

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

Finance 101

The following is intended to provide a high level overview of KICA's finances. It skips discussion of several smaller income/outgo items that are immaterial in total and add complexity to this overview.

What We Do

KICA does five basic things that are core to its mission, and provides the administrative support for these functions:

Security & Livability

- Security: Main gate and V-gate access control, routine patrol and commercial access administration.
- Livability: Covenant Enforcement, safety oversight, encroachment permitting and ARB liaison

Land and Lakes Maintenance

- Mowing, edging, weeding, blowing, tree care, flowers/greenhouse operations, straw/mulch, fertilization, etc. of common properties
- Lakes water quality management, wildlife management and mosquito abatement

Recreation & Amenities

- Operations of the Sandcastle, Rhett's Bluff, Cinder Creek, Eagle Point, and club/community group meetings/events and private events

General Maintenance

- Minor repairs to roads, bridges, paths, boardwalks, docks, buildings, mailboxes, signs, etc.



Major Repairs & Replacement

- Major repair or replacement of roads, bridges, drainage systems, other KICA infrastructure, buildings, etc.

Generally, these responsibilities begin at the bridge over the Kiawah River (though there are some exceptions with respect to infrastructure between the bridge and the main security gate). Cassique HOA is not part of KICA.

How KICA Budgets

KICA operates with two separate budgets. Our “**Operating Budget**” covers administration, security & livability, routine maintenance, recreation, and amenity operations. Our “**Reserve Budget**” covers major repairs and replacements.

The basic difference is that the Operating budget covers expenditures that are routine and more predictable, with costs that are very similar from year to year, while our Reserve Budget covers expenditures for existing infrastructure that last many years. These expenditures are not predictable in any one year (i.e. we all know roofs need to be replaced at some point, but the precise year is hard to predict).

How these two budgets are funded:

Our **operating budget** gets 85% of its funding from the annual assessment charged to owners on Kiawah, to include the Kiawah Island Golf Resort and Kiawah Partners. This fee provides a highly predictable level of income to cover highly predictable expenses and links current year operating expenses with current year fees.

Rather than use current year income to fund the **Reserve Budget**, KICA has created a Major Repairs & Replacements (MR&R) reserve fund. In any given year, MR&R expenditures are funded by drawing from this reserve fund. The reserve fund is built from multiple sources:

- Approximately 41% of funding is a 0.5% transfer fee on all island real estate sales
- This is supplemented by a reserve assessment (\$325/household with proportionate share to the Resort and the developer), which was instituted in 2013 after the slowdown in real estate



sales made it clear that the transfer fees would not be sufficient to meet KICA's projected MR&R needs. This provides another 26% of the funding.

- In 2016 we added an allocation of commercial access fees to further bolster the reserve fund, and allocate costs to the larger trucks that we believe add significantly to costs. In 2022, we increased the amount of commercial access fees allocated to the Reserve fund. This accounts for 29% of revenue.
- The remaining 4% is from investment income.

This MR&R reserve process exists for two key reasons. First, items covered in this budget are not predictable in any one year, so spending might be more or less than projected in the current budget. Second, the items covered in this budget last for many years and it is common practice among homeowner associations to charge current owners a fee today that will be set aside to pay for repairs in the future. This reserve process ensures we have sufficient funds when needed for major repairs and better allocates the costs of these expenditures to those that benefit from the use of these assets.

Although it is difficult to predict any one year, we believe multi-year projections are quite accurate. KICA employs the services of an outside Reserve Specialist, who annually works with us to project major expenses over a 29-year time horizon. Each year, hundreds of components are updated in the study, which is essentially a cash flow model, and the updates incorporate expected useful life of each component, expected useful life remaining, expected replacement cost, and inflation. The model also includes assumptions with respect to reserve funding.

Operating Reserves and Funded Depreciation

While it is necessary to build large balances in the MR&R Reserve Fund, KICA strives to maintain only modest unrestricted cash reserves as a contingency in its operating fund. For instance, \$1 million is held as an emergency storm fund.

KICA also funds depreciation on certain assets such as vehicles, HVACs, furniture, fixtures, and equipment with depreciable lives of 7 years or less. Funds from the annual assessment are set aside each year in order to spread the cost of replacement out over the useful life of each asset, and to have cash on hand when replacement is necessary. It also spreads the cost of assets among those who benefit from them. It's important to note that we do NOT fund depreciation on buildings.



Special Assessments

KICA's MR&R reserve fund is for replacement of existing infrastructure, and cash reserves are not maintained for new projects or to build any new infrastructure. When new infrastructure is needed, it is funded from operations (if possible) or members must approve special assessments. In 2020, members approved a special assessment for new drainage infrastructure with payments due over five years (ending in 2024).

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