



FINANCIAL CONTROLS MANUAL

Approved by the KICA board April 21, 1999
Recommended with revisions by FAC on January 24, 2006
Revisions approved by KICA board on July 11, 2006.

INTRODUCTION

This financial controls manual explains the Association's internal control structure as it relates to the Association's financial matters. This manual incorporates all past financial resolutions of the board, finance-related board motions and all associated internal control policies and procedures. Thus, the manual is the financial controls for the Board of Directors, committee members, Association members, Association management and staff to indicate whom is responsible for certain financial situations and how they are to be handled. Changes to this manual can only be made at a duly held meeting of the Board of Directors.

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Chapter 1

BUDGET PREPARATION

Association staff annually prepares a list of preliminary budget assumptions covering revenues, expenses, capital expenditures, and staffing levels. Staff presents this to the Board of Directors by the October board retreat preceding the year for which the budget is being prepared. The Board of Directors will approve the final budget by the December board meeting. In order to accomplish this, staff will prepare a budget timeline for board approval early in the process. The following is a schedule of events to facilitate budget approval, with general estimates as to the timing of these events.

JULY:

- The human resources committee reviews compensation/salary grade adjustments and provides information to the chief operating officer after the August human resources committee meeting.
- Chief operating officer and department heads develop a list of questions/cost drivers/preliminary assumptions to be developed and considered.
- Staff prepares and the finance advisory committee reviews the budget timeline to present to the Board of Directors.

AUGUST:

- Board approves the budget timeline.
- Department heads project revenues and expenses for the remaining four months of the year.
- Department heads prepare payroll assumptions for budget, including 3-year projections regarding **payroll**. Chief operating officer and director of human resources present these assumptions to the human resources committee at its August meeting.
- Department heads and committee staff liaisons provide information to controller from committees regarding **fee schedules**.
- Human resources committee reviews budget assumptions regarding payroll, grade ranges, pay scales, etc and provides recommendations to the chief operating officer.
- Department heads finalize budget assumptions regarding payroll, based upon human resources committee recommendations.
- Department heads prepare preliminary changes in budget assumptions other than payroll, with associated changes in costs.
- Finance advisory committee reviews fee schedules, departmental payroll schedules, preliminary changes in budget assumptions with associated changes in cost, and any other special projects or tasks requested to be included in the budget. (Example: measures of work and comparables reporting.)

SEPTEMBER:

- Department heads submit all August transactions, purchases, charge-backs, etc. to accounting by the fifth day of the month. Accounting department prepares budget module for data entry of projections.
- Department heads complete third quarter performance reviews and submit requested salary/wage increases to director of human resources for human resources committee review

per policy. Wage increases above 8% for any individual should be accompanied by justification. Total departmental payroll falls within budget guidelines established at August human resources committee meeting.

- Department heads submit the documentation to support assumptions for changes to the budget to the controller/chief operating officer.
- Department heads have completed projections for year-end, ten-year major repair and replacement, and landscape capital improvement plan.
- Department heads give research and documentation for budget assumptions to the directors and finance advisory committee members, who forward comments, questions, and suggestions to the finance advisory committee chair before its September meeting.
- Finance advisory committee reviews and recommends basic assumptions and changes in assumptions from prior year, ten-year major repair and replacement, and landscape capital improvement plan to board for consideration.

OCTOBER:

- Board reviews basic assumptions, ten-year major repair and replacement, and landscape capital improvements at its October retreat.
- Based on the directors' consensus of the assumptions from their October board retreat, chief operating officer/controller develop the *working draft of the budget* with assumptions, line items, supporting documentation, and comparative analyses. The department heads review the draft at their weekly meeting. This includes:
 - Year-end projections based upon eight months actual and four months projected revenues and expenses
 - Explanation of significant variances between budgeted and projected amounts
 - Detailed assumptions regarding revenues and expenditures for the coming year, including capital purchases
 - General assumptions regarding revenues and expenditures for the coming three years, including capital purchases
 - Controller incorporates changes and revisions from department head meeting *working draft of budget*. This is then sent to the finance advisory committee and board. Finance advisory committee reviews the revised assumptions and the *working draft of budget*, and makes recommendation to the board in the form of the *first draft of budget*.

NOVEMBER

- Board reviews/revises/approves assumptions for changes to the budget by vote at the regular November board meeting. All comments and questions about the budget are then submitted in writing to the controller, who forwards them to the chief operating officer, board, department heads, and finance advisory committee chair. Department heads incorporate comments/suggestions, answer questions, and develop a *second draft of budget*, which is submitted to the finance advisory committee.
- Finance advisory committee reviews the *second draft of budget* and makes its recommendation to the board.

DECEMBER

- Board *approves budget*.

- Director of governance and communications posts the board-approved budget summary to the website and later includes the same information in the members' annual meeting packets.

The final approved budget should include:

- A cover letter from the chief operating officer that summarizes new issues and how they have been addressed in the budget, as well as any significant changes from prior years.
- A list of budget assumptions, including:
 - A list of common properties scheduled for conveyance, lease or assumption of maintenance responsibilities by the Association. This list should include not only the properties, but also the dates of passing and the associated additional costs.
 - A list of properties and/or tasks to be passed to or assumed by third parties, including dates of passing and associated costs.
 - Prioritized requests for changes from prior year, including additional costs or anticipated savings.
 - A schedule of all fees clearly indicating any increases or decreases from prior years.
- A conceptual contingency plan for economic distress.
- A summary of funds budgets, including:
 - A consolidated funds comparison of current year projections to current year budget.
 - A consolidated funds comparison of the next year's budget to current year's budget and projections.
 - A summary of each fund's budget for next year compared to current year's budget and projections.
 - Three-year projections for all operating funds, and ten-year projections for all capital or reserve funds.
- A human resources section that shows current and prior years' staffing levels, current and prior years' turnover percentages, and departmental comparables and measures of work.
- Detailed schedules of each department or fund's expenses by account, accompanied by a detailed narrative of what expenses are included in each account. The detail schedule should also compare the budget to current year's budget and projections on a line item basis.

Chapter 2

BUDGETARY CONTROLS

The controller is responsible for maintaining the general ledger using the accrual basis of accounting and generally accepted accounting principles, correctly classifying revenues and expenditures, and preparing monthly budget variance reports in a timely manner. Department heads are responsible for routinely monitoring expenditures in an effort to stay within budgetary guidelines.

The controller will prepare a brief monthly variance summary and monthly variance reports of the prior month for each department and fund. Department heads, supervisors, and the finance advisory committee will review this summary and monthly variance reports. A variance report will be prepared by the controller on a quarterly basis and included with the March, June, September, and December financial statements. This report will be distributed to the board and the finance advisory committee. If a department or fund is over/under in operating revenues or expenses by a significant amount, the controller will give the detailed information explaining these variances. A variance to budget of the lesser of \$10,000 or 5% of total budget for that line item, will be considered significant. The finance advisory committee and staff will review these reports and the chief operating officer will make recommendations for staying within the budget as prepared at the next regularly scheduled board meeting. The board will decide which, if any, recommendations to implement.

Unbudgeted expenditures over \$10,000 that cannot be made up for within the department's budget must have prior board approval. The department head bonus program, as approved by the board, provides a bonus pool when actual expenses are less than budgeted. As such, unbudgeted expenditures are the exception. When they occur, the program requires the chief operating officer to determine a means to make up for the loss within another portion of the budget to the extent possible. The finance advisory committee will be informed of such expenditures and will make its recommendations to the board. The board would approve or disapprove the funding mechanism either at a regularly scheduled board meeting—the preferred method—or by mail vote when necessary. Per policy, unanimous approval is needed for any mail vote.

