

Minutes – Finance Committee Meeting

April 24, 2023, 4:30 pm

Present at last meeting: Will Vizzard (m), Tara Zimmerman Foust (m), Aubrey Lara (m), Susan Timmer (m), Andi Helms (Interim Manager); Guest: Bill Erlanger (Accountant, First Service); Observers: Carol Duke, Cheryl Nelson, Christina George, Karen Lowrey, Markus Dascher, Nina White, Peter Pelkofer.

- 1) Approval of March minutes – Approved via email. Link to Zoom recording of meeting: <https://nepenthehoa.com/finance-committee/>
- 2) Homeowner comments/questions
- 3) Old business:
 - a. Bill Erlanger, First Service, on audits vs. reviews- Erlanger described reasons for performing an audit, citing primarily mandates from governing documents. He stated that larger HOAs with a large number of units, considerable assets, or many revenue generating activities often decide to have audits. Often, when there is a change in management oversight, HOAs choose to have an audit. Nepenthe, he observed, was on the larger side but our revenues are entirely dependent on HOA dues rather than amenities. Nepenthe has conducted reviews instead of audits since 2018.

Audits, Erlanger stated, provided an opinion on the health of the financial statement. It is an evaluation of monthly accounting and included an understanding of internal controls. They would look to see if certain bills were paid with Board authority. They would conduct a test of revenues to see if accounting was accurate. They use year-end bank statements to confirm receipt of assessments and other revenue, as well as expenditures. Erlanger stated that the product received from an audit and a review were identical, except that an audit report was titled “Audit Opinion” and a review was titled “Review Opinion.” The cost of an audit is between \$4000-\$6000. The cost of a review and tax return is \$2000.

Erlanger described a service, “agreed upon procedures,” in which an HOA engaged them to examine whether a vendor was paid appropriately and whether there had been modifications to the financials. When asked about the cost, he stated that it was impossible to guess, that it would depend on the number of transactions and the timeframe they needed to investigate.

Vizzard asked that when procedures required the Board to approve the expense (two Board members have to authorize any reserve expenditure), before First Service processed payment, what Erlanger would tell us about the process that we didn’t already know. Erlanger agreed and stated that this process was the gold standard, showing strong internal controls. He further stated that they did not make opinions about whether the Board should have allocated a certain amount of money and could not tell whether the work was actually done. They used a sample of paid

bills, examining canceled checks, which they see as evidence that the payee agreed with the payment for the invoice.

Ms. White, homeowner, stated her concern that management authorized landscape work that was not approved by the Board until after the work was done and that the amount authorized was above a pre-set \$2500 limit. Ms. George clarified that for a 6-week period after the last Board elections, there was no chartered Grounds committee. During that time, the Board authorized the previous GM to proceed with landscape improvements for proposals up to \$2800. This authority was rescinded once the Grounds committee was appointed.

Mr. Pelkofer expressed concern that there may be other procedures that need correction, expressing desire for a wide-ranging examination of fiscal processes. Mr. Erlanger stated his opinion that the reason for conducting an examination like this, which would be costly, would be to find something to improve that would result in saving money. With no indication of money being misspent, there is little reason to investigate.

Ms. Helms, stated that as the Vice President of First Service for the Sacramento region, she saw that Nepenthe had a lot of moving parts and that people all had great intentions. She acknowledged that mistakes may have been made and that they have been corrected. A new GM starts 4/24/23, who will undergo a long training process with Ms. Helms. They will review processes and go through financials line by line. She stated that everyone wants the same goal and that this will be a fresh start in that process.

Mr. Erlanger concluded his presentation, commenting that our “percent funded” is great, especially compared to other large HOAs. He also stated that the cost for his participation at the Finance Committee meeting was \$240/hr. He was invited to sign off speedily.

Mr. Vizzard made a motion to recommend to the Board that, after consultation with an accountant, it was the opinion of the committee that an audit does not provide a significant benefit over a review. Ms. Zimmerman Foust seconded the motion. The motion was carried unanimously.

- 4) New business:
 - a. March financials – After reviewing the financials, Ms. Helms stated that she didn’t see anything that was a red flag. In the coming days, she and the new GM would be reviewing the financials line by line. Mr. Vizzard noted that the siding project is consistently running well ahead of estimates. They are now starting process of getting new estimates for the next phase of repairs. These new estimates will be higher.
- 5) Recording of this meeting will be available at: <https://nepenthehoa.com/finance-committee/>
- 6) Next meeting- May 22, 2023, 4:30 pm