

KIAWAH ISLAND

# COMMUNITY

ASSOCIATION



## Financial Controls Manual

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UPDATED MAY 2022



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CORRECTION WITH APPROVED DATE

KIAWAH ISLAND  
**COMMUNITY**  
ASSOCIATION

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This manual was updated by the KICA board on \_\_\_\_\_. This document replaces the May 2022 version.



## INTRODUCTION

This Financial Controls Manual (FCM) outlines Kiawah Island Community Association's (KICA's) division of responsibilities as it relates to financial matters. The information presented incorporates past financial resolutions of the KICA Board of Directors (Board), finance-related Board motions and associated internal control policies and procedures. Generally, it is expected that the KICA Accounting function operates in accordance with generally accepted accounting principles.

This manual provides operational procedures and guidance for management and staff to implement the policies and decisions of the Board. The contents of this manual are subject to change at any time by vote of the Board. In the event of a direct conflict between the information in this manual and the Declaration or in the Bylaws, the language in the Declaration and the Bylaws shall control.

KICA's FCM is a set of guidelines approved by the Board. The Standard Operating Procedures (SOP) for KICA's Accounting Department is a staff-maintained document and is incorporated by reference. These Standard Operating Procedures are reviewed annually by the Director of Finance and updated as necessary. Updates to SOP require the review and signoff of the COO.

All Finance Committee members will receive a copy of this document upon joining the Finance Committee (FC) and are expected to read the FCM. All Board members will receive a copy each year at their annual orientation meeting.



## Chapter 1 - DELEGATION OF AUTHORITY

Per Article VI, Section 1 of the KICA By-Laws, the Board helps steer major policy decisions, establishes and drives both KICA's mission and vision and engages in planning. Per Article VII, Section 7 of the KICA By-Laws, the Board hires the Chief Operating Officer (COO).

“...The COO shall have responsibility for the day-to-day administration and operations of the Association. The COO directs and administers all aspects of the operations: the common areas, infrastructure, staff, and all activities and Member relations...The COO shall be authorized to execute such contracts, notes, mortgages, security interests, and similar instruments binding the Association, under the seal of the Association, as may be approved by the Board...”

The COO is the direct link between the Board and KICA's staff and it is the expectation and general practice of the Board not to engage in day-to-day operational matters of KICA staff. The fiscal responsibilities of the COO, as well as other key KICA personnel, are addressed in this manual. When the COO is absent (such as a vacation), delegation of authority will proceed through the Director of Operations, then Director of Finance, then Director of Human Resources, and then Director of Security.



## **Chapter 2 - INTERNAL CONTROL PROCEDURES**

KICA maintains policies and procedures to ensure an appropriate control environment. Although the observance of control policies and procedures rests with each member of management, the COO is responsible for ensuring that staff is following the current policies and procedures. The Director of Finance is responsible for the design of KICA's financial control environment, including adequate separation of duties. In the event a discrepancy or misconduct is discovered in his/her department, a department head is responsible for reporting such an incident directly to the COO as soon as he/she becomes aware of it. The Director of Human Resources is responsible for reporting any discrepancies or misconduct involving the COO directly to the Board.

In addition to internal control policies and procedures, KICA also utilizes a third-party firm to provide a whistleblower hotline. This hotline is available to staff and the board to anonymously report suspicion of, or actual wrongdoing, behavior inconsistent with the KICA mission, or behavior inconsistent with generally accepted standards of appropriate professional behavior.

For a list of segregation of tasks, please refer to the Accounting Department SOP's.



