

KIAWAH ISLAND

COMMUNITY

ASSOCIATION



Financial Controls Manual

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Table of Contents

Chapter 1, p. 4	DELEGATION OF AUTHORITY
Chapter 2, p. 4	INTERNAL CONTROL PROCEDURES
Chapter 3, p. 6	ANNUAL BUDGET PREPARATION
Chapter 4, p. 7	BUDGETARY CONTROLS
Chapter 5, p. 8	CASH MANAGEMENT
Chapter 6, p. 10	COLLECTION POLICY
Chapter 7, p. 11	CONTRACTS
Chapter 8, p. 14	CONTRIBUTION TO RESERVES FEE
Chapter 9, p. 15	FINANCE COMMITTEE
Chapter 10, p. 15	FIXED ASSETS
Chapter 11, p. 17	FUND ACCOUNTING & FUND BALANCE DEFINITIONS
Chapter 12, p. 20	INSURANCE
Chapter 13, p. 20	INCOME TAXES
Chapter 14, p. 20	INVENTORY CONTROL – SMALL EQUIPMENT, PARTS, & SUPPLIES
Chapter 15, p. 20	INVESTMENTS
Chapter 16, p. 22	PROPERTY STATUS
Chapter 17, p. 23	CHARITABLE DONATIONS
Chapter 18, p. 23	CONFLICT OF INTEREST
Chapter 19, p. 24	RELEVANT POLICIES



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 (BOD), finance-related BOD motions and associated internal control policies and procedures. The FC will review the FCM and related accounting department Standard Operating Procedures (SOPs) as they deem appropriate but not to exceed every 3 years and recommend to the BOD any action to be taken, including conducting an independent review of the KICA internal control environment.

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 BOD. The contents of this manual are subject to change at any time by vote of the BOD. In the event of a direct conflict between the information in this manual and the Declaration or Bylaws, the language in the Declaration and Bylaws shall control.

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

Finance Committee ("FC") members will receive a current copy of this document upon joining the FC and BOD members will receive a current copy each year at their annual orientation meeting.

All employees with purchasing authority receive a copy of the current FCM and must sign an acknowledgement that they have read and will adhere to the policy.



Chapter 1 - DELEGATION OF AUTHORITY

Per Article VI, Section 1 of the KICA By-Laws, the ultimate authority over the management and conduct of the business affairs of the Association shall be exercised by or under the direction of the Board of Directors. Per Article VII, Section 7 of the KICA By-Laws, the BOD 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 BOD and KICA’s staff and it is the expectation and general practice of the BOD 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 Communications.

Chapter 2 - INTERNAL CONTROL PROCEDURES

KICA maintains policies and procedures to ensure an appropriate control environment which are documented in Standard Operating Procedures (SOP’s). 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. A department head is responsible for reporting any discrepancy or misconduct involving the COO to the Director of Human Resources as soon as he/she becomes aware of such. The Director of Human Resources is responsible for reporting any discrepancy or misconduct involving the COO directly to the BOD as soon as he/she becomes aware of such. The BOD will determine next steps, if any.



The KICA Human Resources Department shall utilize a third-party firm to provide a whistleblower hotline. This hotline is available to staff and the BOD 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.

The Director of Finance will inform the FC of any substantive changes to procedures at their next meeting. The FC shall review these changes promptly upon notification and provide acceptance or direction for further changes.

For procedures related to appropriate segregation of authority, duties and responsibilities, please refer to the Accounting Department SOP's.

External, Independent Audit (internal control cont.)

The Finance Committee Charter as approved by the BOD on Dec 4, 2023 states:

“The FC will serve as the Audit Committee and in that role the FC will review all external independent accountants’ reports, observations and comments and advise the Board on instituting any necessary changes. The FC will meet with external auditors at least once a year to review the annual audit results and provide advice to the Board on any recommendations from the independent auditors including any updates of changes to internal control policies.”

The FC, in conjunction with KICA staff, shall engage in the execution of an annual, independent audit of the KICA financial statements and related disclosures, the objective of which is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report.



The annual audit will:

- be conducted in accordance with auditing standards generally accepted in the USA (GAAS);
- identify and assess risks of material misstatement, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide an opinion in the audit report;
- obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures; and
- evaluate appropriateness of accounting policies used.

The engagement of the independent auditor shall be approved in advance by the Treasurer and shall comply with the procedures outlined in Chapter 7 herein.

