

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE

Reserve Fund Policy

INTRODUCTION

KICA maintains a “Reserve Fund” which exists to ensure adequate financial assets are available over time to conduct major repairs of and replace specifically identified assets within the KICA operating environment.

The basis for determining the size of the “Reserve Fund” is an annual asset “Reserve Study” performed by a third-party industry expert. This study identifies the useful life of the identified assets and their estimated replacement costs.

A multi-year funding plan exists to adequately provide for the “Reserve Fund”. The cost of funding the reserve is derived from the annual KICA member assessment program, a portion of property transfer and island access fees, and investment earnings.

OBJECTIVE

The purpose of the KICA Reserve Fund Policy is to define the policies, guidelines, objectives, and responsibilities that govern the “Reserve Fund” program.



DELEGATION OF RESPONSIBILITIES

- The Board of Directors has sole authority for all decisions related to the Reserve Fund Policy, asset replacement strategies, and all associated operating and execution elements.
- The Finance Committee is accountable to the Board of Directors for the following:
 - Recommending the “Reserve Study” Consultant industry expert
 - Maintaining the KICA Reserve Fund Policy and recommending modifications over time
 - Recommending the level of annual “Contribution to Reserve Adjustment” amount
 - Reviewing the Reserve Fund investment portfolio experience on a regular and periodic basis
- The Reserve Study Consultant is responsible for:
 - Assisting the KICA Finance Committee in the development of the Reserve Fund Policy, associated guidelines, and operating requirements
 - Preparing and issuing the “Reserve Study” on an annual basis, incorporating industry knowledge, benchmarking, and other skills unique to their business experience

POLICY GUIDELINES

- The Reserve Fund Policy should strive to create a consistent annual “Contribution to Reserve Adjustment” to offset the annual deterioration cost of the identified infrastructure.
- The policy seeks to balance reserve contributions with the replacement costs of assets identified in the “Reserve Study” taking into consideration inflation, local building and construction costs, analysis of asset life, professional judgment, and the unique nature of KICA assets in Kiawah.
- The funding level, referred to as the “Percent Funded,” can be expressed as a percentage of the current estimated value of depreciation of the named assets. Judgment is ultimately involved to achieve consistent annual reserve contributions and to accomplish the “Reserve Fund” objectives over the long term.



- The Board has established that the “Percent Funded” target should be between 50% and 100% of the current estimated value of depreciation of the named assets, as presented in the latest “Reserve Study.” The Board reserves the right to change these guardrails over time as facts and circumstances change.
- Up to 15% of the Contribution to Reserves and Island Access Fees collected by KICA on an annual basis is available for use to cover the costs of the administration and management of the “Reserve Fund” program.

OPERATING GUIDELINES

- The level of “Contribution to Reserve Adjustment”, which is the portion of the property transfer fees used to fund the “Reserve Fund”, should be reviewed and agreed as part of each annual KICA budgeting process.
- The “Reserve Study” Consultants should meet at least annually with the KICA Finance Committee to review the study, ensure goals & policy requirements are being met, provide insights, and identify any associated recommendations.
- Any material changes to facts and circumstances related to the “Reserve Fund” program should be reported to the Finance Committee when known.
- A copy of the annual “Reserve Study” Executive Summary and the full report should be made available to the KICA Community on a timely basis, via posting to www.kica.us.
- The KICA Reserve Fund Policy should be made available to the KICA Community, via posting to www.kica.us.

MODEL ASSUMPTION GUIDELINES

The reserve model is dependent on several key inputs and assumptions. The following assignment of responsibilities applies to the basic model inputs and assumptions used to determine the recommended reserve levels:

- KICA Executive Staff and the Reserve Consultant are jointly accountable for maintaining the list of named assets in the “Reserve Study”



- KICA Executive Staff will be responsible for providing model assumptions for annual “Reserve Revenues” and growth of those “Reserve Revenues” over the time period of the model analysis
- KICA Executive Staff will be responsible for providing model assumptions for the growth of the Reserve Fund investments over the life of the model analysis
- KICA Executive Staff will be responsible for setting the assumed rate of cost increase for asset replacement costs over the life of the assets. For purposes of the “Reserve Study”, the appropriate metric to be used in this analysis is the 10-year rolling average of the “US PPI Final Demand Construction Rate” as published by U.S. Bureau of Labor Statistics at <https://www.bls.gov/>
- The Reserve Study Consultant is responsible for determining the useful life of each asset, the remaining useful life of each asset, assigning an estimated replacement cost for each asset, and assessing the overall diagnostics of the reserve study outputs

RELATED KICA POLICIES

Reference is made to the KICA Investment Policy Statement which governs the oversight of the Investment Portfolio that solely exists to fund the replacement of named assets in the “Reserve Study”