### Chapter 3 – ANNUAL BUDGET PREPARATION

KICA prepares two budgets annually, the Operating Budget and the Reserve Budget (MR&R and LCI). Operating Budget preparation typically begins on or about September 1. KICA adheres to a zero-based budget philosophy in which expenses, including all personnel and professional expenses, must be justified annually for each budget category. A rough timetable for the budget process is as follows:

- August: the (acting as applicable) Director of Finance notifies all departments that the Operating and MR&R budget process is starting and opens budgeting software for input from all department heads and supervisors. Instructions for input are provided to all participants.
- Early September: 1-year reserve budget and two-year forecast (MR&R and LCI) are initially reviewed.
- Mid-September: all draft budgets have been submitted, along with justifications for any requests for capital purchases and changes in employee headcount.
- End of September: Staff reviews all submissions, has appropriate discussions as needed with department heads, and prepares a first draft of the budgets.
- Early October: First drafts of both budgets are presented to the FC for discussion and input.
- Mid-October: A Budget Working Committee, generally made up of the Board Chair, Board Treasurer, COO and Director of Finance, meets to:
  - make budget adjustments;
  - gather any additional information from department heads;
  - develop a 2<sup>nd</sup> draft of the budgets, along with a recommendation of any assessment increase necessary to balance the budget. The 2<sup>nd</sup> draft is then sent to the FC.
- Late October - The FC meets within one week of receiving the 2<sup>nd</sup> draft to discuss it, make any final changes, and provide their recommendations to the Board.
- The final draft is posted to the KICA website.
- Prior to the November Board meeting, an open meeting for the community is held so that members may ask questions and make comments about the proposed budgets.
- At its regular November meeting, the Board discusses the final draft budgets posts them to the KICA website, along with announcing the following year's assessment amounts, providing time for member comment



- At its meeting in December, the Board approves the budget for the next year.



## Chapter 4 - BUDGETARY CONTROLS

### Authorization Limits for KICA COO

- 1) The COO will inform the Board if, at any point during the year, it appears that the actual expenditures for a department will exceed budget by 5%.
- 2) For Major Repair and Replacements (MR&R), prior Board approval is required if total MR&R expenditures are anticipated to exceed budget by 5%, or if a specifically approved reserve project has a variance greater than 10%.
- 3) The COO is authorized to make changes to projects or accelerate projects that are currently planned within the three (3) year MR&R schedule if it does not create a negative variance.
- 4) The COO is authorized to spend emergency funds as described below:
  - In the event of emergencies, e.g., hurricane, flood, fire, etc. in accordance with the Emergency Storm Policy, and other relevant policies.
  - Replacement or repair of equipment or infrastructure that either fails or is destroyed unexpectedly and is considered by the COO to be critical to the efficient operation of the KICA.
  - Protection of KICA property from imminent damage.
- 5) The COO will inform the Board of such expenditures within 5 business days of said expenditures, or at the next regularly scheduled board meeting, whichever comes first. The Board will have the authority to suspend the use of the emergency line item by email notification to the COO.
- 6) In the event KICA experiences a natural disaster (e.g. hurricane) the COO will be authorized to activate the Line of Credit in order to meet KICA's financial obligations and expedite cleanup efforts. The COO is required to have agreement from the Chair and Treasurer when spending Line of Credit funds. When the Chair and/or Treasurer are unavailable, two board members will suffice. The COO will present a detailed accounting of any Line of Credit spending at the next regularly scheduled board meeting or within 5 business days of said expenditure, whichever is earlier.
- 7) New projects, not in the current budget, with contract value in excess of \$25,000 must have an additional prior approval, except in the case of emergency or contingency purchases as discussed here in Chapter 4, Budgetary Controls.





- 8) Any contract in excess of \$500,000 must have the additional prior approval of the KICA board. The board should be provided information on the contract, which would include all bids, specific terms and the COO's recommendation. (This does not apply in the case of emergencies, as outlined in #4 & 5 above.)

### Director of Finance's Responsibility

The Director of Finance is responsible for maintaining the general ledger using the accrual basis of accounting and generally accepted accounting principles (GAAP), correctly classifying revenues and expenditures, and preparing monthly financial statements and budget variance reports. Department heads are responsible for routinely monitoring expenditures to stay within budgetary guidelines.

Quarterly financial statements will be distributed to key staff, finance committee, and the Board and posted on KICA's website by the 15<sup>th</sup> day of the month with detailed explanations of material variances.



