

FINANCE COMMITTEE

Meeting Minutes

# April 27, 2023 at 9 a.m.

Bobcat Hall & Virtual

## Members Present:

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

Virtual: Bran Petranovic, Jeff Porter

Not Present: Paul Hough

Guest: Jenks Bailey, USI

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## Staff Present:

Shannon White - COO, Dale Schoon - Director of Finance, Ellen Festa, Exec Asst.

## Meeting Minutes

Lisa M. called the meeting to order at 9:02.

Lisa M. asked for a motion to approve the minutes from the March 8, 2023 Finance Committee meeting. So moved by J. DiLella, seconded by P. Hennessy.

 **Vote Passed: (7) In favor** – L. Mascolo, P. Hennessy, J. DiLella, J. Porter,

M. Petrecca, D. Diddle, B. Petranovic

**(1) Not Present** – P. Hough

Lisa M. asked for a motion to approve the minutes from the March 29, 2023 Finance Committee meeting. So moved by J. Dilella, seconded by P. Hennessy.

 **Vote Passed: (7) In favor** – L. Mascolo, P. Hennessy, J. DiLella, J. Porter,

M. Petrecca, D. Diddle, B. Petranovic

**(1) Not Present** – P. Hough

**Insurance Presentation**

Jenks Bailey presented the USI Insurance Proposals.

**Property:**

* Flood Surge - $1M – Velocity carried this over – was in our previous program
* Wind deductible – 3% to 5%
* Insurance is based on replacement cost, not depreciative value
* No significant changes in our coverage

**To Do**:

* Dale to reach out to KP, KIGR and Seabrook to see if they do anything new and different for Property coverage.

**Finance Committee Comments/Questions:**

* Paul Hennessy asked why we carry Earthquake coverage?
	+ Jenks said it was in our last program and we are in an earthquake area.
* Paul Hennessy asked if our towers are a liability for us.
	+ Jenks stated they are not.

**Casualty**:

* Primary - $5M Philadelphia
* Umbrella - $15M Chubb
* Board Member Alex F. asked if anyone does $25M umbrella coverage. Alex said he thinks it’s very bad to go from $25 to $20 million. Lisa M said that given capacity in the market, it may be difficult to get. USI will investigate and price and come back to the committee.

**To Do:**

* Jenks to research what an additional $5M would cost.
* Jenks is in process of quoting Active Shooter insurance.
* Bran P. Are there any organizations that adjust their structures / environments to help property values?
	+ Jenks is not seeing that. Some are re-evaluating protection, roof, flood etc., but that doesn’t always correlate to a reduction in premium.
* Paul Hennessy: is the work KICA has done re: flood mitigation and drainage improved our rates since the work that has been done reduces our risk?
	+ Jenks replied that is not the case.
* Paul Hennessy asked if any insurers are willing to bind for 2 years?
	+ Jenks replied that they are no longer willing to do that.

**Workmen’s Comp:**

* Improvement in this area. KICA does very well in claims in these areas: 1) Maintenance and 2) Security.
	+ P. Hennessy: Question on contractors.
		- We require Insurance/Workmen’s’ Comp for all KICA contractors.
* Paul Hennessy: 1) Comparison of Replacement values vs. values in Reserve Study and 2) Have we talked with other island entities on Best Practices? Can we collaborate with them on synergies and scale?
	+ Jenks stated that adding more risk to the pot no longer provides benefits – offers less coverage. Right now doesn’t make sense.

**To Do:** Comparison of Replacement values vs. values in Reserve Study

* Alex F. Asked if we should consider appraised value vs. replacement value?
	+ Jenks indicated that it could be modelled. You could also get a General Contractor to do an estimate.
	+ Member Larry Wolohan asked if all relevant assets listed on coverage?
		- Jenks indicated they are working on a study of assets, for ex: not everything is covered for ex: flood. However, national flood insurance can provide coverage.

* + Can homeowners group together to reduce their homeowner ins. costs.
		- Jenks says highly unlikely since each structure is measured differently from risk perspective.
* Debbie Diddle commented that much of the insurance proposal is probably confusing to the members. Suggested staging some workshops with a general overview of how our insurance works, ex: liability, replacement, etc. Also provide education as to what members should consider for personal coverages.

**To Do:** Lisa M. will follow up with Shannon to see what we might be able to do.

* Alex F. asked about differences in real property values shown for 2nd gate at $120K vs Rhett’s Bluff restrooms at $305K? Why the difference?
	+ Shannon stated Rhett’s Bluff building has more plumbing. 2nd gate has a tiny bathroom.
* Bran P. asked if Jenks is seeing any improvement in the market.
	+ Jenks responded that she’s not. It’s still a difficult market and very last minute. We used to have luxury of starting 30 days out, no longer the case.
	+ Bran P. commented that it probably will only get worse, and we need to get into that mindset for next year.
	+ Lisa M. suggested we touch base with Jenks in August so she can share what she’s seeing in the market at that time.

The Finance Committee’s recommendation to the Board is to go with Option 2 with the $10K increase and option to raise the liability from $15M to $20M. Lisa M. asked for a motion to approve the recommendation, so moved by Paul Hennessy, seconded by Jim D.