To facilitate Association operations when unbudgeted expenses of a serious nature arise, the budget may contain a line item for contingencies, not to exceed the limit approved by the board. The guidelines for the use of these funds are: (1) unanticipated emergencies, i.e., hurricane, flood, fire, etc., (2) **replacement or repair** of equipment that either fails or is destroyed unexpectedly and is considered by the chief operating officer to be critical to the efficient operation of the Association, or (3) protection of Association property from imminent damage.

The reason for this line item is that the time required to obtain board approval for unbudgeted expenditures may under certain conditions, cause significant unnecessary expense to the Association, or that approval may be unattainable due to the unavailability of board members, etc. The use of this line item, within the guidelines above, is to be in the board operations committee's discretion only. [The board operations committee consists of the Association's chairman and vice chairman.] When expenditures are made with board operations committee approval, the chief operating officer is to seek full board ratification immediately of both the expenditure and his/her justification for the use of the contingency funds versus the regular process for advance approval of non-budgeted

expenditures over \$10,000. Once approved by the board, the expense will be reclassified to the correct line item and/or department. The board has the authority to suspend use of the contingency line item at any time, by written notification to the chief operating officer.

Chapter 3

CASH MANAGEMENT

Banking

The Association will maintain as many bank accounts and investment accounts as deemed necessary by the board. “Investment account” throughout this financial controls manual includes all brokerage, money management, U.S. Treasury or other accounts established for the purpose of investing Association funds long- or short-term. “Operating account,” means accounts established to fund Association operations.

The board has the sole authority to determine the type of accounts and with whom the Association banks. The controller will oversee the day-to-day management of all accounts. This management will concern itself with keeping a balance in the operating account adequate to meet cash needs, to meet the minimum requirements of the banking agreement (if any), and to minimize bank service fees.

When the annual budget is approved, the controller will prepare a cash flow statement for all funds for the upcoming year, and will present this to the finance advisory committee. The finance advisory committee and staff will use the cash flow statement to determine the breakdown between short-term and long-term investments. See the investments section of this manual for further details.

When a new bank or investment account is needed, the controller will inform the finance advisory committee. The chair of the finance advisory committee will seek board approval at the next regular board meeting. Authorized signatories on operating bank accounts are the following individuals:

1. Chief operating officer
2. Controller
2. Director of governance and communications
3. Director of human resources
4. Director of member services

Additionally, the Association treasurer is an authorized signatory on all investment funds accounts.

Operating account checking transactions require two signatures.

Cash Receipts & Deposits

All departments within the Association receive cash or checks during the course of business. In the administrative department, one member services representative (MSR) is responsible for opening the mail and date stamping supporting documentation that involves payments received. The MSR will also prepare and initial a “cash receipt advice” for all cash received from a member or any other third party. The cash receipt advice lists the payee’s name, address, and Kiawah property address if applicable, the amount of cash received, and the application of the cash to assessment, decal, covenant violations, or other items. The MSR will then give the cash, cash receipt advices, and checks with the supporting documentation to the accounting assistant, who will prepare the bank deposit and place in a sealed overnight deposit bag

Each day, the commercial pass office administrator, the main gate point-of-sale operator, and the Sandcastle member services representative will close out the point-of-sale for their departments, prepare the bank deposit, place the deposit in a sealed overnight deposit bag, and deliver the deposit bag with supporting documentation to the accounting assistant. Supporting documentation will include the daily activity report from the register (the Z-report), credit card transmittal summary and the day's point-of-sale receipts. The deposit bag serial number should be notated on the bank deposit slip.

The accounting assistant will log the deposits as they are received from other departments. The assistant controller will verify and log the administrative department deposit. The log will include the date, department, amount of deposit, deposit bag number and the initials of who delivered the deposit and who received it. Security second shift patrol will pick up the deposits each business day afternoon, and deliver to the bank. The security patrol will initial the log for the deposits picked up and taken to the bank.

On a weekly basis, the assistant controller will verify that supporting documentation and bank deposits reconcile, and all deposits on the log have been credited to the bank account in a timely manner. At the end of the month when the bank reconciliation is prepared, the assistant controller will also review the log to make certain that all daily deposits are accounted for.

Cash Disbursements

The accounting department will print checks every Thursday. Each department is responsible for ensuring that the Association's vendors and contractors are paid in a timely manner. To facilitate this process, each department will complete a purchase order and receipt it according to the guidelines in chapter 21. Upon receipt of an invoice that matches a receipted purchase order, the accounting department will approve the invoice for payment. Payments will be scheduled to take advantage of all discounts of 1% or more, and to pay all invoices in a timely manner. The accounting assistant will prepare the check run, match checks with invoices and approved, receipted purchase orders, and give them to the controller, who will then review and sign each check. The controller will then submit the checks to the chief operating officer/director of human resources/director of governance and communications for his/her approval and signature. One of the two signatures for each disbursement must be either the chief operating officer or the controller.

Petty Cash

The following employees maintain at the following locations petty cash boxes, meal ticket funds, or cash/change drawers:

1. Accounting department – assistant controller / accounting assistant
2. Administrative office front desk – director of member services
3. Main gate - shift supervisor / point-of-sale duty officer
4. Pass office - pass office administrator
5. Land management – office administrator
6. Sandcastle – director of recreation/private event administrator/point-of-sale member services representative

The accounting assistant will maintain the main petty cash box. Employees may submit a valid receipt showing the general ledger account number, and appropriate authorized signatures to allow

reimbursement. If no receipt is available, a petty cash form will be filled out and initialed by the party making the request, and his/her department head, if applicable. The accounting assistant will then disburse petty cash.

The main petty cash box will be reconciled and reimbursed periodically, as well as at month end by the assistant controller and verified by the controller. The administrative front desk cash box will be reconciled monthly by the director of member services, and verified by the assistant controller. The main mate point-of-sale drawer, the pass office point-of-sale drawer, and the Sandcastle point-of-sale drawer and change funds will be reconciled daily by the persons responsible for closing each drawer. The controller or assistant controller, on a quarterly basis, will perform an unannounced check at the other locations, to verify the petty cash. Personal checks from employees may be accepted payable to Kiawah Island Golf Resort for meal tickets. Employees may occasionally request an IOU for a meal ticket. The assistant controller and accounting assistant monitor these, and ensure that none are outstanding for more than a reasonable amount of time.

Balances maintained in petty cash boxes, cash drawers, change funds, meal ticket funds are as follows:

Accounting department - meal tickets	\$446.25
Accounting department - cash	\$350.00
Front desk – cash	\$50.00
Main gate – cash drawer	\$100.00
Main gate – meal tickets	\$127.50
Pass office – cash drawer	\$300.00
Sandcastle – cash drawers	\$400.00 (year round)
Sandcastle – cash drawer	\$600.00
(Extra in summer for pool, vending)	
Land management – meal tickets	\$212.50
 TOTAL	 \$2,586.25

(Note: As cost of meal tickets increase, these funds could increase accordingly.)

It is every Association employee’s responsibility to be alert for misappropriation, abuse, or misuse of Association property. This includes cash as well as other assets of the Association. If an employee becomes aware of or suspects fraud or dishonesty, he or she will immediately report this to the chief operating officer, the director, security or the controller. Employees may use one of the employee suggestion boxes located at each site if they prefer to remain anonymous. Only the chief operating officer accesses these boxes, or the director of human resources in his absence. After careful investigation, if fraud is determined, the guilty party will be terminated and may be prosecuted to the full extent of the law. If it becomes evident that other employees were aware of the situation but failed to report it to superiors, they will be disciplined appropriately, and could be subject to termination in management’s discretion.

The Association will maintain a crime insurance policy for possible theft. The amount of coverage will be determined by the Board of Directors and is currently as follows.