## Chapter 5 - CASH MANAGEMENT

### Banking

- KICA will maintain bank accounts and investment accounts as deemed necessary by the Board. The COO will recommend the type of accounts and with which banks KICA will engage. It is expected that the banks with which KICA engages are commercial institutions that are part of the Federal Reserve system. Small, chartered banks, not regulated by the OCC will not be part of the KICA financial ecosystem.
- KICA will maintain an Emergency Line of Credit in accordance with its Debt Policy. The Board Chair and Treasurer must concur prior to making a change in financial institutions.
- The Director of Finance will oversee the management of all accounts in order to:
  - maintain a balance in the operating account adequate to meet cash needs;
  - meet the minimum requirements of the banking agreement (if any);
  - minimize bank service fees.
- When a new bank or investment account is needed, the COO will seek approval of the Board Chair and the Treasurer. Authorized signatories on operating bank accounts are the following individuals:
  - COO
  - Director of Finance
  - Director of Operations
  - Director of Security
  - Director of Human Resources

To the extent possible, KICA encourages the use of bank-issued Purchase Cards by staff in lieu of requesting paper checks in the normal course of business. Purchase Cards will be issued to individual staff members as needed, and appropriate credit limits for each card will be set by the Director of Finance. All purchases, along with proper receipts and documentation, will be submitted monthly. All charges to Purchase Cards will be reviewed and approved by the staff member's department head for each purchase, after the fact. The COO's purchase card receipts will be reviewed monthly by either the Director of Finance or the Director of Operations.



KICA's COO, Director of Operations and Director of Finance are the officers and agents on investment fund accounts in accordance with applicable policies.

Checking transactions over \$1,000 require two signatures, one of who must be the COO, Director of Operations or Director of Finance.

Checks written for \$1,000 or less may be authorized by one signatory.

Checks and transfers in excess of \$200,000 on the investment and checking accounts for other than the purpose of moving money between KICA bank accounts, investing KICA funds, or for budgeted KICA projects, will be reported to the Board Chair, Vice Chair, and Treasurer and accompanied by supporting documentation.

The Director of Finance can make transfers in excess of \$200,000 to a KICA investment account and between KICA money market and operating bank accounts.

KICA maintains a Petty Cash fund, primarily for the use of Accounting, the Pass Office and Main Gate. All cash is kept in a locked location. KICA petty cash drawers should not exceed \$2,000 in total and should be balanced monthly, at a minimum.



## Chapter 6 - COLLECTION POLICY

KICA follows guidelines set within the Covenants and by internal policies to achieve timely collection of its annual assessment:

- Per KICA Covenants, Article V, all assessment bills shall be due and payable thirty (30) days from the date of mailing the same. The Board of Directors has defined that electronic mailing and/or US Mail are acceptable means of mailing assessments.
- Subsequent monthly statements will be mailed electronically and/or via US Mail to members with delinquent accounts, and a minimum of 1.5% monthly late fee will be applied to outstanding balances.
- 90 days after the due date, certified letters will be sent notifying members who carry a balance greater than \$500 that KICA will file a lien on the property if the balance, including late fees, is not paid within 30 days.
- Per KICA Covenants, Article IV, Section 6, it is the right of the Association to suspend the rights and easements of enjoyment of any Member, or Tenant or Guest of any Member for any period during which the payment of any assessment against property owned by such Member remains delinquent. The Board of Directors has defined these rights as Sandcastle access, member barcode privileges, voting rights, and other member rights. That suspension will go into effect after 90 days of delinquency.
- 120 days after the due date, liens will be filed at the Charleston County RMC office and a legal fee will be added to the outstanding balance due. The COO will inform the board of all liens filed.
- KICA Covenants provide that unpaid assessments, delinquent fees, and costs of collection shall become a charge and continuing lien on the member's property.
- Quarterly, the Board will review existing liens and may take action to initiate foreclosure.

Refer to KICA Covenants, Article V for guidance on collections related to properties in foreclosure. KICA maintains an allowance for doubtful accounts equal to 100% of the balance due from properties in the foreclosure process.