**Vote Passed: (7) In favor** – L. Mascolo, P. Hennessy, J. DiLella, J. Porter,

M. Petrecca, D. Diddle, B. Petranovic

**(1) Not Present** – P. Hough

**Keefe McCullough**

* Lisa reported out that Keefe-McCullough, our auditor, notified us that they were terminating their relationship with KICA as of 4/18/2023.
* They filed our 990 extension and will prepare the 990 for Kiawah Cares, but will not prepare KICA’s 2022 tax return.
* Cited the March 8, 2023 Finance Committee meeting and the March 18, 2023 Board meeting expressing concerns about potential litigation. Keefe-McCullough will cooperate with any new auditors.
* We need to create a sub-group to work on RFP for selection of new auditor.
* Selecting a new auditor will not be easy this time. Keefe-McCullough suggested we stay with a local firm.
* Michael P. had concerns about them not completing taxes and if this is documented in the engagement letter with them. Also expressed concerns about what current auditor would say to any potential auditor.
* Dale said they reserved the right to withdraw and that preparation of the 990 was not a requirement of the engagement letter.
* Jeff P. asked if it’s possible to do our 990 in-house. Can we engage someone to just do our 990?

**To Do**: Consider separating our 990 preparation from Auditor RFP based on timing of process.

* Paul Hennessy finds KM reasons curious since in his opinion, he didn’t see anything in those meetings that warranted bad behavior. His recommendation is not to delay on decision of an audit committee.

Member Brad McIlvain said to be very careful of what we say on this matter, since it could be slander.

* Lisa M. stated that she is faithfully reporting what Keefe-McCullough has said.
* Paul Hennessy said he has not heard anything that could be considered slander.
* Bran P. asked why we are not using large national audit firms. Is it related to cost? He commented that a large audit firm may be more able to handle difficult organizations.
* Jeff P. said all audit firms are extremely busy. Larger firms generally can pick and choose. Best practice is to have a separate audit committee.
	+ Paul Hennessy was in agreement with this.
* RFP Sub-committee will begin RFP process for new audit firm. Include the Big 4 firms for cost comparison. Sub-committee members:
	+ Jim DiLella
	+ Michael Petrecca
	+ Jeff Porter
* Lisa M. asked what the staff implications are.

Member Larry Wolohan commented that an audit committee can report to a Board, depends upon the charter if it impacts staff.

* Bran P. asked if a Finance Committee member can be part of an audit committee.

Discussion about audit committee. Research a separate audit committee and where it would reside. All agree we do need a separate audit committee, just where will it fall?

 Reports to Board?

 Sub-committee of Finance Committee?

 FC members on it?

 Define its Charter?

**Filing Fees**

Discussion about exploring the possibility of introducing filing fees for complaints, demand letters or legal actions?

* What types of complaints / issues?
* How to establish parameters.
* Legal actions - Spending lots of members’ money on legal fees - $53K in 1Q23
	+ Lisa M. feels it is important that members are aware of how much we’re spending on legal fees.
* Paul Hennessy suggested we look at legal fees and assess what they are associated with.

Is this a Board issue rather than the purview of the Finance Committee?

* Jim D. suggested forming a committee to address member issues
* Paul Hennessy - uncomfortable with the idea – difficult to define parameters
* Jeff P. – concerned about staff resources being spent.
* Bran P. – what would a filing fee be? $25 would be irrelevant. $10K a different story. Concern about membership outcry.
* Debbie D. – Look at source of the issues
* Lisa M. – consider a member services/appeal scenario.

Discussion about whether KICA should look into and do research about having full time General Counsel - what do other large organizations do.

* Look at Town Counsel and how Town approaches this.

**To Do**: Break out categories / areas for our legal fees.

 Research full time General Counsel

After discussion by the FC, it was agreed to dispense with the idea of filing fees.

**Q1 Financials**

Paul Hennessy stated that we need to agree on what the reporting format on Investment Portfolio and its performance so that every quarter we have a report for the community – should be a priority. Concerned that full year of 2022 investment performance is not posted. Dale stated that the Q4 report included a full year 2022. He indicated that Cook St. /Morgan Stanley can provide any type of reporting, we just need to define with them.

Lisa M. talked about the FC strategies and priority areas that the FC defined with the goal to improve communications between FC and Board and Board and FC. She reviewed FC priorities with the Board who were in agreement. The following FC members will head up these areas:

Investment Strategy Policy

 Bran Petranovic

Reserve Policy

 Paul Hough

Reserve Process

 Paul Hennessy

Financial Controls Manual

 Debbie Diddle

 Jeff Porter? Lisa to talk with him

Member Larry Wolohan asked a question on G&A in financials. Dale had previously responded and will follow-up with Larry.

Member Gaye Stathis commented on using a large accounting firm. Does not believe this is a good idea since we would most likely get a junior, less experienced partner. Recommends Davis & Co. which is a local firm.

Lisa M. asked for a motion to adjourn. So moved by Michael P., seconded by Paul Hennessy. Meeting adjourned at 11:03 am.

*Respectfully submitted,*

*Ellen Festa,* *Executive Assistant*