

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

Finance Committee Minutes

May 26, 2021 10:00 am

Virtual Meeting Conducted live at Beachwalker Center and via Zoom

Members Present

Alex Fernandez, Treasurer
Lisa Mascolo
Paul Hough
Jim DiLella
Jeff Porter
Jerry Honea
Bran Petranovic
Paul Hennessy

Staff Present

Shannon White
Johnny Wallace
Holly Newman
Pam Brady

Board Members Present

Townsend Clarkson
Gaye Stathis
Brad McIlvain
Jerry McGee
David DeStefano

Others Present

Brad Koeneman, Moneta
Andy Glenn, Moneta

The meeting was called to order by Alex Fernandez at 10:00 a.m.

Holly Newman announced that there was 1 Community Member in attendance, a second member logged in as well.

The minutes of the April meeting were reviewed and approved with recommended changes.

A suggestion for draft minutes to be sent sooner than the next meeting was made and agreed to. Alex commented that the minutes will go out shortly after the meetings and that comments and corrections should be made at that time for inclusion in the next meeting packet.

A follow up on the cyber liability insurance discussed at the April meeting was requested. Johnny agreed to report on the cyber insurance to the committee at the June meeting.

Paul Hennessy noted the ratings of the underlying underwriting counterparties was questioned as it is not intuitively obvious in the policy documents. Aon has since provided the requested additional

information, and a suggestion for an annual review of ratings and rating documents of each underwriting agency was made and accepted.

Alex Fernandez introduced Brad Koeneman and Andy Glenn from Moneta, the KICA investment advisors. They reviewed the following items:

- Investment Policy - goal is to beat construction inflation rate plus 1% with a 30/70 allocation strategy.
- Portfolio Asset Allocation and reallocation
- Performance
- Schwab cash account vs. investments
- FDIC insurance exposure solutions. Can't solve for yield but can solve for increased safety.

The following are comments, questions, clarifications and considerations made during the review of the investment portfolio

- 401K trustees appointment process was discussed. It was noted that currently there is 1 trustee, due to a change in KICA personnel. This will be handled separately this month.
- A slightly different philosophical view of the investment policy was raised, commenting that there is a reason for having investments and the policy should work towards meeting that reason.
- It was noted that the high % in cash is due to timing of bond redemptions and is not typical.
- Rebalancing occurs when the portfolio is more than 5% out of balance, this is not able to be predicted.
- The bond ladder is short term, 2.8 year average duration with ratings of investment grade.
- Correction on page 5 of Investment Policy should state Government Credit.
- A request was made for a liquidity analysis to be performed on each bond in the portfolio
- Would like the Moneta relationship to be more dynamic, moving cash more frequently, not annually.
- Quarterly streamlined version of annual report was offered by Moneta and accepted as a helpful document.
- The Moneta philosophy on exchange traded funds (ETFs) was questioned and answered.

The review of the investment portfolio was completed. Moneta was thanked for their presentation to the committee.

Investment Policy changes

General discussion ensued about the investment policy. It was agreed Paul Hennessy would take the lead and suggest any recommended modifications to the policy. The topic will be included for discussion at the next committee meeting.

Reserve Study

Jerry Honea was asked to review the existing reserve study to help better explain the study and the decision processes around the study. Jerry reviewed the funding streams to the reserve fund including the Reserve Assessment, commercial access fees and CTR and the demands on the fund including major repairs and replacements - roads, bridges, boardwalks, drainage, etc. and landscape capital improvements.

Predictions and projections in the out years have large expenditures for bridge replacements. In reality, this is an unlikely scenario, but is within the 30 year window and considered within the recommended funding levels.

Clarification on the components of the bridges being separate within the study and scheduled independently depending on the remaining life was made. Also, the relationship between the engineers' reviews and the reserve specialist, and the effects of useful life on the study was discussed and confirmed that recalibrations do occur.

Jerry further reviewed components of the study including inflation, the funding goal/ specialist recommendation, deterioration cost annually. The rate used in construction costs uses national, regional and local cost comparisons when available to keep the most accurate forecasts.

Committee considerations should include the funding level or policy, managing community expectations, assisting the board in setting priorities and standards by setting useful life standards/tolerance levels and proper funding levels within the study. How emergency situations play into the study was reviewed. The budget process timing is appropriate to recommend changes to the funding level to the board. Jerry Honea will present a draft policy statement to the Committee in the next 60 days for presentation to the Board.

Other considerations for the policy include spreading the cost amongst those using it now and future owners, administration fees within the budget fund - subsidizing reserves from operating and the level of resources needed to administer the infrastructure work.

Reserve study schedule was confirmed to be an annual update with periodic on-site visits. The current contract ends in 2022.

Funded Depreciation Policy

This is included in the financial controls manual. A review of this section of the financial controls manual should be reviewed. Paul Hennessy will lead the conversation, along with Paul Hough and Jeff Porter, and bring any recommendations to the committee. Johnny Wallace will supply the asset list of the fund with recommendations for removal, if any, of items that do not rightly belong in the fund.

Budget process review - the draft calendar will be shared with the committee

Audit RFP

Johnny Wallace requested members of the committee volunteer to review the proposals. Lisa Mascola and Jeff Porter volunteered to assist Alex with this.

The decision to include the incumbent in the process was discussed.

Alex Fernandez confirmed the board voted 9 – 0 at the 5-03-2021 board meeting. Further conversations were had at the board level. Staff was directed by The Chair to include the incumbent, so the finance committee could weigh in on the incumbent discussion.

Alex noted the next meeting is June 23 at 10 AM. There will be no meetings in July or August unless necessary.

With no further business, the meeting was adjourned at 12:47 p.m.