.

Alex F. stated that we don't fall into a clear category of best practices – we're a hybrid organization.

Paul Hennessy asked if controls within KICA are adequate? As an example – fraud, cyber-security, employee reviews etc. Are these controls tested? We don't have a separate internal audit function that does that. Paul Hough stated that we should not over scope the discussion – management policies are not the responsibility of the FC. These should be directed to KICA management.

Discussion about various audit scenarios. Should they be broader than just financial/accounting practices. Comment made that we're a small company, don't want to over control and also keep expenses in line. Are we at this point? Are there management controls in place? Is this a decision for the Board to make to minimize any risk? CFO effectively should be responsible for management of this control process along with our Auditor for financials. If we have an independent auditor and management controls in place, this should be sufficient for an organization of our size.

Member Comments

- Commented on Audit Committee – we should give it a high level of consideration since it's considered a best practice. Observation made that the FC does not seem to be independent from management since they are writing and reviewing policies. Additional input and comments made about how an Audit committee can operate and act in an organization.
- Is the Board going to publish legal costs in connection with the expansion of the board issue? Brad and Shannon indicated it was approximately \$50,000 – there is a \$25,000 deductible. Question is what was total expenditure - we don't have that amount since insurance co. did have defense of the claim.

Paul Hennessy recommends we have a meeting with our Investment Manager and Reserve Specialist as soon as possible. Shannon will work on a meeting date. Investment meeting is typically in May, but we can make it earlier.

Alex requested motion to adjourn at 11:16 am. So moved by Paul Hennessy, seconded by Jerry Honea.



Upcoming Meeting Dates:

Wed, March 2, 2022 @ 2 pm

Respectfully submitted,

Ellen Festa, Executive Assistant

Approved by Finance Committee on March 2, 2022