Chapter 3 – ANNUAL BUDGET PREPARATION

The Director of Finance, in conjunction with the COO, shall design an annual budget process that is communicated to the BOD at their annual orientation meeting. Subsequent to this meeting, the annual calendar of BOD and FC meetings are published to the membership. Dates are subject to change with a minimum 3-day notice to the membership. KICA adheres to a zero-based budget philosophy in which expenses, including all personnel and professional expenses, are justified annually for each budget category.

The Director of Finance shall design a process based on prior feedback from the FC and BOD. The budget shall include the Operating Fund Budget, sub-divided into the various funds (General/Property, Recreation, and ARB) and Segments (Ocean Park, Preserve and V-Gate) and the Reserve Fund Budget that includes Landscape Capital Improvements and Major Repairs and Replacement (MRR).

The budget presentation shall include a cash basis report that projects cash balances, forecasting of current year performance against budget, a capital purchases report and a 10-yr Reserve Fund projection. At a minimum, the process shall include 2 reviews by the FC which shall be open to membership, culminating in a recommendation to the BOD, a BOD budget workshop and a final presentation to the BOD for approval in a meeting open to the membership which shall occur as early in the 4th quarter as is practical.

The BOD approved budget shall be posted to the KICA website.



Chapter 4 - BUDGETARY CONTROLS

Authorization Limits for KICA COO

- 1) The COO will inform the BOD 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 BOD 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 they do not create a negative variance beyond those listed in #2 above.
- 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 KICA.
 - Protection of KICA property from imminent damage.
- 5) The COO will inform the BOD of such expenditures within 5 business days of said expenditures, or at the next regularly scheduled board meeting, whichever comes first. The BOD will have the authority to suspend the use of the emergency line item by email notification to the COO and the COO shall use best efforts to cease such expenditures as soon as practical.
- 6) In the event KICA experiences a natural disaster (e.g. hurricane) the COO will be authorized, with prior approval from the Chair and Treasurer, to activate and spend against the Line of Credit in order to meet KICA's financial obligations and expedite cleanup efforts. When the Chair and/or Treasurer are unavailable, two BOD members will suffice. The COO will present a detailed accounting of any Line of Credit spending at the next regularly scheduled BOD meeting or within 5 business days of said expenditure, whichever is earlier. New projects, not in the current budget, with contract value in excess of \$25,000 must have an additional prior approval from the BOD, except in the case of emergency or



contingency purchases as discussed herein.

- 7) Any contract in excess of \$500,000 must have the additional prior approval of the KICA BOD. The BOD should be provided information on the contract, which shall 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 with explanations for key variances to budget will be reviewed by the FC at their meeting scheduled as soon after quarter-end as is practical (generally, after the 19th calendar day post quarter-end), distributed to key staff and the BOD and posted on KICA's website as soon as practical thereafter.

Chapter 5 - CASH MANAGEMENT

Banking

- KICA will maintain bank accounts and investment accounts that support BOD policies and priorities and that are with institutions on the Global Systemically Important Banks (G-SIB) list. Smaller banks are permitted provided that balances are kept within the FDIC insured limit.
- KICA will maintain an Emergency Line of Credit in accordance with its Debt Policy. The BOD 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 BOD Chair and the Treasurer and the Treasurer will inform the FC of such. Authorized signatories on operating bank accounts are the following individuals:
 - COO
 - Director of Finance
 - Director of Operations
 - Director of Communications
 - Director of Human Resources

Bank issued 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 promptly after each charge. All charges to Purchase Cards will be reviewed and approved by the staff member's department head. The COO's purchase card receipts will be reviewed monthly by the Director of Finance and then submitted to the Chair or Treasurer of the BOD for review. KICA's COO, Director of Operations and Director of Finance are the officers and agents on investment fund accounts in accordance with applicable policies.

KICA currently manages expenditures through the PaperSave accounting platform. The automated workflow is designed to provide a non-circumventable process for reviews and approvals at appropriate levels and leaves an audit trail that culminates with payment.

The process includes the following internal controls:

1. Expenditure approvers include: COO, Dir of Ops, Dir of Finance, Dir of HR, Dir of Communications;
2. Expenditures requiring two approvals must have at least one of the following approvals: COO, Dir of Ops, Dir of Finance;
3. Expenditures over \$1,000 require two approvers;



4. Physical checks require one signature, however, as an added control, checks over \$10,000 require two signatures;
5. Manual checks are a rarity but when executed must contain two signatures;

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 BOD approved, budgeted KICA projects, will be reported to the BOD Chair, Vice Chair, and Treasurer and accompanied by supporting documentation.

