

KIAWAH ISLAND  
COMMUNITY  
ASSOCIATION

FINANCE COMMITTEE

## Meeting Minutes

MARCH 2, 2022 at 2 p.m.

Bobcat Hall & Virtual

**Members Present:** Alex Fernandez, Paul Hennessy, Paul Hough, Lisa Mascolo

**Virtual:** Bran Petranovic, Jeff Porter, James DiLella

**Keefe McCullough Auditors present:** Israel Gomez

**Virtual:** Martha Parker, Brian Bussell

**Board Members present:** Brad McIlvain

### Staff Present:

Shannon White, COO

Dale Schoon, Director of Finance

Tony Elder, Director of Operations

Jane Ovenden, Interim Director of Finance

Ellen Festa, Executive Assistant

Pam Brady, Controller

### Meeting Minutes

Alex F. called the meeting to order. Motion made to approve January 26, 2022 minutes. So moved by Paul Hennessy, seconded by Jim DiLella.

Alex F. shared that there will be 2 open positions on the Finance Committee. Jerry Honea has sold his Kiawah property and Lisa Mascolo was elected to the Board of Directors. Requests for volunteers has gone out and applications will close on March 15<sup>th</sup>. Bran Petranovic, Jeff Porter and Alex F. will review the applications received and submit names to the Finance Committee for



consideration. Finance Committee will then bring their recommendations to the Board for their final approval at the April Board meeting.

Alex then introduced and welcomed our new Director of Finance, Dale Schoon. Alex also thanked Jane Ovenden for acting as interim Director of Finance and indicated that she will still be available in a consulting role to assist Dale during the transition.

## **Audit Review**

Alex turned the meeting over to Israel Gomez, Lead Auditor from Keefe McCullough to provide our Audit results. Brian Bussell and Martha Parker from Keefe McCullough attended via Zoom. Israel walked through the audit results in detail with the committee members.

## **Finance Committee Comments/Questions**

- Is there a written doc that describes what best practices are for HOAs under GAP?
  - Yes, there is – it's produced by PPS.
- What is Topic 606?
  - Part of GAP accounting standards and relates to how to deal with customers and handle revenue. We do not deal with customers, but rather members so management has chosen not to apply it to KICA.
- Is there anything in Topic 606 that we should be aware of or useful for us to know?
  - Per Israel – there is not.
- Why wouldn't Corporate Bonds be at Level 1?
  - The profession now classifies this as Level 2. Has nothing to do with Security, just how the profession classifies fixed income securities.
- Where do we stack up against other non-profits as far as the best practices for the audit?
  - The fact that we could close our books within 60 days speaks volumes for our process and procedures.
- When reviewing Reserve Fund expense and expenditures, did we categorize and put expenses in the right categories?
  - Jane indicated that as part of our year end close, we went through our accounts to review individual reserve expenses. We did reclassify some minor expenses to the operating accounts.
- FCM – did Auditors review this and what were your thoughts?
  - Our FCM is very detailed, it's updated, and we like the level of documentation you have in your FCM. It is fluid and information was right on target and we didn't see any recommendations for change.
- Why are investments that are part of our long-term infrastructure reserve fund carried under current assets? Feels this is misleading to our members.



- Typically classified this way as an HOA industry standard. Israel will take a look at this, but it doesn't change anything at all on your financial statements. It is very common in many of the HOA audits he's seen to have this categorized this way.
- Please note the 2020 Reserve study was not an on-site reserve study visit.
- Comparison between estimated replacement costs (\$50M) and reserve fund (\$15M) is not relevant. They are not a good comparison – should it show cumulative depreciation as a more relevant number? It leads one to compare these 2 numbers and raise concerns that we didn't have enough funds to cover replacement costs.
  - Israel stated this was informational only, there is a depreciation component to it. We can add some verbiage at the bottom to clarify what these figures represent. Also clarify that the \$50M would be to replace 'everything' – highly unlikely that this would happen. Per Martha: This is a required schedule to have in your financial statements. We can add the language, but this is the format required.
- Question on replacement costs for Beachwalker (\$1.2M) and Sandcastle (\$1.1M).
  - Comment that the numbers seem very low. Shannon will take a look at those numbers.
  - There are different components not just the building. Two pools, bar area, grill area.
- \$1.3M in investments in Operating Fund – what is this?
  - Investments in same account as reserve assets, ex: CDs, mutual funds, bonds – same pool of investments that the reserve has. Mirrors investment policy as it relates to MR&R. Includes investment for funded depreciation etc. – it is managed by Moneta and included with the MR&R.
- Who are the Trustees for 401K accounts?
  - Shannon and Sarah - Dale will be added