Coverage shall include employee dishonesty and theft, disappearance and destruction. Limits

requested are:

\$1,000,000	Computer
\$10,000	Money and securities
\$1,000,000	Employee dishonesty
\$100,000	Forgery

(Current deductible is \$10,000/\$500/\$10,000/\$1,000)

Investments

The controller is responsible for balancing the monthly investment statement to the Association's books. The controller will allocate interest among the Association's fund balances as described in the fund accounting and fund balance definition section of this manual. The controller will have the authority to transfer monies from the regular checking account to the investment account with no dollar limit. The controller will be sensitive, though, to the \$100,000 FDIC limit in the regular checking account and will time transfers at the beginning of the year to comply with keeping minimal amounts in the regular checking account.

Check writing authority and transfers in excess of \$200,000 on the investment and checking accounts for other than the purpose of investing Association funds, will be given to the Association's chairman, vice chairman, and treasurer. Two signatures are required for investments made and approved under the guidelines in chapter 16 of the financial controls manual. The controller can make transfers in excess of \$200,000 to an investment account. The controller can make transfers of \$200,000 and under from the investment accounts to the checking account.

When transfers in excess of \$200,000 from the checking account are to be invested in short term money market instruments, CD's or U.S. Treasury securities having a maturity of less than one year, one signature is required from the Association treasurer or his/her designee, or the finance advisory committee chair or his/her designee. Two signatures from the Association chairman, vice chairman, treasurer, and the finance advisory committee chair or his/her designee are required for transfers in excess of \$200,000 that are to be invested in securities having a maturity *greater* than one year, and managed investment products holding long term securities.

Chapter 4

COLLECTION POLICY

The following is a schedule of events to achieve timely collection of the Association's annual assessment:

1. By January 1 - Annual assessment statements are printed and mailed to all members. Assessments are due within 30 days of the billing date per the covenants. In member vehicle decal renewal years (currently every third year), a decal application will accompany the January 1 bill. Decals will not be issued until the assessment is paid in full. Starting March 1, security officers at the main gate will be instructed to inform members with past years' decals to remove them immediately. Daily paper passes will be issued to members with past due accounts until the assessment is paid in full.
2. February through December - Monthly statements will be mailed at the beginning of each month for all past due accounts, charging 1.5% per month in late fees. February and March statements will notify members that they are ineligible to vote at the annual meeting unless the balance, including any late fees, is paid in full.
3. May 1, or 90 days after due date - The controller will send certified letters informing those members who have a balance greater than \$500 that the Association will file a lien on the property with the RMC office if the balance, including late fees, is not paid by May 31. A copy of the lien and a copy of the May 1 bill will be enclosed. For properties with multiple owners, all owners will be mailed this letter. Members who owe only late fees at this time will be sent a letter by the controller explaining that the late fees will not be waived without a valid reason. The chief operating officer/controller has the authority to waive late fees for valid reasons, if a request is made in writing to do so. Valid reasons include but are not limited to personal or family illness, change of address, mail delays due to foreign addresses, etc.
4. May 31, or 120 days after due date - The controller will file liens at the RMC office. Delinquent members will be charged an additional fee of \$35 to cover the lien filing and administrative costs. This additional fee will be explained to the member in the May 1 letter.

After the member's delinquent account has been paid in full, the lien will be released. The original released lien will be mailed to the member, and a copy maintained in the permanent property file.

When a property title transfers without the assessments being collected, the controller will contact the closing attorney to determine who is responsible for payment, and proceed to notify the responsible party. The controller will then follow the collection policy schedule if the amount is not paid in a reasonable amount of time.

In cases of foreclosure, the controller will keep abreast of legal correspondence and consult with Association legal counsel to protect Association interests. According to KICA covenants, (Article V, Sections 6, 11 and 12) in a foreclosure, if the bank or mortgage holder takes possession, there is no contribution to reserves due, and the annual assessment is subordinate for one year from the date of foreclosure. If a master-in-equity sale occurs, and the purchaser is a mortgagee of the property, then

the additional one-year post-taking-title assessment exemption applies. If the purchaser is not a mortgagee, assessments start from the date of transfer of title. The contribution to reserves fee does apply if the purchaser at the master-in-equity sale who takes title was not a mortgagee of the property.

In cases where the member is billed during the year, such as property status changes which are done on a quarterly basis, or a special assessment, the controller will follow the time table set down in the collection policy schedule. (Please see the property status change section for more information on this category.)

The controller is also responsible for keeping informed of Charleston County tax sales. The County publishes a delinquent taxpayer list in the Charleston newspaper around the end of August, and maintains this information on the RMC website. If this list contains a delinquent Association account, the controller will inform the board immediately. The board may send a representative to the sale, which occurs the first week of October, to protect the Association's interest.

For cases in which the member owes the Association minimal amounts such as mailbox repairs, covenant violations or security violations, the controller will bill these owners separately. If the amount is not paid within 3 months, this will be added to the assessment billing subject to the monthly 1.5% late fee. The covenants do not allow these minimal items to be collected in the same manner as assessment.

The Association, in keeping with generally accepted accounting principles, will not maintain an allowance for doubtful accounts, as past history has indicated an almost 100% collection rate, with the exception of foreclosures discussed above. The controller will write off to bad debt expense those items that are uncollectible due to foreclosures, or other extraordinary events, as they occur.

In the event an account is deemed uncollectible for other reasons, or waiver of covenant / security violations is requested, the delegation of authority to write off an account is as follows:

1. Accounts with a balance due of under \$500 - the controller or the controller and the director of security if the amount is for covenant / security violations only.
2. Accounts of \$500 but under \$5,000 - the chief operating officer.
3. Accounts of \$5,000 and up - the Board of Directors. Should this occur, the board would meet in executive session during the regular budget process to make a decision.

Chapter 5

CONTRACTS

General Guidelines

The chief operating officer, at the direction of the board, is the contracting agent for the Association. The chief operating officer will sign all bilateral contracts. While the chief operating officer may delegate purchasing authority and the ability to sign purchase orders to various department heads, he may not delegate authority to sign general insurance or employee benefit contracts. Where feasible, all contracts and purchase orders will be in the Association's standard format appropriate to the type of purchase. Standard format for construction projects in the amount of \$25,000 or greater will be the AIA contract. Standard format for purchase orders is provided in chapter 21 of this manual. All other contracts for services or supplies may use the standard form of the provider or supplier, so long as it contains detailed description of services provided or goods supplied, terms of delivery and terms of payment, and certificates of insurance where applicable, as detailed in the following paragraphs. The chief operating officer reserves the right to have the contract reviewed by legal counsel and/or insurance representatives. Whenever a form of contract or purchase order other than the Association's standard is used, appropriate review will be exercised. The chief operating officer reserves the right to require that the standard format be used.

Any contract in excess of \$25,000 must either be approved in the annual budget or have specific prior board approval, except in the case of emergency or contingency purchases discussed in chapter 2 (budgetary controls) in this manual. Additional board approval is required in cases where conditions change before or after the contract is let, which significantly affect the scope or cost of the contract (more than 20%). No service contract may be automatically renewed for more than twelve months without additional approval from the board. Approval of the annual budget including the service contract renewal will satisfy this requirement. There will be no contracts between the Association and one of the Association's employees, board members, committee members, or related parties without prior board approval, regardless of dollar value. Related party transactions are also required to be disclosed in footnotes to the annual audited financial statements.

The controller will maintain a file of all bilateral contracts and ongoing service contracts. Each department head is responsible for monitoring expiration dates of service contracts. At renewal time, the controller and the department head will review the renewal quote. If there is to be a significant renewal increase in rates (more than 5%) or decrease in services provided by the service company, then competitive bidding may be required at the discretion of the chief operating officer.