Owners will be billed separately for ancillary charges such as backflow inspections, Sandcastle charges, shuttle services, and covenant or security violations. Outstanding ancillary charges 30 days past due, will be added to the assessment billing and will be subject to the monthly 1.5% late fee.



Uncollectible charges may be written off as follows:

- Accounts with a balance due of under \$500 - by the Director of Finance and the department head responsible for the charge.
- Accounts of \$500 but under \$5,000 – with the approval of the COO and a report to the Board at the next regularly scheduled executive session Board meeting.
- Accounts of \$5,000 and up – by the Board. Should this occur, the Board would meet in executive session to decide, or may vote by electronic vote if it is time sensitive.



## Chapter 7 - CONTRACTS

### General Guidelines

The COO, at the direction of the Board, is the contracting agent for KICA and will sign all bilateral contracts. The COO may delegate purchasing authority and the authority to sign contracts to the Director of Operations or the Director of Finance on his/her behalf when he/she is unavailable.

There will be no contracts or transactions, with or without a dollar value, between KICA and one of KICA's employees, Board members, board-member elect, committee or task force members, or related parties without prior Board approval. Board notice, exceptis required for related party special event permits, regardless of dollar value. Related party transactions are also required to be disclosed in footnotes to the annual audited financial statements. Please refer to the Employee Handbook for Conflict-of-Interest policy for staff.

The department head most closely related to the project or service is responsible for monitoring the progress of the contract, authorizing interim and final payments, and reporting variances to their supervisor.

### Competitive Bidding for Products and Services

In order to ensure appropriate stewardship of KICA resources, a determination must be made to show that a proposed contract price of \$25,000 or more, which results in the procurement of goods and or services, is fair and reasonable, considering the quality, delivery and other factors. All contracts anticipated to be valued at \$25,000 or more are subject to a competitive bidding process. Competition for contracts less than \$25,000 is recommended when time and cost for obtaining quotes is reasonable. Normally, a minimum of three bids from competent sources are solicited to satisfy the competitive bidding requirement. Staff is expected to perform due diligence in obtaining bids when required.

Staff should clearly define the bid submission instructions, scope requirements, contract outcomes and due date for submission, allowing sufficient time for all bidders to respond (usually at least two



weeks). Supplier responses must be submitted in writing with quoted prices, terms and conditions clearly documented in the response. At no time should one bidder's information be shared with another bidder. Department heads should analyze the proposals to determine which bidder is best able to meet the contract specifications with the lowest cost. As stated in Chapter 4, any contract in excess of \$500,000 must have the additional prior approval of the KICA board. The board should be provided information on the contract, which would include all bids, specific terms and the COO's recommendation. (This does not apply in the case of emergencies, as outlined in #4 & 5 of Chapter 4.)

The \$25,000 competitive bidding requirement can be waived when the product or service is available from only one supplier or timing makes it difficult or more expensive (e.g., replacement of pipes) and the price charged by this supplier is fair and reasonable. The COO and the Treasurer must be notified of sole source bids and approve the sole source award.

In order to ensure KICA and its members receive the benefit of best and current practices, as well as competitive pricing, and that the quality of services and deliverables remains high, requests for proposal for the following are generally required every 3 years:

- Annual Independent Audit
- Insurance Brokers (Benefits and Property & Casualty)
- Investment Advisory Services
- 401K Administration
- Reserve Specialist

Exceptions to the three-year time frame, based on facts and circumstances, are permitted with COO approval. In no case, will the timeframe for re-competition of any contract exceed five years. The COO should report the timeline for individual contracts bidding to the Board Chair and Board Treasurer on a timely basis.

## Indemnification

All contracts will include an indemnification clause in favor of KICA, as follows:



The Contractor hereby agrees to save, indemnify, defend and hold KICA harmless against all liability, claims, demands, costs (including attorneys' fees and expenses), judgments, liens, and causes of action alleged, asserted, or imposed against KICA arising out of or related to personal injuries (including death) or property damage caused directly or indirectly by Contractor, its agents, employees and/or subcontractors, or by Contractor's Work. The indemnification obligation under this Paragraph shall not be limited in any way by any limitation on the amount or type of damages, compensation, or benefits payable by or for Contractor or any such subcontractor, supplier, or other individual or entity under workers' compensation acts, disability benefit acts, or other employee benefit acts.