### Member Comments/Questions

- Member questioned if the depreciation fund was audited? Are there line items on that fund and will it continue to grow and why?
  - We are a little bit overfunded by approx \$80K. Very consistent with accumulated depreciation on the underlying assets.
- Are replacement assets being funded by depreciation fund money?
  - Yes – all assets are sitting in this fund which indicates all assets are being paid by that fund.
  - Paul Hennessy. – a comprehensive reconciliation of all reserve accounts to cash / securities on balance sheet is being worked on. It's taking a little longer to produce based on reality but will help illuminate the answer to this question.
  - Alex F. stated we do need to review the depreciation list to ensure it reflects reality – Dale Schoon has this on his to-do list.
- Will a management letter be issued? Did you have access to prior audit?
  - No significant deficiencies or material weaknesses were found, only 2 comments which have been provided to management and the Board.



- We did speak directly with prior auditor, and we obtained all prior documentation. There was no prior management letter, but all pertinent information was received.

Israel Gomez reviewed the list of action items he must address as a result of this meeting.

Alex requested motion to recommend approval of the 2021 Audit to the Board at the March 7, 2022 Board meeting. Once Board approves, would be provided to the Membership at the Annual Meeting on March 11, 2022. So moved by Lisa Mascolo, seconded by Paul Hennessy. Approved by Finance Committee.

## **Financial Controls Manual**

Discussed proposed changes to the FCM that address concerns about Performance Bonds - how do we protect KICA funds for our contracts?

- Majority of our contracts are relatively small – under \$100K.
- Contracts currently set up 3 ways: 1) Progress payments as work advances -low risk. 2) Full payment at completion – low risk. 3) Deposits down for supplies, up to 50% - some risk.

Discussion about FCM verbiage in FCM:

- Bigger projects - over \$500K would require some way to mitigate risk.
  - KICA pays the supplier directly. KICA would not order the supplies. This is the responsibility of the contractor. KICA would only send payment for supplies.
  - Joint check provided by KICA, made out to contractor & supplier
  - Performance & payment bond
- Business Interruption Insurance discussed. Protects revenue stream in the event that project is delayed. Review business interruption insurance with insurance broker.

## **Member Comments/Questions**

- Do we ask contractors for lien releases upon completion of project?
  - Need to look at what SC requirements are.
- How many projects were over \$500K threshold? Consider implementing SLA agreements.
  - During 2020-2021, only 2 exceeded that amount. We need to ensure we don't scare away some of our specialized, smaller contractors that would not be able to meet additional requirements. Many of our contractors know KICA has a good reputation for payment.
- Suggestion that we look at replacement costs as part of our insurance review - ensure statement of values are correct.

## **Insurance Broker**



We are looking to replace our insurance broker due to some service issues. We have sent out bid requests and have received 3 bids. We are under time constraints. Bids are in and being reviewed by management and they will have recommendations.

Paul Hennessy is working with Shannon to schedule a working session with the reserve specialist so that new Board members, new FC members and staff can meet to improve our understanding of this complicated process.

Bran commented on our large surplus and does the FC have a say in what to do with it? Alex responded that there are several options on what to do with the surplus such as use for capital improvements, reduce assessments, etc. It is up to the FC to make recommendations to the Board on how to use it.

Alex asked for motion to adjourn, so moved by Lisa Mascolo, seconded by Paul Hennessy.

**Upcoming Meeting Dates:**

Wed, March 30, 2022 @ 10 am

*Respectfully submitted,*

*Ellen Festa, Executive Assistant*

*Approved by FC: 3-30-2022*