Competitive Bidding

In order to ensure appropriate stewardship of Association resources, a determination has to be made to show that a proposed price for a contract of \$25,000 or more is fair and reasonable, considering the quality, delivery and other factors. Competitive bidding is the formal process that allows a requestor to properly compare market prices, and ensure a fair and reasonable price. Therefore, all contracts valued at \$25,000 or more require competitive bidding. 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 is required to satisfy the competitive bidding requirement. Staff is expected to perform due diligence in obtaining bids, when required. Contracts

with fewer than three responses must contain a certification from the requesting department head that all available responsible bidders were sought and suitable follow up performed to get as many bids as possible, with explanations of unusual circumstances.

The request for quotation should be submitted in writing to potential suppliers. Each potential bidder must receive the same information and business requirements. Staff should be as specific as possible, including detailed specifications, drawings, specific needs to be addressed or requirements to be met, delivery location, timing, required-by date, payment terms and conditions, and other relevant information. If a walk-through or question-and-answer session is to be held for major capital projects, all potential bidders should be invited. All requests for quotation should include a contact name, phone number and email address for bidders that may have questions regarding the specifications. Bidders' questions or comments should be submitted in writing, and responses to the questions should be in writing, and available to all other bidders. Department heads should be aware of flexibility in terms and conditions favorable to the Association, and include those in the request.

Staff should clearly define the bid submission instructions and due date for submission. Allow sufficient time for all bidders to respond (usually at least two weeks) stating supplier responses must also 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. Once the bids have been received, they should be opened at the same time, and the results recorded and verified by at least two persons. Department heads should analyze the proposals to determine which bidder is best able to meet the contract specifications with the lowest cost. Any contract to be awarded to other than the lowest bidder must have prior approval by either the board, or for reserve projects, the major repair & replacement committee.

The competitive bidding requirement can be waived when the product or service is available from only one supplier, or there are other reasons for considering only one supplier, and the price charged by this supplier is fair and reasonable. In these circumstances, a formal request for quotation should still be sent to the supplier in order to obtain a formal price quotation, to confirm terms of delivery and payment, and to ensure all are in agreement with the terms and conditions requested. The board must approve any sole source award in advance.

Applications For Payment

Bills or progress payment requests resulting from contracts will be certified by the architect or engineer if applicable, and verified and approved by the department head before forwarding to the controller for payment. If retainage is applicable to the contract, the final payment will not be released until the department head approves the transaction. It is the department head's responsibility to inform the controller if any amount should be withheld for a contractor's nonperformance and to advise the controller to release final payment once the nonperformance has been resolved.

Indemnification

All contracts other than purchase orders, will include an indemnification clause in favor of the Association, as follows:

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To the fullest extent permitted by law, CONTRACTOR hereby agrees to save, defend, indemnify and hold harmless the Kiawah Island Community Association (“KICA”) and its officers, agents, directors, and members (“indemnities”) from any and all liabilities, claims, suits, and actions for bodily injury, death, property damages, and workers’ compensation benefits as well as any and all other proceedings, fines, penalties, forfeitures, losses, damages and the costs and expenses incident thereto (including, but not limited to, the costs of investigation, defense, settlement and attorneys’ fees) arising directly or indirectly out of any failure to act on CONTRACTOR’S part, or the part of any agent, servant, or subcontractor of CONTRACTOR, whether independent or otherwise, or on the part of anyone for whose acts any of them may be liable in connection with the work undertaken under the contract. CONTRACTOR acknowledges and agrees that one percent of this contract amount represents specific consideration to CONTRACTOR for the indemnification requirements set forth herein.

For all services contracted by the Association, the department head will require a current certificate of insurance from the contractor naming the Association as an additional insured, with the general liability and worker’s compensation limits to be at least as high as the Association’s limits. Should the limits be less than the Association’s, the chief operating officer’s approval is required before work may begin. These certificates will be required before signing the contract (and work may not begin until the contract is signed), with verification that the expiration dates of the insurance cover the period of work to be performed. 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.

Any unresolved dispute between the responsible department head and contractor is to be referred immediately to the chief operating officer and the Association’s legal counsel. Counsel will recommend a course of action to pursue obtaining resolution. If this course fails resolution, the chief operating officer will make the determination of appropriate resolution. If the contractor is still unwilling to accept the chief operating officer’s offer of resolution, the contractor may ask the chief operating officer to submit an appeal to the Board of Directors, whose decision is final.

Chapter 6

CONTRIBUTION TO RESERVES FEE

Upon each transfer of a member property, the Association will be paid a contribution to reserves equal to .50% of the purchase price, or the amount of the Association's annual general assessment, whichever is greater.

The fees collected go directly into the Association's reserve fund, with 40 basis points allocated to major repair and replacement, and ten basis points allocated to landscape capital improvements. Up to 15% of this fee may go toward administering the landscape capital improvements and major repair and replacement projects, as provided for in the board approved annual budget. Expenses that this 15% may reimburse include salaries of department heads, field personnel, and clerical staff whose responsibilities are directly related to the effectiveness and efficiency of the reserves projects, as well as other administrative costs such as insurance and accounting.

The controller will be aware of the types of transactions exempt from the fee, as outlined in the KICA covenants, Article V, Section 6(g). If a situation arises where the controller is not sure how to properly handle a transfer, legal counsel should be consulted. The KICA covenants require each party claiming to be exempt from the fee to submit to the Association a copy of the deed and a signed affidavit attesting the basis upon which the exemption is claimed.

The contribution to reserve fee will be prorated for 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. In the event title is held by a partnership, corporation, trust, limited liability corporation, or other legal entity, and the percent of ownership of the legal entity changes, no additional contribution to reserve is due. For example, if a partnership with three equal partners owns a piece of property and one partner buys another partner's interest in the partnership, no property transfer has occurred and no contribution to reserve fee is due. The purchaser is responsible for payment of the contribution to reserve fee, and for notifying the Association of changes in ownership.

The assistant controller will receive the monthly sales report from Kiawah Resort Associates' legal department, which indicates the closing date, buyer, seller, property address and sales price, and will reconcile the contribution to reserve fee collected and recorded in the Association's general ledger with the contribution to reserve fee as calculated from the sales report. On a quarterly basis, information from the Charleston County RMC website will also be downloaded and compared to the sales report to ensure all outside closings and partial transfers have been recorded. The assistant controller will report to the controller any discrepancies that cannot be reconciled. The controller and assistant controller will work with closing attorneys and new members to resolve any outstanding discrepancies. This resolution may include refunding overpayments or invoicing underpayments to either the closing attorney or the new member as may be necessary, accompanied by a letter of explanation. The timetable for collections will follow the outline in the collection policy section in this manual.

The controller and the accounting assistant are also responsible for informing the closing attorneys of the amounts that need to be collected at closing for this fee, as well as for any other outstanding

fees. This may be accomplished by completing a waiver through KRA legal or responding directly to inquiries from attorneys. These completed waivers and pertinent correspondence will be maintained until the closing is complete and all fees are collected

In order to facilitate communication and awareness of the fees, a list of closing attorneys and outside realtors will be maintained, and an updated fees listing will be mailed or e-mailed to each of them at the beginning of the year, advising them of all fees which may be due at the closing.

Chapter 7

DELEGATION OF AUTHORITY

The Board of Directors is the governing instrument of the Association. Per Article III, Section 1 of the by-laws, the affairs of the Association will be managed by its directors. The board's fiscal responsibilities as specified in the Association's covenants and by-laws are outlined in this manual, and in the covenants and by-laws.