For all services contracted by KICA, the department head will require a current certificate of insurance from the contractor naming KICA as an additional insured, with the general liability and worker's compensation limits to be at least as high as KICA's limits. These certificates will be required before signing the contract, with verification that the expiration dates of the insurance cover the period of work to be performed. Work may not begin before the contract is signed. In the event the contractor's insurance is to be renewed during the period of the contract, the department head is responsible for monitoring this date, and securing current certificates upon renewal.

#### Indemnification

1. Services contracts:
  - a. All payments for services contracts, or the services portion of contracts that also include materials, will be paid based on either progress payments or a final payment.
  - b. Acceptability of the services rendered either in part for progress payment contracts or in full for contracts with a final payment only, will be verified by the responsible department before payment is authorized.
2. Contracts requiring the acquisition of materials from a third party (i.e. from a vendor, supplier or contractor to the prime contractor with which KICA contracts) in excess of \$50,000 shall incorporate one of the following approaches:
  - a. Have the materials, as specified by the prime contractor in accordance with the contract between KICA and the prime contractor, paid for by KICA directly to the





third party vendor, supplier or contractor and delivered as appropriate to the KICA prime contractor, or,

- b. Utilize a joint check agreement approach, or
- c. Require a payment bond between the KICA prime contractor and the third party vendor, supplier or contractor.



## **Chapter 8 - CONTRIBUTION TO RESERVES FEE**

### **(Reference: KICA Covenants Article V, Section 6)**

Upon each transfer of a member property, KICA will be paid a Contribution to Reserves (CTR) fee equal to 0.50% of the purchase price. In no event shall the CTR due upon property be less than the amount of the current annual assessment for such property. The purchaser is responsible for payment of the CTR, and for notifying KICA of changes in ownership. The Director of Finance or designee is responsible for ensuring all fees are collected and reconciling property transfers.

See Article V, Section 6(f) of KICA covenants for a listing of transactions or properties exempt from the CTR. The owners involved shall submit to KICA a copy of the deed, or other instrument evidencing the transfer and an original affidavit signed under oath and penalty of perjury by the grantee attesting the basis upon which the transfer is claimed to be exempt from the CTR, in whole or in part before a final decision on exemption is made by the COO. Members may appeal the COO's decision to the Board.

The CTR fee will apply to partial interest transactions. For example, if two households jointly own a property, and one household purchases the other household's interest for consideration, then the fee is calculated on the purchase price.

The fees collected go directly into the KICA reserve fund. Up to 15% of the Contribution to Reserves Fee collected by KICA on an annual basis shall be available for use to cover the costs for the administration and management of the Contribution to Reserves Fees, as approved by the KICA Board as part of the budget process.



## Chapter 9 - FINANCE COMMITTEE

The Finance Committee (FC) is chartered by the Board as a standing, advisory committee consisting of 9 members, including the Committee Chair. The FC Chair will generally be ex-officio the Treasurer of the Board, unless the Board deems an exception necessary.

At the request of the Board, the FC will:

- Advise the Board and COO in matters of Finance, Audit and Accounting in order to further KICA's mission of protecting, preserving and enhancing its assets and services, and prudently managing its financial liabilities;
- Recommend improvements to the financial policies that govern KICA;
- Assist in the achievement of the KICA's goals as defined by KICA's policies and strategic plan.

A more detailed description of the FC objective and responsibilities is outlined in the KICA Finance Committee Charter.



## Chapter 10 - FIXED ASSETS

All equipment items with a useful life in excess of one year and costing more than \$2,500 are to be capitalized and depreciated over the estimated useful life using the straight-line method of depreciation for book purposes.

The purchase of capital items will be approved during the annual operating budget process and the responsible department head will provide written justification for the purchase along with competing bids for assets with a purchase price greater than \$25,000.

