

Agenda – Finance Committee Meeting

July 25, 2022, 4:30 pm

Present at last meeting: Aubrey Lara (m), Susan Timmer (m), Will Vizzard (m), Tara Zimmerman (m), Mary Gray (m), Peter Pelkofer (m), Ashley Tangeraas (Board liaison), Jackie Grebitus (Board Treasurer), Bettsi Ledesma, Manager, Jim Dunifon (First Service); Observers: Karen Lowrey, Christina George, Cheryl Nelson, John Baker, Don

- 1) Approval of May minutes – Approved via email
- 2) Introductions
 - a. Committee members introduced themselves: Susan Timmer (Chair), Will Vizzard, Aubrey Lara, Tara Zimmerman, Mary Gray, Peter Pelkofer
 - b. Board liaison- Ashley Tangeraas
 - c. Treasurer- Jackie Grebitus
- 3) Standards and Practices of Committees, Finance Committee - Timmer briefly reviewed the Standards and Practices Committees and of the Finance Committee, pointing out that we serve to advise the Board.
- 4) How to read Nepenthe financial statements- Jim Dunifon, First Service reviewed our June financial statement, explaining its key sections. He explained that First Services uses primarily a mixed cash basis accounting when processing our financials, not accrual-based accounting. The primary difference between cash basis and accrual basis lies in the timing of when revenues and expenses are recognized. According to Vizzard, Nepenthe used to use an accrual-based method but had trouble monitoring cash flow using the accrual-based method. We now use primarily cash basis so that we know our exact income and expenses for the month, although we do use some accrual-based strategies in special cases (e.g., pre-paid HOA dues, insurance payments).
 - Assessment receivables- Dunifon noted that assessment receivables were trending down, meaning that there were fewer HOA dues that had not been collected.
 - Balance sheet- Dunifon drew attention to the insurance payment which is accrued monthly and paid out in November.
 - Investment report- The investment report shows various accounts and their interest rates. A large amount of money is in a money market sweep account, but these moneys are split among many different banks at a maximum of \$250K per account, in order to ensure coverage by FDIC. Ms. Gray asked who picks where the money goes. In response, Dunifon stated that we contract with an FSF(FirstService Financial) that allows us to bundle our funds with other HOAs and get higher than market rates on CDs and money market accounts. Mr. Vizzard asked whether we were able to buy I-bonds (inflation indexed government bonds) as a corporate entity albeit limited to \$10,000 annual investment. Dunifon said he would check on this and commented that investment instruments that guarantee the principal is key.

Ms. Tangeraas asked about the need to meet the FDIC requirements by limiting account sizes to \$250k. Dunifon responded that they comply with these regulations because of their duty to the HOA but that US Bank has an additional \$1 million bond of secondary insurance to cover defaults above \$250K.

- Reserve fund expense schedule- In July, there will be a reallocation among items from the reserve study that will show the fully funded amounts for the year. Ms. Tangeraas stated that based on her review of the Reserve tracker, she believed the Reserve tracker made it look like we have more money than she believed we actually had. She went on to say that it appears as if the general reserves and interest are allocated amongst the different line items but it is disproportionate to the Browning study. She requested that the reserve tracker be provided as an Excel spreadsheet to the Board to make it easier to review and track expenses. She also asked whether Dunifon could include a column showing pending expenses. Dunifon will take care of these action items and offered to join the Finance Committee meeting next month. Dunifon promised to have an updated fund tracker which will properly allocate general reserves and interest early next week at the latest. Mr. Pelkofer asked if Mr. Browning would be attending any upcoming Board meetings. Ledesma responded that she would see if he could attend next month's meeting.
- Income statement- Dunifon drew the committee's attention to the fact that investments can show a loss, reflected by negative amounts on the income statement. Overall, he noted that we are running at a slight deficit. Ms. Tangeraas asked Mr. Dunifon about the practice of paying for tree trimming out of reserves as it seemed to her a regular expense and should be paid out of operating expenses. Ms. Tangeraas pointed to Davis-Stirling and expressed concern about compliance. Dunifon replied that although it is often paid out of operating expenses, our HOA has many trees, incurring a substantial cost, and the amount needed is inconsistent year over year. Timmer suggested that this topic could be put the agenda for next month's meeting.
- 12-month income statement- This statement details month over month trends for income and expenses.
- General ledger- The general ledger gives information on every transaction for the month.
- GL transaction register- This register lists all journal entries and expenditures for each GL code for the month.
- Receipt statements- This statement lists all checks and credits received during the month.
- GL disbursement report- This report lists all disbursements for the month by GL code.
- AP check history lists all payments made during the month.

Other updates:

- Ms. Ledesma informed the committee that she was preparing the contracts for Phase I siding and fencing repairs and painting.

- Ms. Tangeraas provided a brief PowerPoint introducing herself, her credentials, and listing her own ideas about issues needing to be addressed this year including accounting controls, improving the reserve tracker, considering whether some items funded in reserves should be converted to the operations budget.
- Water bills: Mr. Vizzard asked about whether we had received any water bills. Ledesma said that we had not received any bills from the city yet, but preliminary analysis revealed that anticipated costs are likely to be approximately \$70/unit per month, which is approximately the same amount as individuals' current city water bill. Once we begin receiving bills from the city for water, individuals' water bills will stop. However, this will result in a rise of HOA dues for this amount. Vizzard asked whether the bills will include sewer and storm drain fees. Ledesma did not know but will follow up.

- 5) Finance Charter and Board liaison- Timmer raised the issue that according to the Finance Charter, the Treasurer is to be appointed as the Finance Committee's liaison to the Board. Discussion about this among committee members and Ms. Tangeraas ensued.
- 6) Meeting adjourned, 6:15 pm
- 7) Next meeting: August 22, 4:30 pm
- 8) Link to meeting recording: <https://nepenthehoa.com/finance-committee/>