Committees such as the finance advisory committee or the security and safety committee have been established to act in an advisory role for the board. These committees consist of Association members; each has one board liaison. Each committee has a charter, which is renewed annually by the Board of Directors. Please refer to the charter for each committee to determine its scope of authority and area of responsibility for the year. All committees supply an invaluable resource in that they provide timely advice and facts to assist the board in its decision making process.

The chief operating officer will manage the actual day-to-day operations of the Association as the board's agent. The chief operating officer will be the direct link between the Board of Directors and the Association's staff. The fiscal responsibilities of the chief operating officer, as well as other key Association personnel, are specifically addressed in this manual. When the chief operating officer is absent (such as a vacation), delegation of authority will proceed through the director of governance and communications, then director of human resources, then director of member services, then director of security.

Chapter 8

EMPLOYEE BENEFITS

Information about actual employee benefits can be found in the Association's employee handbook. Only the board can make changes in employee benefits, other than those required by law. It is the responsibility of the chief operating officer, controller, and director of human resources to evaluate the cost / reward of any changes in employee benefits.

The Association's legal counsel will review all employee benefit contracts before the chief operating officer signs the contracts. The chief operating officer is the only Association agent authorized to sign an employee benefit contract, and only after board approval. Terms of these contracts will not be in excess of twelve months unless otherwise approved by the board.

Management will survey its employees annually. Employees should be surveyed on what benefits they do use, what enhancements they would like to see and an overall opinion of the services provided by the current benefit provider.

During the renewal period of the contract -- whether it is health, dental, life, disability, 401(k), or other benefits -- the Association's benefits agent or benefit provider company will be asked to provide renewal rates at least 45 days in advance, so that these may be reviewed by the human resources committee and the board, if necessary. At this time, the chief operating officer, controller, and director of human resources will evaluate the need to seek additional price quotes from other carriers, or to stay with the current provider. Factors to be taken into consideration in the decision should include the results of the employee survey regarding the current benefit provider, as well as the cost of the benefit provided. At least every third year, the benefits package -- including health, dental, life, disability, 401(k), and any other benefits provided by third parties, should be bid competitively in order to ensure that the Association and its employees are paying fair and reasonable prices for services received. If a broker agent is used, management should request the broker obtain the renewal rate from the current carrier and at least two competitive price quotes from similar carriers. Otherwise, if the Association chooses to deal directly with the benefit companies, three competitive bids should be sought.

Once the renewal information is obtained or competitive bids are received, staff will prepare a spreadsheet comparing such items as specific benefits and the cost to the Association and the employee. Staff will then present its findings and recommendations to the human resources committee. After careful review, the human resources committee will submit a recommendation for board approval. The chief operating officer may only sign the contract after board approval.

If an employee elects not to participate in an employer-sponsored benefit program, this will be documented in writing by the Association's director of human resources and filed in the employee's personnel files.

The director of human resources is responsible for providing orientation sessions to new and existing employees regarding benefits available, and providing annual benefit plan summary to employees, as required by law.

As long as the Association continues to offer its employees a qualified savings and investment plan (401k), the designated trustees for the plan will be the Association chairman, the treasurer, the chief operating officer, the controller, and the director of human resources. The director of human resources is responsible for maintaining trust documents, and filing necessary forms to update the trustees of record, whenever changes in board officers or changes in personnel occur. The controller is responsible for working with the plan administrator to ensure complete, accurate and timely filing of all IRS and Department of Labor forms, including forms 5500, and plan documents.

The director of human resources will ensure that timely investment information is distributed to the employees about the investment funds. Investment information may contain, but is not limited to, the prospectus of investment funds, reports, plan purchase prices for the different fund options and a schedule of the administrative and investment management fees charged for each investment, if any. The director of human resources will also provide the annual benefit plan summary to participating employees, as required by law. The human resources assistant will submit the employee's contribution and company match, if applicable, to the plan administrator within three business days following pay date, for timely investment purchases among the fund options. All decisions concerning investment in the qualified savings and investment plan are left to the sound discretion of the individual employee.

Chapter 9

FINANCE ADVISORY COMMITTEE

The finance advisory committee shall comprise a minimum of five persons including its chair. The Community Association shall appoint the treasurer to act as liaison between the committee and the Association board. The board at the first duly called board meeting will appoint the committee, including its chair, after the annual meeting. Its term will last one year. The committee will act as a standing / advisory committee.

Charters can change annually, so the finance advisory committee charter is not included herein. Please refer to the most recent board resolution adopting the charter.

Status Reports

The committee chair shall be available to personally report to the board when committee work requires input from or information to the board. Board working sessions may be scheduled as needed. Committee minutes will be provided to the chief operating officer's governance staff within three days following the committee meeting, and will be included in the upcoming board packet, as information to the board.

Every effort should be made by the board to obtain member volunteers with expertise in a particular financial field. However, there is no background requirement for participation except a willingness to serve the Association.

The committee's primary purpose is to provide counsel to the board on material financial matters. Material financial matters may be defined as, but are not limited to, budget preparation, budget control, investment opportunities and management and long range financial planning. Specific advisory responsibilities are outlined in the committee's charter.

The committee will meet as deemed necessary by the chair or the board to review the latest monthly financial statements and discuss current financial aspects of the Association. Preferably, meetings will occur seven to ten days before a duly called board meeting. This gives the committee time to review any possible financial topics that may come up at the board meeting and allow the committee to formulate its recommendations, as well as provide adequate time for directors to review committee recommendations prior to the board meeting.

Chapter 10

FIXED ASSETS

All equipment items with a useful life in excess of one year and costing more than \$500 are to be considered fixed assets. These items will be capitalized and depreciated over the estimated useful life using the straight-line method of depreciation for book purposes. For tax purposes, the most advantageous method will be used as determined by the Association's income tax preparer. The controller will maintain the Association's depreciation schedule, updating it on a monthly basis. The controller will also be responsible for segregating the general fund's depreciation from other funds. The annual depreciation amount for the general fund's assets will be deducted from the operating budget. The primary use of this accumulation of funds will be for the replacement of fixed assets.

Fixed assets will be segregated in the annual budget from the base budgets and further separated by each individual department or fund. The fixed asset section of the budget will prioritize items as well as show whether they are replacement or new items. Consideration must be given to the effect such purchases will have on the operating budget. For example, the addition of a new vehicle would increase the Association's insurance and vehicle gas accounts. Conversely, the replacement of a fully depreciated piece of equipment should reduce the Association's repairs and maintenance accounts.

The controller is also responsible for maintaining and periodically updating a capital equipment budget so the Association may manage its long-term needs in regards to fixed assets. The chief operating officer, department heads, and the finance advisory committee should use this budget. The budget itself will encompass the timing of projected replacements as well as the timing of future additions.

Approval for the purchase of fixed assets is initiated with the presentation of the Association's annual budget. The fixed asset or capital equipment section of the budget should identify each individual purchase showing a minimum of three potential vendors. If less than three are shown, then staff must justify the reason. The price of the asset should take into account **sales tax** and the timing of when the purchase is scheduled to take place. For example, there may be a lapse in time of three to six months from when the budget is prepared to when the purchase of the asset actually takes place. The requesting department head or the controller must be sensitive to the inflationary environment of the market place.

Once the board approves the budget, the asset may be purchased after the first day of the budget year only with the chief operating officer's consent. If the purchase amount is within budget, the department head will fill out a purchase order and then proceed to order the asset only after acquiring the chief operating officer's signature on the purchase order. If the purchase amount is not within budget, and the asset cost is \$2,000 and over, board approval is required such as approval via the budget approval process. If the asset cost is under \$2,000, the department head may substitute the purchase of a previously board-approved piece of equipment or use a positive variance from a previous fixed asset purchase. In either case, the chief operating officer must approve before the purchase is made.