### KICA Funded Depreciation

The following guidelines apply to depreciation funding for common personal property such as vehicles, furniture & fixtures, and equipment with depreciable lives of 7 years or less under MACRS.

#### Guidelines:

- Funds from the general assessment/operating fund are transferred to the property division of the operating fund as the property defined above is depreciated. Where the MACRS life of an asset is in question (e.g., HVAC equipment, generators), KICA will err on the side of protecting member/owners by assigning a life of 7 years to the asset in order to fund its replacement.
- Only asset replacements may be funded with depreciation dollars.
- All new and replacement assets should be part of the budget process unless they meet an emergency need or are necessary for compliance with an unforeseen external mandate.
- If a current asset breaks down or has unforeseen damage during the year and needs to be replaced, the COO may approve replacement, regardless of cost. When the replacement cost exceeds \$25,000, the purchase will be reported to the Board of Directors at the next regularly scheduled Board meeting,
- The COO must approve the substitution of capital assets where a budgeted capital item is not needed or, when a favorable price variance results in the availability of additional dollars. Substitutions or the use of a favorable variance with a value exceeding \$25,000 will be reported to the Board at the next regularly scheduled Board meeting.



- Fully depreciated assets with a salvage value in excess of \$2,500 may be sold and where the sale is foreseeable, should be reflected in the annual operating budget.



## **Chapter 11 - FUND ACCOUNTING & FUND BALANCE DEFINITIONS**

KICA's governing documents (Declaration of Covenants and Restrictions of the Kiawah Island Community Association, Inc. and by-laws of Kiawah Island Community Association, Inc.) provide guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, KICA will use accrual accounting prepared according to the fund reporting method.

Since 2019, KICA's external auditor has advised the Finance Committee and Board that best practices for community associations are to have two funds: An Operating Fund and a Reserve Fund. The following are current definitions of funds established for the KICA.

### **The Operating Fund**

The Operating Fund is used to account for the financial resources available for the departments responsible for general day-to-day operations of KICA such as Security, Land Management, etc. Revenues include assessments, access fees, late fees income, interest income, user fees and miscellaneous income.

The Director of Finance monitors each department's budget and identifies unbudgeted expenses. Material items are reported to the appropriate personnel and on the monthly financial statements.

The Operating Fund balance should cover material expenses that were not anticipated at the time the budget was prepared, such as certain site clean-up costs from a storm as outlined in the Named Storm Policy.

In times of an operating surplus, the surplus amount can be transferred to the major repair and replacement fund, kept in the operating fund balance or rolled over to the next fiscal year to offset expenses.

### **The Reserve Fund**



Per the covenants Article V, Section 6, these funds may be used for any purpose that qualifies as exempt from taxation under the provision of the Internal Revenue Code and are designed to fund major infrastructure repair and replacements (MR&R). These funds will not be spent on KICA operations with the exception of up to 15% of the CTR fee collected by the KICA on an annual basis shall be available for use to cover the costs for the administration and management of the CTR fees program. The Board alone is the fiduciary for the reserve funds and has sole authority to authorize expenditures through the budget approval process.

Due to the magnitude of the replacement costs of KICA's infrastructure, staff will update the internal replacement reserve study as new assets are added. The study will include the replacement cost and the life of each asset. Inflation will be accounted for in the study. The replacement reserve study is a guide to KICA's Board, staff and committees and is not definitive as to when and which assets are repaired or replaced. Staff contracts annually with an outside reserves specialist to update the replacement reserve study.

Per industry standard and generally accepted accounting principles, MR&R and Landscape Capital Improvement (LCI) expenditures are to be expensed in the year incurred rather than capitalized and added to KICA's balance sheet.

Revenue sources include contribution to reserve fees, reserve assessments, commercial access fees and related investment income. Additional funding sources may include a transfer from the general operating fund, a year-end operating surplus, if any, and reimbursements. In times when the Board considers these funds' resources inadequate, a supplemental or special assessment may be needed.