The Director of Finance can make transfers of any amount 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, 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 up to a maximum 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 decal 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 ROD office and a legal fee will be added to the outstanding balance due. The COO will inform the BOD of all liens prior to filing.
- 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 BOD 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, 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 late fees.

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 BOD at the next regularly scheduled executive session BOD meeting.
- Accounts of \$5,000 and up – by the BOD. Should this occur, the BOD 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 BOD, is the contracting agent for KICA and will sign bilateral contracts. The COO, with written authorization, may delegate purchasing authority and the authority to sign contracts to the other authorized signatories on operating bank accounts as described in Chapter 5 herein on his/her behalf when he/she deems necessary.

There will be no contracts or transactions, with or without a dollar value, between KICA and one of KICA's employees, BOD members, BOD-member elect, committee or task force members, or related parties without prior BOD approval. BOD notice is required for related party special event



permits. 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.

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, all contracts anticipated to be valued at \$25,000 or more are subject to a competitive bidding process in order to determine fairness and reasonableness considering quality, deliverables and other factors. 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 should clearly define the bid submission instructions, scope requirements, contract outcomes and due date for submission, allowing sufficient time for all bidders to respond. Bid submissions 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. As stated in Chapter 4, any contract in excess of \$500,000 must have the additional prior approval of the KICA BOD. The BOD 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 viable supplier or timing makes it difficult or more expensive and the price charged by a supplier is determined to be 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 recommended every 3 years but not to exceed 5 years without BOD approval:

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

As part of the bidding process, these key consultants/contractors must be required to disclose the possibility of a Conflict of Interest with respect to KICA employees, BOD members or member-elects and Finance Committee.

Well in advance, the COO shall report to the FC and BOD, any of the above contracts that are scheduled to go beyond 3 years.

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.

Contract payments:

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 BOD.

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.

Per KICA Covenants Article V, Section 6, up to 15% of the Contribution to Reserves fee is available to cover the costs of administration and management of the program. Based on GAAP guidelines, the 15% administrative fee will go directly to the Operating Fund with the balance of the Contribution to Reserves fee going directly to the Reserve Fund.

Chapter 9 - FINANCE COMMITTEE

The FC is chartered by the BOD 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 BOD, unless the BOD deems an exception necessary.

At the request of the BOD, the FC will:

- Advise the BOD, COO and Director of Finance 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 FC 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. The competitive bidding requirement can be waived when the asset is available from only one viable supplier or timing makes it difficult or more expensive and the price charged by a supplier is determined to be fair and reasonable. The COO and Treasurer must approve, in advance, sole source purchases.

KICA Asset Replacement \$ (formerly, Funded Depreciation)

The following guidelines apply to asset replacement 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 Asset Replacement Dollars. The full cost of the replacement will be funded.
- The Property Fund will be attributed its proportionate share of investment earnings from cash/investment balances carried within the Fund to help offset inflation.
- 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 BOD at the next regularly scheduled BOD 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 BOD at the next regularly scheduled BOD meeting.



A fully depreciated asset's salvage value, if any, when foreseeable and the sale is practical, 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.

The FC and BOD have determined 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 (G & A, Security, Land Management, Maintenance, etc), segments (V-gate, Ocean Park, Preserve, etc.) and divisions (Recreation, Property, ARB, etc.) that account for the general day-to-day operations of KICA.

The Director of Finance monitors the monthly budget activities for each area and identifies variances of a material nature, reporting them to the appropriate staff for reconciliation and accountability.

The BOD, with input from the FC, shall determine what steps are taken to account for the net surplus or deficit in any given year, including but not limited to a transfer to the Reserve Fund, absorbing in the Operating Fund and/or designating the resources for a specific purpose.



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 KICA's capital items purchased; an investment account(s) for dollars held for capital asset replacement and interfund transactions, and an accumulated depreciation account that combines prior and current depreciation on all depreciated assets.

Recreation Division

This division accounts for 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), the recreation center initiation fee charged to purchased properties, late charges, investment income, user fees, educational and community event fees, and food and beverage sales.

Article IV, Section 5 of KICA's covenants includes 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 BOD approval.

ARB Division

This division accounts for the operations of the Architectural Review Board function added in 2025. At the time of finalizing this version of the Financial Controls Manual, a strategic plan of implementation was not available. This section will be updated when available.

Segment Assessment Divisions



In addition to annual assessments, the BOD 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 BOD 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 BOD 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 or deficit at year end shall be held in each segment's Fund Balance. An accumulated surplus in a Segment shall be reserved for use by that segment and designated as such in financial presentations.