During the year, if an asset breaks down and needs replacing, the chief operating officer may approve replacement, regardless of cost and without board approval, if the depreciated amount of

the defective asset is equal to or more than the cost of the replacement asset. If the replacement cost is over the depreciated amount then board approval is required, unless the fixed asset is critical to the efficiency of Association operations. In this case, the chief operating officer may approve replacement of the asset using the Contingency Fund as defined in the Budget Control section of this manual.

Once the asset has been purchased, a pre-numbered adhesive or metal "Property of KICA" tag will be affixed to the asset. Fixed assets as defined above are the only Association assets that require an identification tag. The individual department that purchased the asset will assume control and maintenance responsibility. The department head will ensure a list of the department's fixed assets is maintained, including the Association tag number, asset description, serial number, model and make, purchase date, and purchase price. The department head will also ensure an annual physical inventory is taken, verifying the physical existence of each of the department's fixed assets.

The controller will spearhead the annual inventory by accumulating the department head's inventory count sheets and comparing them to the depreciation schedule. The controller and/or the accounting assistant will perform an unannounced spot check of the department head's inventory count sheets. The controller will then compile the information in writing and report the inventory findings at the next regularly scheduled finance advisory committee and board meetings. The report will indicate the fixed assets that are missing or are deemed obsolete, with a request to write these assets off the depreciation schedule and the inventory listing submitted for board approval. The department head will immediately report missing assets in writing to the director of security.

If obsolete assets have a salvage value of less than \$1,000 and an offer from a third party of less than \$1,000 has been made for a fully depreciated item, the asset may be sold at the discretion of the chief operating officer. If the salvage value/offer is \$1,000 or more, prior board approval is required.

Chapter 11

FUND ACCOUNTING & FUND BALANCE DEFINITIONS

The Association'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, the Association will use accrual accounting prepared according to the fund reporting method.

The controller is responsible for applying the principles of fund reporting accounting for the Association. A combined balance sheet, revenue and expense statement, and comparison to the budget will be presented to the Board of Directors and the finance advisory committee in a timely manner on a monthly basis. These statements will also include individual funds' balance sheet and revenue and expense statements.

The controller is responsible for identifying the Association's assets and liabilities among the individual funds. When the identification is somewhat ambiguous, the controller will allocate. The Association's management will determine the method of allocation (the chief operating officer, controller, and any related department head). Whatever form of allocation is used, the results should fairly present the Association's financial position at any given point in time. The Association's independent financial auditors review this position annually.

The controller and department heads are responsible for ensuring that the proper charges are recorded in the appropriate department or fund for the Association's operating results in connection with its revenues and expenses. The operating statements will compare actual results with budgeted amounts for the month in question, as well as year-to-date.

The controller will also prepare a summary to accompany the statements. The first page will include each fund's balance sheet, comparing these figures to where the funds were the previous year. The second page will include each fund's revenues and expenses, comparing actual results with the budget for the month and for the year-to-date.

Finally, in connection with the monthly financial statements, the controller will prepare the monthly general ledger for review by the chief operating officer and the finance advisory committee chair. The controller will also prepare financial statements and ledgers for each department and fund, and will review these with the appropriate personnel, whether department heads or committee chairs.

The following are definitions of funds that prior Boards of Directors have established for the Association.

Personal & Real Property Fund

The personal and real property fund (the property fund) includes all of the Association's fixed assets, as defined in the fixed assets section of this manual. This fund will contain asset accounts that categorize the Association's capital items purchased out of its operating funds. The fund will contain one accumulated depreciation account that combines prior and current depreciation on all

funds' fixed assets. Depreciation expense accounts will identify the fund in which the fixed asset was purchased.

The controller is responsible for maintaining the Association's records in regards to this fund. These records will contain the detailed records of which fixed assets were funded by the general operations fund, the Sandcastle community center fund and other miscellaneous funds. Though only one accumulated depreciation account will be shown on the Association's internal and external financial statements, the detailed records will show the breakdown between the individual funds.

General Operations Fund

The general operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The fund will encompass the operating budgets for the general and administrative, security, land management, general maintenance, and lakes management departments.

Revenues include the general assessment, late fees income, interest income, and miscellaneous income. Assessments, associated late fees, and interest income will be recorded in the general and administrative department. Miscellaneous income will be recorded to the department associated with the collection of this income.

Expenses include payroll, repairs and maintenance, materials, and administrative costs. The controller will separately track and report material expenses that were not in the original budget by creating a separate, temporary department on the financial statements, as long as the board has approved the expenditure of these funds. Board approved projects in one year that continue into the next budget year—for example a large capital project—will also be separately tracked by controller, setting up another separate, temporary department. The controller will classify board-approved expenses spent before the budget year begins as the next year's expenses in the year of actual expenditure's financial statements. Also, these costs should be taken off the top of the next budget year.

The general operations fund balance should cover two items, the replacement of the depreciable fixed assets and material expenses that were not anticipated at the time the budget was prepared, such as certain site clean-up costs from a storm. The amount of the general operations fund balance should equate to the amount of the accumulated depreciation of the fixed assets purchased by the general operations fund's departments, plus contingency of 10% of expenses and prior year's accumulated surpluses. The controller is responsible for balancing out this fund balance during the year-end close out process. New fixed asset expenditures or replacements, where the accumulated depreciation is less than the replacement cost, will be shown as a reduction line item in the general operations fund's current budget. Depreciation expense, though an expense of the property fund, will also be shown as a reduction line item in the general operations fund's current budget. These two items allow for better tracking of fixed asset purchases as well as assisting the controller in balancing out this fund's balance at year-end.

In times of an operating deficit, the Board of Directors has the authority to spread the deficit amount over more than one year. 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.

Interest earned on the monies of this fund designated for the replacement of fixed assets or unanticipated expenses will be used in that year's operating budget.

Vanderhorst Gate Fund

This fund was established to finance the second security gate. Prior year's accumulated surpluses have been held in investment for major repairs and replacements for this security gate.

Revenue sources for this fund include the segment assessment charged to all members who own property behind the gate. Other revenue sources include late fees associated with segment assessments and interest earned on the prior year's accumulated surpluses.

Expenses charged to this fund include the security guard's payroll and associated benefits, landscape grounds maintenance and irrigation, insurance on the building, and building repairs and maintenance.

A separate budget for this fund will be included in the budget package for board approval. See the budget preparation section of this manual for further detail. All financial policies relating to the general operations fund apply to this fund also.

Rhett's Bluff Boat Launch / Kestrel Court Boat Storage Fund

This fund was created to finance the upkeep and maintenance of the Association's two Kestrel Court boat storage facilities and the Rhett's Bluff River landing facility, which includes an open-air pavilion, two floating docks, and a boat ramp for launch.

Revenue sources for this fund include boat storage fees, boat launch access fees, dock access fees, and pavilion rental for parties. Expenses include landscape grounds maintenance and irrigation, dock repairs and maintenance and insurance on the pavilion and docks.

A separate budget for this fund will be included in the budget package for board approval. See the budget preparation section of this manual for further detail. All financial policies relating to the general operations fund also apply to this fund.

Sandcastle Community Center Operating Fund

The board created this fund to manage the Sandcastle community center. This fund specifically deals with the day-to-day operations of the center.

Revenue sources include the amenity assessment charged to all type A members, late charges, interest income, guest fees, multiple owner fees, fitness center fees, party fees, dinner party commissions, fitness class fees, educational and community events, and paddle sports commissions. 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 the property status changes section of this manual.

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Expenses include payroll, building and pool repairs and maintenance, materials such as pool chemicals, and administrative costs such as insurance and utilities. This fund balance also finances the first-time acquisition of fixed assets. These first-time acquisitions are to be budgeted for and funded from the current year's revenue, or from prior years' accumulated surpluses.