## Operating Fund Divisions

Though not considered separate funds of the association, certain divisions within the operating fund are budgeted individually and tracked for internal reporting purposes. Currently, these include:

### **Personal & Real Property Division**

The personal and real property division includes all KICA's fixed assets. This division will contain asset accounts that categorize the KICA's capital items purchased; investment



accounts for dollars held for capital asset replacement, and one accumulated depreciation account that combines prior and current depreciation on all funds' fixed assets.

### **Recreation Division**

This division deals with the operations of the Sandcastle, Rhett's Bluff, and Cinder Creek.

Revenue sources include the amenity assessment charged to all Type A members (residential property owners as defined in the Covenant), late charges, interest income, user fees, educational and community events, and food and beverage sales. It also includes the special assessment for the construction of the building established in 1994 by the membership for future owners. (This special assessment is now known as the recreation center initiation fee.) For further detail on this special assessment, please refer to Chapter 17, Property Status, in this manual.

Article IV, Section 5 of KICA's covenants include a provision that the amenity assessment for the recreation center may not increase by more than 5% per year. The section also includes a statement that the recreation center and other purchased common property may be funded by the annual assessment as long as that can be done without negatively affecting existing operations of the association.

A separate budget for recreation operations will be included as a division of the operating fund in the budget package for Board approval.

### **Segment Assessment Divisions**

In addition to annual assessments, the Board is authorized to levy assessments to be used for the benefit and/or operation of a particular portion or segment of Kiawah Island, and the payment of such assessment shall be borne solely by the owners within that segment. Separate budgets for any segments will be included as divisions of the operating fund in the budget package for board approval. Current segments include The Vanderhorst Gate, The Preserve, and Ocean Park. Any Segment Assessment shall be separately approved during the budget process by the Board of Directors and income and expenses shall be tracked separately by the Finance Department. All





income derived from a Segment Assessment shall be used exclusively for expenses incurred by KICA for the specific segment. Any surplus at year end for the V-gate shall be held in major repairs and replacements. Any surplus for either the Preserve or Ocean Park is held as an operating surplus.



## **Chapter 12 - INSURANCE**

KICA insurance policies include property, general liability, crime, umbrella, auto, flood coverage, worker's compensation, Directors 'and Officers 'liability, and other coverages as determined necessary.

At renewal time, KICA's COO, Director of Finance, and Director of Human Resources will evaluate coverage needs and together with KICA's broker, will report carrier options and coverage levels to the FC. The FC's comments and recommendations will be presented to the Board at their next Board meeting by the FC Chair. Board approval is not required for coverage changes unless there is a 10% variance in premiums from the budget. If coverage is reduced for any reason, the Board is to be informed by the FC Chair at the next Board meeting.

Health insurance is specifically addressed in the *Personnel Controls Manual*.

## **Chapter 13 - INCOME TAXES**

On July 8, 2010, KICA became recognized by the IRS as a social welfare organization and is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code, except on income derived from unrelated business activities.

## **Chapter 14 - INVENTORY CONTROL –SMALL EQUIPMENT, PARTS, and SUPPLIES**

This section deals with items costing less than \$2,500, such as small equipment, parts, and supplies. Department heads maintain their departmental inventory and monitor the line items in his/her budget. The department head is responsible for explaining any material negative variance or material loss that occurs.

Each department head or supervisor is responsible for his/her area's inventory with the Director of Operations providing oversight in the operating departments. Any material discrepancies will be reported immediately to the COO, Director of Operations, and Director of Security.



## **Chapter 15 - INVESTMENTS**

### **Short-Term Investments**

KICA may invest funds that are expected to be spent over the next twelve months as follows:

- US Treasury securities maturing in one year or less
- Federally insured bank certificates of deposit maturing in one year or less
- Money Market Funds which invest in US government and other high-quality money market instruments, and are sponsored and managed by reputable, low-expense financial institutions.
- US Government Agency Securities
- Commercial paper
- Short duration fixed income products

### **Medium- and Long-Term Investments**

Per KICA Investment Policy, the medium- and long-term strategies apply to the investment funds (i.e. funds for capital asset replacement, the Vanderhorst Gate and the Reserve for Major Repairs and Replacements) that are not expected to be spent on KICA operations during the next 12 months. The KICA Board's approved Investment Policy is an appendix to this manual.