The Reserve Fund

Per 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). Reserve Fund resources are intended solely for major infrastructure repairs and replacements and may not be utilized for general operating activities with the exception to the 15% administrative fee on CTR and access fees which is attributed directly to the Operating Fund.

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 BOD, 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 CTR fees, Reserve assessments, commercial access fees and investment income. Additional funding sources may include a transfer from the general operating fund and a year-end operating surplus. In times when the BOD considers the Reserve Fund resources



inadequate, a supplemental or special assessment may be considered.

Chapter 12 - INSURANCE

KICA insurance policies include property, general liability, crime, cyber, umbrella, auto, flood coverage, worker's compensation, Directors 'and Officers' liability, and other coverages as recommended by the FC and approved by the BOD.

At renewal time, KICA's COO, Director of Finance, and Director of Human Resources will evaluate coverage needs and together with KICA's broker(s), will report carrier options, coverage levels and costs to the FC. The FC will recommend a portfolio mix to the BOD along with supporting information. BOD approval is not required unless there is a 10% variance in premiums from the current budget or coverage limits have been reduced.

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

The KICA BOD has implemented the following cash management framework that includes Operating Cash/Investments, Designated Cash/Investments and Reserve Fund Cash/Investments:



1. **Operating Cash/Investments** is comprised of those resources needed for current and ensuing year operating expenditures and are managed by the Director of Finance. The intent for investing these resources is to ensure sufficient resources to meet daily cash needs and maximize yield while preserving KICA assets. Investing is to follow the following guidelines and when transferred to the Investment Advisor, shall be invested in accordance with the Operating Cash Investment Policy Statement.

- Money Market accounts;
- 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; and
- Short duration fixed income products.

2. **Designated Cash** is comprised of resources that are designated for specific purposes, i.e., Asset Replacement \$, the accumulated surplus of Segments, unique events (e.g., named storm reserve) and other assets that don't fit the purpose of the Reserve Fund and are not needed for current operations. The Director of Finance shall transfer funds promptly upon the determination of a "designated" purpose as determined by the FC from time to time. These resources are transferred to and managed by the Investment Advisor within the guidelines of the Designated Cash Fund IPS which permits investment maturities up to 24 months. Earnings from Designated Cash shall be attributed to the designated purpose.

3. Reserve Fund Cash/Investments

Reserve Fund resources are governed by the Reserve Fund Policy. Reserve funds are transferred to and managed by the Investment Advisor within the guardrails and performance benchmarks established by the Reserve Fund Investment Policy Statement. The Director of Finance shall transfer funds to the Investment Advisor accounts when there is high confidence that a Reserve Fund surplus will be realized for a particular fiscal year and the funds are not needed within the ensuing year based on cash-flow projections. Earnings shall be dedicated to the Reserve Fund and



shall not be utilized to fund other Funds, i.e., the V-gate or Property Funds.

Chapter 16 - 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.

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 receive a Certificate of Occupancy (“CO”) 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. The remaining half of the special assessment is due upon receipt of a Certificate of Occupancy and is based on the amount of the general assessment at that time.

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. 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 17 – 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 and facilities support. No cash support unless specifically approved and directed by the BOD.
- Modest “in lieu of” donations for memorials, honoraria, etc., not to exceed \$150 per event.
- Any Berkeley Electric Cooperative “operation round up” accounts already established as of the publication date of this manual.

Chapter 18 – CONFLICT OF INTEREST

All KICA employees, BOD 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 BOD will be provided with information from COIs, from each group. COIs for the KICA BOD members and COO will be posted online annually for the membership to review.

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

Any contract or related party transaction that involves KICA and a KICA employee, BBOD member, BOD member- elect, committee or task force member requires specific KICA BOD approval.



Chapter 19 – RELEVANT FINANCIAL AND OPERATIONAL SOPS AND 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 Statements – Reserve Fund, Designated Cash Fund and Operating Cash
- KICA Assessments – Property Status Change
- Line of Credit for Named Storm
- Reserve Fund Policy
- Personnel Controls Manual
- Policies Manual Related to the Board & COO
- Accounting Department Standard Operating Procedures:
 - Corporate Card SOP
 - CTR Processing SOP
 - Cash Receipts – Other Departments SOP
 - Check Processing – Administration SOP
 - Invoice Processing SOP
 - Corporate Credit Card SOP
 - Fixed Assets SOP
 - Payroll SOP
 - Monthly Closing Process SOP
 - Quarterly Forecasting SOP
 - User Rights SOP