As with the Vanderhorst gate fund, interest earned off monies received at the beginning of the year stay with the general operations fund to handle administrative costs not directly charged to this fund. The interest earned for this fund comes from monies held from prior years' accumulated surpluses and the monies designated for the center and pool area collected in January and expended during the year.

A separate budget for this fund will be included in the budget package for board approval. See the budget preparation section of this manual for further detail. All financial policies relating to the general operations fund apply to this fund also.

Preserve Fence Fund

This fund was established to finance the upkeep, maintenance and replacement of the spilt rail fence in the Preserve subdivision, and the major repairs to common landscaping of the rights of way in the Preserve. Revenue sources include the "fence assessment," which shall be paid by the initial lot purchaser and interest income earned off reserves of the fence assessment held in the Association's investment account. Expenses include fencing materials, fence repairs and maintenance, contracted services including landscape installation services, and income tax expense on the interest earned.

In the event the Board of Directors, in its sole discretion, determines that the fund balance is insufficient to ensure the high standards of quality and distinction, the board may levy a segment assessment on Preserve owners as outlined in the Association's covenants under Article V, Section 5(a). The board may also determine if this should be a continuing segment assess for the second or any subsequent year.

A separate budget for this fund will be included in the budget package for board approval. See the budget preparation section of this manual for further detail. All financial policies relating to the general operations fund also apply to this fund.

Preserve Boathouse & Pavilion Fund

This fund was created to finance the upkeep and maintenance of the Association's boathouse, floating docks and pavilion located in the Preserve subdivision in the Cinder Creek area. The boathouse will be used for storing kayaks and canoes. The pavilion will be used for Association members' parties and gatherings.

Revenue sources include canoe and kayak rent for the boathouse and pavilion rent for parties. Expenses include, but may not be limited to landscape maintenance, building maintenance, contracted services, administrative costs, and insurance for property and general liability.

A separate budget for this fund will be included in the budget package for board approval. See the budget preparation section of this manual for further detail. All financial policies relating to the general operations fund also apply to this fund.

Major Repairs & Replacements Fund

Due to its complexity and importance, a separate section has been devoted to this fund. Please refer to that section of the manual.

Chapter 12

GENERAL INSURANCE

General insurance includes property, general liability, crime, computer, umbrella, security guard liability, excess security guard liability, vehicle, flood coverage, worker's compensation, professional liability for fitness instructors, directors, committee members, other volunteers of the Association and staff.

Policy renewal dates will coincide with one another. About 120 days before renewal, the controller will compile schedules required by the agent to obtain renewal rate quotes. Schedules will include salary projections for worker's compensation and security guard liability coverage. Property schedules will be prepared showing location and replacement costs of building structures and building contents. Equipment schedules for items not covered under the building contents, such as riding lawn mowers, will be updated throughout the year, not just at renewal time. A schedule for general liability and umbrella coverage will be compiled, showing the roadway mileage, number of swimming pools, projected dollar amount of independent contractors and projected cash receipts from boat storage. The controller will also compile a list of the current employees with their driver's license numbers for the vehicle coverage.

The finance advisory committee will meet after the renewal quotes are obtained. At that meeting, the insurance agent(s) will suggest ways the Association can improve its current policies, and possible additional coverage. The finance advisory committee's recommendation will be presented at the next board meeting for approval/disapproval. Part of the general insurance package includes portions that require an audit, such as worker's compensation, which is based on payroll. Therefore, the controller will schedule these insurance audits and supply the auditors with any required information or schedules. Once a year, a loss specialist from the insurance carrier will meet with the chief operating officer and the controller. The chief operating officer will answer the specialist's written suggestions resulting from this visit in writing.

Annually, the committee will seek the expertise of a member volunteer to annually review the Association's levels of coverage and report his/her findings to the finance advisory committee.

In the event of an occurrence that may or may not result in a claim against one of the Association's policies, the Association's legal counsel directs that an incident report be filled out by the appropriate claims personnel and forwarded to the Association's legal counsel in anticipation of litigation. This report will relate the facts.

When the report is complete, the legal department will confer with the controller and will relay non-privileged information and related materials, such as police reports, to the insurance agent. Thereafter, the controller will be the Association's point of contact with the insurance company. In the controller's absence, the director of human resources will assume the responsibility. The controller is responsible for ensuring that the claim is handled in a timely and professional manner.

In the case of on-the-job injuries, the appropriate department head or supervisor will complete a first report and forward it to the director of human resources and the director of security. The director of security will investigate and provide a safety report about the incident. The director of

human resources will forward material claims to the insurance carrier to file a worker's compensation claim. The director of human resources is responsible for ensuring claims are handled in a timely and professional manner.

In the event a third party causes damage to Association property, an incident report will be filed as above, noting the facts and the responsible third party. The director of security will investigate the information as a potential safety issue. The third party information will contain, at a minimum, a mailing address and, where possible, a point of contact and phone number. For repairs to property, the supervisor in charge of the repair will prepare a work order showing the labor, material, and any outside contractor costs. The labor rate will be the one used for interdepartmental charge backs, plus a 20% markup for administrative overhead. The controller will bill the third party or contact the third party's insurance company to obtain compensation for repair costs.

Chapter 13

INCOME TAXES

The Association is taxed as a regular corporation for both federal and state purposes. Guidelines for filing requirements, as well as what constitutes taxable income or deductible expenses, can be found in the Internal Revenue Code Sections 277 and 528. The Association hires an independent tax consultant to prepare the returns. The Association is ultimately responsible for filing the returns and paying taxes.

The controller will make timely quarterly estimated income tax payments with federal and state authorities.

Chapter 14

INTERNAL CONTROL PROCEDURES

The Association's outside financial auditors will perform internal control testing to ensure that staff is following current policies and procedures. Testing would be initiated by auditors and coordinated with the chief operating officer and the appropriate department head.

If there is a question about staff compliance or a recommendation for improvement, the auditors will perform the tests in a timely manner and report their results in the management letter to the board. The letter will contain recommended solutions to internal control weaknesses discovered. For example, sample tests can include the following:

1. Inspecting a sample of fixed assets
2. Testing the daily trip fee logs for the commercial access fees
3. Testing the refund procedures of the community center's party fees
4. Testing accounts payable checks for authorized signatures
5. Testing payroll for approved pay rates
6. Testing the Association's collection policy
7. Testing the collection of the contribution to reserves fee
8. Testing investments

The chief operating officer is responsible for ensuring that staff is following policies and procedures. Department heads are responsible for reporting any discrepancies to the chief operating officer as soon as they become aware of them.

Chapter 15

INVENTORY CONTROL

Inventory control of the Association's fixed assets is discussed in the fixed assets section of this manual. This section deals with items costing under \$500, such as office supplies, repair parts and kitchenware. The Association is aware of the cost/benefit relationship inherent in this type of control. Department heads are responsible for their departments' office supplies. No official Association documentation is needed. However, each department head will monitor the office supplies line item in his/her budget. The department head is responsible for explaining any material negative variance (material loss) that occurs. A material loss is defined as \$500 or greater.

In each department's areas, there are a number of items that could lend themselves to theft or loss. For example, in the maintenance department, these items include vehicle spare parts and landscape equipment costing under \$500, such as hedge trimmers and weed eaters. Minimal inventory will be maintained. In the maintenance department, the Association's mechanic will prepare work orders for each piece of equipment worked on, with a detailed list of parts that were used or replaced. Once a year, unannounced, the controller will compare a reasonable sample of work orders with vendor invoices. Material discrepancies, if any, will be reported immediately to the chief operating officer, department head, and the director of security. Each supervisor is responsible for his or her area's small tools or landscape equipment. The supervisor will maintain a log for each piece of equipment. As with vehicle spare parts, the controller will annually perform an unannounced inspection of small tools and equipment. Any material discrepancies will be reported immediately to the chief operating officer, department head, and director of security.

