

KIAWAH ISLAND  
COMMUNITY  
ASSOCIATION

To: KICA Board of Directors  
From: Alex Fernandez  
Date: July 12, 2021  
RE: Finance Committee – KICA Investment Policy

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***Background:***

At the 6-23-2021 finance committee meeting, the committee voted unanimously to put forward a recommendation to the KICA board for a change to KICA's investment policy. There is no substantive change to the policy or the allocation of KICA's portfolio. The recommended change is only to annually disclose to the membership information about KICA's portfolio. Disclosure would be posted to the KICA website.

A final paragraph would be added to the existing investment policy which states:

**VII. Disclosure**

The Finance Committee will recommend to the Board for their review and approval an annual disclosure to the community members of the following: (a) approved changes (if any) to this policy, (b) a summary of the then existing investment portfolio by asset class, consistent with categories detailed in Appendix A of this policy; (c) investment returns, net of investment advisor fees, for the last calendar year and last three (3) years; (d) comparable benchmark investment returns for the investment portfolio, using comparative benchmarks, a summary of Appendix A; and (e) the Association's best estimate of 'construction inflation rate,' as described in 'Section III. Objective of this Policy.'

A sample of this disclosure document is included as Exhibit A.

The finance committee recommends the approval of the above change to the KICA Investment Policy.



Exhibit A

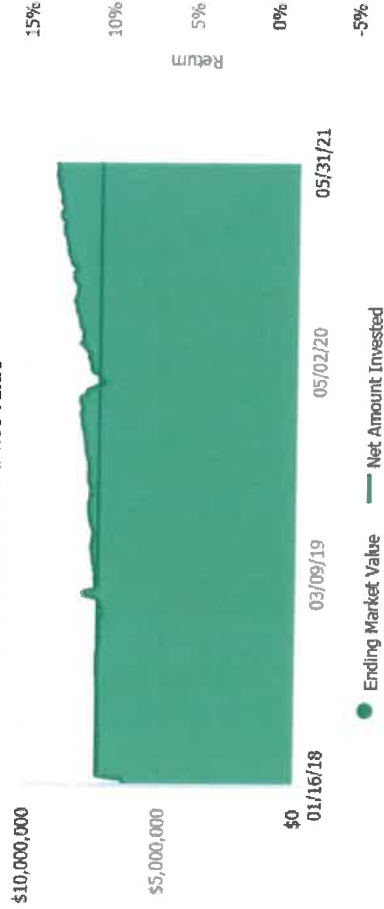
Portfolio Category Allocation

	Market Value	Allocation
Kiawah Island Community Association	9,007,414	100.0 %
Cash & Money Market	1,250,377	13.9 %
Fixed Income	5,013,660	55.7 %
Equity	2,743,377	30.5 %

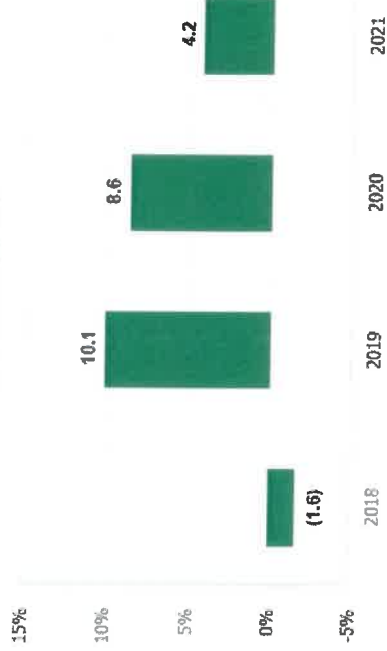
Portfolio Value Summary

	Year to Date	2020	2019	2018	Period
Beginning Market Value	8,639,257	7,955,253	7,223,378	6,330,872	6,330,872
Net Additions	0	0	(7,351)	1,011,015	1,003,664
Gain/Loss	367,940	685,220	735,954	(85,932)	1,703,182
Change in Accrual	217	(1,216)	3,272	(32,577)	(30,303)
Ending Market Value	9,007,414	8,639,257	7,955,253	7,223,378	9,007,414
Return	4.2 %	8.6 %	10.1 %	(1.6 %)	6.2 %
Kiawah Island Community Assoc. Blended Benchmark	3.2 %	8.0 %	11.3 %	(2.8 %)	5.7 %
Estimated Construction Index		4.96 %	5.06 %		

Net Additions and Market Value



Portfolio Performance



1) Refer to KICA Investment Policy, Chapter 15 of the KICA Financial Controls Manual  
 2) A construction index measures the changes in costs for construction, with a representative selection of labor, material & equipment.  
 3) Additional information is available upon request with KICA's Accounting Department

KIAWAH ISLAND  
COMMUNITY  
ASSOCIATION

To: KICA Board of Directors  
From: Alex Fernandez  
Date: July 12, 2021  
RE: Finance Committee – Auditor Recommendation

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***Background:***

KICA has utilized the same auditing firm, Robinson Grant & Co, under the same partner, for many years. Auditing services were last bid in 2017, when Robinson Grant & Co was again selected. An RFP for KICA's auditing services was sent out in May 2021. The RFP was sent to 9 firms, with 7 firms returning a proposal. Proposed services ranged from \$25,300 - \$48,000 annually. The incumbent, Robinson Grant & Co, did submit a proposal.

