

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE

Reserve Study Overview

This Reserve Study Overview is intended as contextual commentary in support of the KICA Reserve Fund Policy (the Policy) to assist the Membership in understanding the Reserve Study.

Each year, as required by the Policy, a third-party expert Reserve Study Consultant is engaged to perform a Reserve Study of the physical assets whose enhancement and/or replacement is to be funded by the Reserve Fund in the future. The Reserve Study is one of the key inputs utilized by the KICA board to assess the adequacy of the Reserve Fund as required by the Policy and to take actions it considers necessary based on that assessment.

CONTENT OF THE RESERVE STUDY

The Reserve Study report represents an independent inventory and assessment of the assets covered by the Reserve Fund with respect to their current and remaining useful lives and their estimated replacement cost. The Reserve Study also contains an independent assessment of the adequacy of funds currently held in the Reserve Fund as well as an estimate of the required contributions to the Reserve Fund necessary to maintain certain target funding ratios.

Key data elements of the Reserve Study include:

- Complete inventory of assets by category
- Current useful life of each asset



- Remaining useful life of each asset
- Estimated replacement cost of each asset
- Estimates of future long-term inflation and Reserve Fund investment earning rates

FOUNDATIONAL RESERVE STUDY CONCEPTS

- It is important to maintain an accurate inventory of the assets, periodically physically inspect the assets, and update assumptions with regard to replacement costs and useful lives of the assets, and for this reason the Reserve Policy requires a Reserve Study be completed each year.
- Replacement costs are important estimates made by the Reserve Study expert and will change each year based on the estimated timing of replacement and changes to costs based on inflation and changes in raw materials and labor that have occurred. In this sense, replacement costs are reset each year to a new baseline based on actual experience, with future replacement cost increases governed by the future long term inflation assumption.
- Useful lives and remaining useful lives of assets are important estimates made by the Reserve Study expert and will change each year based on actual experience with asset lives, the passage of time and/or physical inspection. The KICA Reserve Fund Policy does not require physical inspection each year of Reserve Fund assets.
- Useful lives, remaining useful lives and replacement cost estimates are utilized together to calculate the estimated value of the depreciation (or deterioration) caused by time and usage or increases in replacement costs. For example, an asset with a replacement cost of \$1,000,000, a 20-year estimated useful life and a 10-year estimated remaining useful life will have an estimated value of depreciation (or deterioration) of \$500,000 since half of its estimated useful life has passed.
- The principal industry metric used to assess relative adequacy of the funds currently held in a Reserve Fund is the amount of funds in the Reserve Fund divided by the estimated value of the depreciation (or deterioration) expressed as a percentage. This ratio is referred to as “Percent Funded” or “Reserve Fund Strength”, and represents the amount of cash in the Reserve Fund as a percentage of estimated depreciation (or deterioration) in the assets that



has occurred based on their replacement cost. A value of 100% would indicate that the Reserve Fund was currently holding funds that are equal to the estimated depreciation (or deterioration) that has occurred.

- The KICA Reserve Fund has several sources of funds in addition to member assessments, and these currently include contributions to reserves from assessments on the sales of properties, fees from commercial vehicular traffic and earnings from Reserve Fund investments. These future sources of funds in addition to member assessments have been a significant contributor to growth in the Reserve Fund balance, and represent an important consideration in assessing the adequacy of the Reserve Fund at any single point in time.
- Members interested in reviewing the Reserve Study should focus on the Executive Summary section of the Reserve Study describing the process followed by the Reserve Study, key assumptions and the Reserve Study expert's assessment of the Reserve Fund's strength.

