FINANCE COMMITTEE MEETING
February 1st, 2022
Minutes

Committee Meeting Called to Order at 4:05 PM

Attendees: Faramarz Khozouiee, Julie Strand, Gordon Sheets, Mary Delamater

Item 1 Treasurer's Comments
Faramarz outlined the difference between accrual accounting and modified cash basis accounting. The comments will be submitted with the minutes for this meeting and will be submitted as an article for the newsletter in the future.

Item 2 Discussion of Self-Management of Associations versus outside Management companies
This is not finance committee business, however the committee has received input from residents. This input will be listed in a summary and Faramarz will forward it to the task force team for their consideration.

Item 3: 2020 Audit report

No further discussion regarding the audit report.

Item 4: New Business and Committee Comments
No new business discussed.

Item 5: Old Business: Virtual & in person meeting – the finance committee will conduct its meeting Virtual as well as in person (at the Crown Center) when the circumstances permit.
Below is the online access information
First and third Tuesdays, 4:00 – 6:00pm
Google Meet joining info
Video call link: Finance Committee meeting
Or dial: (US) +1 617-675-4444 PIN: 128 494 696 4488#

Committee Meeting session ended 5:10 pm

Treasurers Comments

Membership had some revision about the motion that was passed at the 12/14/2021 BOD meeting to switch the bookkeeping method from Accrual to Modified Cash bases.

Every business entity must use a consistent accounting method, which is a set of rules for determining when to report income and expenses. The most commonly used accounting methods are the cash method and the accrual method. Under the cash method, you generally report income in the tax year you receive it, and deduct expenses in the tax year in which you pay the expenses. Historically KCCA has been using modified cash bases in both record keeping and tax/audit reporting until 2019 when then the treasurer decided to switch to accrual bases. However this decision was not presented to the board nor was approved.

For clarification if you open any financial reports published in past three years you would notice the word Accrual base on either the report's heading or on the top left corner. And when you open any tax and/or audit reports on the second page and every subsequent page (financial reports) you will notice Modified Cash based. This dual method has two major flaws:

1. It takes too much time for the auditors and tax preparer therefore it cost to convert the data provided from association accounting system.
2. It makes it impossible for our staff to match the audited report with financial statements published by our system.

There has never been a board approval to switch from Modified cash base method to Accrual method and it was just a personal act and preference.

What Is Accrual Accounting?
Accrual accounting is a financial accounting method that allows a company to record revenue before receiving payment for goods or services sold or expenses are recorded as incurred before the company has paid for them. In other words, the revenue earned is recognized on the company's accounting books regardless of when cash transactions have occurred

What Is Modified Cash Basis?
Modified cash basis is an accounting method that combines elements of the two primary bookkeeping practices: cash and accrual accounting. It seeks to get the best of both worlds, recording sales and expenses for long-term assets on an accrual basis and those of short-term assets on a cash basis.

1/29/2022

Finance Committee Members have compiled a list of pros and cons regarding KCCA self-management compared to outsourced management. This feedback comes from several committee members as well as residents of KCCA. Faramarz will be forwarding the list to the proper committee for consideration.

Outsourced HOA Management / Professional Management Company

Pros:

- Unloading work burden for the board. (This is questionable, as clients must manage their outsourcers, which often is a can of worms.)
- Makes BOD feel better, as they have turned it over to the pros, and frees them from work not meant to be BOD responsibilities
- May result in getting lower insurance programs

Cons:

- Cost. These types of services are expensive, as we have noted with a recent venture into outsourced financial management. A flat rate was set, so essentially outsourcer profit is the money it collects from the client that it doesn't spend.
- HOA and Property Management companies business models are usually designed around collecting rents, dwelling and garage/carport maintenance and repair which includes roofs, siding, walkways, painting and landscaping, and building reserve funds to ensure the funds are available to do all these without large lump-sum assessments. Furthermore, this type of company often serves corporate and remote owners. KCCA needs are at best minimally covered under this umbrella. Therefore, as a client KCCA would likely be asking for major adaptations from any of these companies.
- Management services are not turn-key operations. Client (in this case the KCCA board) would need to be actively involved in managing conflicts, service issues, lack of response, reviews, financial issues, etc. Additionally, the client would be saddled with responding to KCCA membership questions and complaints.
- Whenever outsourcing is used, clients must be willing to submit to delayed response and loss of quality of service. Clients lose first line authority right out of the chute. Everything has to go through outsourcer management – in other words plan on delayed reaction and unanswered calls and messages.
- Outsourcer staffing, training, and management issues are opaque to the client. Furthermore, the client has no say in the matter.
- Ostensibly, and what should be a pro, management companies should be able to glean economies of scale through shared resources within its support staff and its similar clients base. This goes out the window with KCCA's unique needs.
- Outsourcers cannot tap into community member expertise and experience.
- Too costly, will be 2-3 times as much as on site administer annually
- No connection to community, or the outcome of their work
- Lose control of our employees. Lose Jeff, Brian ??
- Too much turnover of their staff on a continual basis as an industry

- They do not fit the model of our community, they are geared to management of condos, apartments and townhouse (all 7 of our sub associations, have their own management)
- Pay more for contractors, as many property managers mark up those charges. Contractors bid high also, as most property management companies only pay them monthly

<u>Self-Management – Also Referred to as Community Manager/Administrator Management</u>

Pros:

- Cost - KCCA can hire tailored staff at prevailing wages/salaries and avoid expensive corporate/management fees.
- Cost - KCCA can hire tailored staff at prevailing wages/salaries and avoid expensive corporate/management fees.
- Control – Direct line of access to staff to handle typical employer-employee issues.
- Community Access – Residents would have access to KCCA staff onsite.
- Community Involvement – Committees, volunteers, and community members with expertise and business management experience are all fine examples of community involvement.
- Annual salary of $80,000 per Oregon Employment site
- One site, available in emergency and , builds community unity
- Able to meet directly with contractors for bids, and work oversight, thus controlling costs
- HR and employee control remains
- Direct interaction with BOD
- More continuity, thru more direct community involvement, happier KCCA residents
- On site to oversee office staff, and condition of amenities
- We control our community and the people working here, not an unknown entity
- KCCA controls hiring of this individual

Cons:

- Requires the entire board be actively engaged in employment activities.
- Vagaries of the employment market. There is always attrition, and for a multitude of reasons. Timing of vacancies will not always occur during markets advantageous to the KCCA. (It should be pointed out here that this cycle would be in sync for outsourcers as well; they would be facing the same glut/shortage at the same time.)
- Board turnover and malfeasance. Some have hidden agendas contrary to KCCA community needs and wants.
- Board members are often unwilling to tap into KCCA citizen expertise.
- None, it's the only fit for our community model. We are the oldest (lots of buildings to maintain) the largest, most unique association in Oregon. Community spirit here has been superb until lack of leadership. We need a leader at the helm, our governing docs dictate it.