The Finance Committee appointed an audit sub-committee to review the proposals, narrow the field to several top candidates, interview the candidates and provide a recommendation to the finance committee. Appointed to the audit sub-committee were Alex Fernandez, Lisa Mascolo & Jeff Porter.

After review of the proposals, the sub-committee narrowed their choices to:

Elliott Davis - Charleston, SC  
Dixon Hughes Goodman – Greenville, SC  
Keefe McCullough – Ft. Lauderdale, FL

Due to timeline required for audit completion, Elliott Davis withdrew their proposal.

Following interviews, the audit sub-committee recommended Keefe McCullough to the finance committee, at their 6-23-2021 meeting. KICA staff members Johnny Wallace & Pam Brady participated in the interviews and were in agreement with the recommendation. Keefe McCullough was a smaller firm with 10 partners. The managing partner was part of the interview. When asked about the issues facing KICA over the next 3-5 years, they discussed our reserve study & investment policy. The audit sub-committee felt that we would get more direct attention from Keefe McCullough. A conflict check was conducted and there was no conflict of interest with any KICA board member or finance committee member. The finance committee was in agreement with the recommendation of the audit sub-committee.

Following the meeting, Johnny Wallace & Lisa Mascolo checked the references provided by Keefe McCullough. All references were positive. A litigation search was also conducted for any open cases and for cases in the last 5 years. There was nothing found.

The finance committee recommends the approval of Keefe McCullough for KICA's auditing services, beginning with the 2021 audit.

KIAWAH ISLAND  
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To: KICA Board of Directors  
From: Alex Fernandez  
Date: July 12, 2021  
RE: Finance Committee – Beachwalker Center Loan Payoff

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***Background:***

KICA has an outstanding loan from the purchase of Beachwalker Center in October 2016. There are 36 months remaining on the loan at an interest rate of 2.9%. If we continue making payments, KICA will pay approximately \$14,650 in interest, over the next 3 years. Over the same 3 years, we would only earn approximately \$2,600 in interest on our cash. This loan payoff results in interest savings to KICA. As of Monday, July 12, the payoff of the loan will be \$350,290.02.

The finance committee unanimously recommends to the board the payoff of the remaining balance of the loan on Beachwalker Center, utilizing KICA's current \$1.5 million in operating surplus.

KIAWAH ISLAND  
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ASSOCIATION

To: KICA Board of Directors  
From: Alex Fernandez  
Date: July 12, 2021  
RE: Finance Committee – Binding of Cyber Insurance Policy

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***Background:***

With the increase in cyber-attacks on businesses, the finance committee was interested in KICA potentially obtaining cyber insurance coverage. KICA's insurance broker sought bids to provide this type of coverage.

On 7-01-2021 a meeting was held with KICA's Aon representatives as well as Brady Cohen, Aon's broker for cyber coverage. Aon is recommending coverage be provided by Coalition. KICA has selected \$2 million in coverage for an annual premium of \$6,264.

In order to submit a proposal for coverage, Coalition conducted non-invasive testing of KICA's website and other digital activities. Based upon their testing and our class of business, Coalition considered KICA a low risk for exposure, resulting in a low premium cost. KICA maintains personnel records, as well as records on KICA members that include names, contact information and birth dates. KICA does not maintain any credit card or banking account information for KICA members, as this is handled by third-party contractors.

The coverage includes a \$10,000 deductible. KICA's biggest exposures would be in the areas of cyber extortion, digital asset restoration and/or business interruption insurance. Full prior acts coverage is included for claims arising from acts that took place prior to the date of the policy, provided KICA was unaware of the incident.

Following the meeting with Aon, an email discussion was conducted with members of the finance committee. There was some discussion about self-insuring, however this was decided against, as the cost of the policy is low, for the amount of coverage which is being provided. In discussions, the following comments were offered by members of the finance committee:

- "In my mind there are several reasons an HOA e.g. might consider cyber insurance and they include the obvious first party issues and perhaps the less obvious third party issues wherein an organization that the HOA does business with suffers harm as a result of the HOA being breached. And given the number of vendors and partners KICA has, there is risk associated with their interactions with whatever systems exist." (Lisa Mascolo)
- "In today's electronic/internet business platform, KICA cannot afford to be unprotected. AON is an established insurer and for a small premium of \$6k, provides protection. As a fiduciary, it seems an easy decision to have this protection in place." (Jerry Honca)

The finance committee unanimously recommends to the board the binding of the recommended cyber insurance policy.