

KIAWAH ISLAND  
**COMMUNITY**  
ASSOCIATION

## FINANCE COMMITTEE

### Meeting Minutes

March 8, 2023 at 10 a.m.

#### Bobcat Hall & Virtual

#### Members Present:

In Person: Lisa Mascolo – Chair of FC, Paul Hennessy, Debbie Diddle, Jim DiLella, Paul Hough, Michael Petrecca

Virtual: Bran Petranovic, Jeff Porter

Guests: Brad McIlvain - Board Secretary, Alex Fernandez – Board Member

#### Staff Present:

Shannon White - COO, Dale Schoon - Director of Finance, Tony Elder - Director of Operations, Ellen Festa – Executive Assistant

#### Meeting Minutes

Lisa called the meeting to order at 10:03. Lisa asked for a motion to approve the minutes from the February 1, 2023 Finance Committee meeting. So moved by Debbie Diddle, seconded by Jim DiLella. All in favor – minutes approved.

Lisa introduced the Auditors from Keefe McCullough (“KM”) – Martha Parker, Israel Gomez, Brian Bussell, and Roberto Ayala.

Keefe McCullough provided a review of the Audit findings.



## Finance Committee Comments:

- Lisa M. FC to look at Vehicle Access fees going forward. Is this an opportunity for growth?
- Can we change the CTR %?
  - This would require a Covenant change.
- Paul Hennessy: Is Keefe McCullough comfortable with the way we do depreciation accounting?
  - KM responded: There is nothing unusual in how we do it – we are in line with industry standards.
- KM stated all required disclosures have been made per GAAP.
  - Designated Fund Balance Note: added Preserve fund to this list.
  - 55% funded on our Reserves per the June 2022 Reserve Study report
- Paul Hennessy: Commented he could not tie out bottom # on page 16 (\$13.7M) to Balance Sheet (\$14.9M)
- Michael P. – roads project – clarified that this comes out of MR&R – not operating.
- Paul Hennessy: useful life of roads shows 19 yrs. – is this correct?
  - Useful life was lowered by the Board from 40 yrs. to 0-20 yrs. – so useful life is correct.

## Required Communications

### Disclosures

Post close entries: 3 uncorrected adjustments not material to finances:

1. Under accrued wages - consistent treatment to prior years – zero net effect
  2. Investment value of \$19K – timing difference
  3. Implementation of new ASC842 accounting standard for treatment of leases.
    - a. Establishes asset and liability in the same amount
    - b. Zero effect on income statement
    - c. Current leases are not material enough to warrant implementation
- Debbie D. asked how materiality limit is determined. Is it a % of revenue/assets.
    - KM: It is based on both and different factors are used.
    - Use of qualitative vs. quantitative and judgement based on experience.
  - Michael P. asked if you shared the worksheet with Dale.
    - KM: They do not share the worksheet – we are within thresholds and in compliance.

Martha indicated that since Dale came on board, a monthly and year end closing checklist has been created. We recommend that management continues to utilize checklists - this contributes to effective procedures and completion of audit given the short turnaround time.

Salesforce: Continue to enhance reporting capability and integration – specifically in the area of aging reports. Our challenges are not unique.



- Paul Hennessy asked Dale if we're comfortable with Salesforce and are we getting what we pay for.
  - Dale responded that he and his team are comfortable. Salesforce is not just used for financials – it is used much more broadly.
  - Shannon commented it's a great product but is a highly customized tool which presents challenges. Shannon asked KM if improvements made to the Salesforce process helped them this year with the audit. KM indicated that they did help.
- Paul Hennessy: Is a management letter going to be issued?
  - KM: We have no significant deficiencies or material weaknesses to report, so no separate management letter will be issued, just the typical AU-C 260 letter which outlines the parameters, responsibilities, representations and findings of the audit.
- Paul Hennessy: Based on some discussions within the committee, were any issues identified with our internal control environment?
  - KM indicated there were no issues identified. Our audit procedures do not include a deep level review of our internal controls, they do a sample. A deeper review of controls would be a separate engagement from this audit.
- Paul Hough: Any comments on quality control of our platforms that are in use: (i.e.: Salesforces, General Ledger etc.).
  - KM: As far as a deep dive into functionality and how to improve processes, that would be a separate engagement. The systems in place provided all the required info in a timely manner in order to complete the audit. If there was an issue, it would have been raised.
- Lisa M. asked if KM reviews product/platforms and makes recommendations.
  - KM stated they do look at this but there are many different platforms they see but they do not make recommendations due to possible conflict of interest.
- Paul Hennessy: Did you look at the spreadsheet used to calculate our Reserve funding percentage? Did you test the computations embedded which derive the funding level? Is the math accurate?
  - KM did review it as part of the audit. Reserve specialist appears very qualified and competent, you have a very current analysis and are fairly conservatively funded. They did test and re-compute, but they don't do the infrastructure assessment and don't analyze the costs and useful life information provided. Reserve specialist has the spreadsheet.
- Paul Hough commented that the 55% funding level won't be understood by the average member. We should be more specific in the language to describe this. It is 55% of the depreciated value of the remaining useful life of the assets.
- Discussion about overall funding level of reserve. FC needs to continue to discuss this, out of scope of the audit.
  - KM commented that they are very comfortable in the way the association is managing it's finances. You could hold a seminar for other associations that show less attention to these types of numbers.