## **Chapter 16 – PERSONNEL**

*(Intentionally removed from the FCM as finance-related personnel matters are addressed in the Personnel Controls Manual.)*



## **Chapter 17 - PROPERTY STATUS (KICA Covenants Art V, Section 3; a)**

### **Residential**

#### **Annual Assessments**

When the Developer sells a lot from inventory, the lot becomes unimproved property and is subject to assessment. The payment to KICA of fees for improved properties is required when the owner of an unimproved lot receives a Certificate of Occupancy, following the completion of construction. The resulting difference in assessments is prorated over the remaining full quarters of the year. For example, if a Certificate of Occupancy is received in the first quarter, the member must pay 75% of the annual assessment since there are three full quarters left in the year. (Reference: KICA Board Policy “KICA Assessments - Property Status Change,” dated 3-07-2022)

#### **Recreation Assessment**

Lot owners who take out an ARB building permit also owe the remaining half of the recreation assessment. The 1994 referendum to construct the Sandcastle Community Center stated that the special assessment levied on KICA members would include future properties, and that each owner of a new property would pay a special assessment equal to the general assessment for that year. The first half of the assessment is paid when a lot is originally purchased and is based on the general assessment at that time. When the building permit is taken out later, the remaining half of the special assessment would become due. The amount of the recreation assessment equals the general assessment in effect when the permit is issued; as the general assessment increases, so does this fee. The Director of Finance, or designee, receives building permit lists monthly from the ARB, and will bill the member the prorated difference in assessments and the remaining half of the initiation fee.

### **Commercial**

Article V, Section 3(f) of the Covenants provides that public or commercial units will be classed as unimproved land until such time as construction has occurred. The payment to KICA of fees for improved properties is required when the commercial owner of an unimproved lot receives a Certificate of Occupancy, following the completion of construction. The resulting difference in assessments is prorated over the remaining full quarters of the year. For example, if a Certificate of



Occupancy is received in the first quarter, the commercial member must pay 75% of the annual assessment since there are three full quarters left in the year.

For more information, please see KICA Board Policy *KICA Assessments - Property Status Change*.



## Chapter 18 – CHARITABLE DONATIONS

KICA shall allocate financial resources for charitable purposes in a very limited manner and these charitable donations shall be restricted to the following:

- Support of KICA’s community outreach program known as Kiawah Cares, including administrative support as well as direct financial support not to exceed \$1,000.00 annually.
- Modest “in lieu of” donations for memorials, honoraria, etc., not to exceed \$100 per event and not more than 3 events per year.
- Any Berkeley Electric Cooperative “operation round up” accounts already established as of the publication date of this manual.

## Chapter 19 – CONFLICT OF INTEREST

All KICA employees, board members, committee & task force members will sign & comply with KICA’s Conflict-of-Interest (COI) policies. COIs will be signed annually. All COIs will be reviewed by the COO and Director of Human Resources. Annually, the KICA board will be provided with information from COIs, from each group.

For more detailed information, please refer to the *Conflict of Interest Policy for KICA Employees* and *Conflict of Interest for KICA Non-Employee Officials*.

All contractors, upon being informed as to the members of the board and the Finance Committee as part of the contracting process, must disclose the possibility of a COI with respect to KICA employees, members of the Board, board member-elect or Finance Committee Any contract or related party transaction that involves KICA and a KICA employee, board member, board member-elect, committee or task force member requires specific KICA board approval.



## **Chapter 20 – RELEVANT FINANCIAL POLICIES**

- Charter, Finance Committee
- Conflict of Interest Policy for KICA Employees
- Conflict of Interest Policy for KICA Non-Employee Officials
- Debt Policy & Principles
- Emergency Storm Policy
- Investment Policy
- KICA Assessments – Property Status Change
- Line of Credit for Named Storm
- Reserve Fund Policy
- Personnel Controls Manual