- Michael P. commented that the Liquidity statement and the Audit don't match.
  - Lisa and Dale stated the Liquidity statement was intended to be reviewed for the format and that it would be promptly updated for audited numbers.
- Jim D. asked if our 501C(4) status as social welfare organization is at risk based on recent IRS changes.
  - KM indicated they see no risk of that in their opinion.
- Brad M. asked a question on statement in third paragraph on Page 2 of letter - gained an understanding of internal controls. What do you mean when you say you obtained an understanding? Were you made aware of the meeting on Feb 6 where issues were raised?
  - KM: stated that we look at the various areas you have for ex: cash receipts, disbursements, financial oversight, and procedures. We do walk throughs of those procedures, obtain audit evidence and ensure controls are operating. It's an audit, we don't look at every single transaction, but we didn't have any findings in any of the processes we looked at where internal controls were being overridden.
- Brad M. asked if they looked at the issues raised in the Feb 6 meeting? Lisa stated that this is a personnel matter and will not be discussed here. Brad and Alex stated it's not a personnel matter, it's an audit question about disbursements that have been made for 15 yrs. without an agreement or contract. Question is whether other similar disbursements have been made. Brad commented it is a violation of the Financial Controls Manual.
- Paul Hough disagreed. Accusations leveled against an employee is not the purview of the Finance Committee, it's a personnel matter.
- Discussion about whether it's a personnel issue or an audit issue.
  - KM stated that they were made aware of the issue, and advised management what actions and next steps the Association should take. They were made aware of the accusations, but did not encounter any unauthorized or overriding of internal controls in the audit and didn't know if the accusations were true or untrue. It is not something that impacted the audit or its outcome.
- Lisa commented that she believes the answer has been asked and answered by the Auditors.
  - KM stated again they did not encounter any instances of people overriding the association's internal controls in their audit. They were made aware after year end that a member made assertions, but don't know if they were true or not. Felt it would require legal interpretation.
- Brad stated as a Board member, he has to vote on passing this audit. Lisa stated he can exercise his fiduciary duty as he sees fit when they vote. Discussion between Brad and Paul Hough about the response provided by KM – which Paul feels addressed Brad's question. They can agree to disagree.
- Brad wanted to know if KM watched the Feb 6 video.
  - KM stated they did not watch the Feb 6 video.
- Lisa and the FC members thanked the Auditors for their time and hard work.



## KICA Liquidity Review

Discussion about the Liquidity sheet, the format and the intended purpose, which was to show the community “Where is our money”.

- Dale commented this is a high level view – we can always provide detail. Quarterly investment report can provide detail.
- Paul Hennessy: Intended to be a snapshot view, but can change throughout the year. Cash and Investments minus Board approved Reserves, this schedule does that.
  - Discussion about how to show this. Put it in a memo item below the schedule that basically explains why members can’t have the ‘surplus’ back. All ties back into the philosophical approach to balanced budget, surplus, how much surplus to maintain, etc.
- Dale asked how frequently we should share this?
  - Possibly quarterly, but not critical and may not provide value. Should be incorporated as part of the Budget process on a more annual basis.
- Debbie D. feels it’s still not readable. Suggests a rolling reserve view that ties into the Balance sheet and other options for presenting a clear view of this information.
- Bran. P. who asked for this?
  - Dale stated it’s a result of an ongoing discussion with the Finance Committee.

## Meeting Wrap-up

- Lisa commented that it’s important for the Finance Committee to let the Board know that we’re in support of the Audit.
- Michael P. asked if the audit needs to be completed by a certain date. And what impact would any legal engagement have on issuing the audit. Would it need to be restated, modified or changed pending any legal decision that may come?
  - Dale said KM feels comfortable with the financials as they are. They could be restated if any subsequent events should arise.
- Paul Hennessy said he’s comfortable with the Audit as presented. We do have work to do around the control environment in KICA.
  - Paul Hough: the FC Charter is silent on that obligation. Financial controls issue – does it reside at Board level, or is it an Audit committee function? Need to resurface the Audit committee discussion.
  - Jeff P. said he still believes we need an Audit committee.
- Lisa asked for a motion for the Finance Committee to approve the Audit as presented. So moved by Jim DiLella, seconded by Paul Hennessy. All in favor – unanimous.
- Kevin Donlon added his agreement with Debbie D. comment on looking at all the different ways to show the information to the membership.
- Lisa reviewed the tracker to be used to track open items. She and Dale will review the list and see where we are and get the document updated.
  - Paul Hough asked how priorities will be set. Lisa will try and leave it clean for the next Treasurer – whoever that will be after the Annual Meeting.



- Dale stated it is available to all FC members for their comments and input.
- Paul Hennessy: When will EOY 2022 Investment Results be published?
  - Dale said once they work through all the issues related to the transition to Cook, they will get all the reporting in place.
- Paul Hennessy: MR&R Reserve report published on KICA website – is it current? It should be current – we will confirm it is the most recent report.

Finance Committee schedule for 2023 will be finalized at the new Board orientation on April 6, 2023.

Next meeting: March 29, 2023 – Reserve Specialist

Lisa asked for meeting to be adjourned. So moved by Paul Hennessy, seconded by Jim D. Meeting was adjourned at 11:47 am.

*Respectfully submitted,*

*Ellen Festa, Executive Assistant*