The director of security is responsible for the department's small tools inventory and the security of pre-numbered access passes and bike tags. Once a year, the controller will compare the documentation submitted with the cash receipts to the remaining passes in inventory and will report any material discrepancies to the chief operating officer.

The director of recreation is responsible for maintaining the inventory log of kitchen, linen, fitness, and janitorial supplies and reporting material losses to the controller.

Chapter 16

INVESTMENTS

In keeping with KICA's stated mission for maintaining and enhancing property values, the investment policy is focused on protecting the value of the Association's assets. Maximizing investment income is a secondary goal of the Association's investment policy. The Association will invest operating and reserve fund balances, in accordance with the policies and procedures described herein. The investment policy can be broken down into two strategies. The short-term strategy will cover the investment of funds that are expected to be spent over the next 12 months, with a maximum maturity of one year. The long-term strategy will apply to the investment of funds that will not be spent in the next 12 months. The maximum maturity of investments in the long-term portfolio will be ten years. The Board of Directors has the sole authority to determine how aggressive the Association may be with its investments. The finance advisory committee is responsible not only for formulating a recommendation for the annual investment strategy, but also for monitoring the investments on a quarterly basis and providing quarterly recommendations to the board. The quarterly review will also focus on changes in the economic outlook and the financial markets, as well as on the financial position of the Association. On a quarterly basis, the finance advisory committee will give the board a list of investments held by the Association along with transactions for the preceding quarter and comments about the investment activity.

Short-Term Investments

The short-term strategy applies to the investment of funds that are expected to be spent by the Association over the next 12 months. After the budget is approved, the controller will prepare a cash flow projection for the upcoming year. The projection will be reviewed by the finance advisory committee and become the basis of determining the assets to be invested in the short-term strategy. This strategy would be reviewed and approved by the board. Funds the Association expects to spend over the next 12 months will be held in the short-term investment portfolio. Throughout the year, the cash flow forecast will be updated on a rolling 12-month basis to ensure that funding needs over the next year can be met with assets in the short-term portfolio. If necessary, an interim vote by the board may be taken to modify the short-term strategy.

Funds held in the short-term portfolio shall be invested in the following:

1. U.S. treasury securities maturing in one year or less
2. Federally insured bank certificates of deposit maturing in one year or less
3. Money market funds that invest in U.S. Government and other high quality money market instruments, and are sponsored and managed by reputable, low cost financial institutions.

As the Association receives the majority of its cash flow in the form of annual assessments early in the year, the controller and the finance advisory committee will use the 12-month cash flow projection to determine how much will be invested in the long-term strategy and how much will be invested shorter term. The controller will keep bank deposits at a minimum and work closely with the finance advisory committee to see that the short-term portfolio is invested in the highest yielding short-term asset class mentioned above.

Long-Term Investments

The long-term strategy applies to the investment funds that the Association is not expected to spend on operations during the next 12 months, the majority of which are reserves for funding major repairs and replacements and long-term capital improvements. The finance advisory committee will formulate a recommendation for a long-term strategy and monitor the investments, providing investment recommendations to the board. To protect the value of the Association's assets with a high quality portfolio, individual investments will be restricted to the following investments:

1. U.S. Treasury, U.S. government agency, and government-sponsored entities ("GSE's") securities maturing in 10 (ten) years or less,
2. Federally insured bank certificates of deposit maturing in 10 (ten) years or less,
3. Corporate debt obligations with a bond duration not to exceed 6.5 (six and one-half) years, rated "A" or better by Moody's or S&P, provided obligations rated less than "AAA" shall have bond duration no longer than 2.5 (two and one-half) years. Corporate debt obligations shall not compromise more than 50% (fifty percent) of long-term portfolio investments,
4. No more than 5% (five percent) of portfolio investments, including short-term investments of one year or less shall be invested in the obligations of any single issuer, excepting U.S. government or government agency obligations, and/or money market funds,
5. All investments shall be denominated in U.S. dollars.

In order to benefit from professional investment management expertise, longer-term assets of the Association may also be invested in low-cost investment management products. This investment product may be in the form of either a professionally managed, separate or pooled account, or a mutual fund that meets the quality guidelines indicated in a) through e) above.

To avoid placing undo constraints on finding a mutual fund or other managed account that meets the Association's rigorous guidelines, quality requirements would be eased to allow that 1) no more than 10% of the managed portfolio could be invested in securities having a rating below "A," 2) the average duration of the portfolio would not exceed 6.5 years, and 3) corporate debt obligations would not comprise more than 40% of the portfolio. The use of leverage by the manager would not be permitted.

Recommendations for the sale or purchase of a security, as well as the selection of managed investment products, will originate with the finance advisory committee. The recommendation will be sent to the board operations committee for vote. The operations committee will then authorize staff to proceed with the purchase or sale of the investment. Two recommendations from the finance advisory committee chair, vice chair or their designees, and the Association treasurer are required to transact a change in investment. In addition, two authorizations from the Association chairman, vice chairman, or treasurer are also required to transact a change in investment. The form titled "Authorization to sell or purchase investment instruments for Kiawah Island Community Association, Inc." will be used as the instrument for signature, and will also substitute for the standard Board of Directors/board operations committee vote form. The original executed form will be recorded in the minutes book. In accordance with the existing board policy, all votes made by the board operations committee are reviewed as part of the next regular board meeting agenda.

Chapter 17

RESERVE FUNDS

The Association established reserve funds, including the major repair and replacement fund and the landscape capital improvements fund. Per the covenants, these funds are used to finance (a) major rehabilitation or major repairs, (b) emergency and other repairs as a result of storm, fire, natural disaster, or other casualty loss, (c) recurring periodic maintenance, and (d) initial costs of any new service to be performed by the Association. Minor repairs and routine maintenance of these assets will be recorded in the Association's operating budget for the general fund.

The major repair and replacement committee and the land and lakes management advisory committee are advisory to the board on the management of expenditures of these funds. The board alone is the fiduciary for the reserve funds, and has sole authority to authorize expenditures.

Due to the magnitude of the replacement costs of these assets, staff will update the internal replacement reserve study as new assets are added, with committees' recommendations. The study will include the replacement cost and the life of each asset. Replacement costs will be based on historical cost data. Inflation will be accounted for in the study. It should be realized that the replacement reserve study is a guide to staff and the committees and is not the definitive answer to when and which assets are repaired or replaced. The board contracts annually with an outside reserves specialist to audit the replacement reserve study.

Revenue sources include contribution to reserves fees and related interest income. Additional funding sources may include a transfer from the general operating fund, the year-end operating surplus, if any, and third party reimbursements for previously budgeted items. In times when the Board of Directors considers these funds' resources inadequate, a special assessment may be needed.

The following steps generally will precede the approval of a project:

1. Tentative selection - Based on the replacement reserve study or personal observation, the committees will develop a list of probable projects.
2. Survey - Members of the committees, with assistance of contractors in some cases, determine if repair or replacement is necessary and estimate the date to initiate work.
3. Engineering - staff will formally define the project for prospective bidders. This frequently requires input from outside engineers and consultants with special skills and licenses. Completing steps # 1, 2, and 3 clarifies the priority of the proposed project.
4. RFQ - "Request for quotation" is sent to qualified bidders. In some cases, the number of qualified bidders is very limited, but the goal is to have at least three bids to consider for projects \$25,000 and over. For some projects, a bidder's conference may be held to insure all bids are made on the same basis. For projects under \$25,000, the committees have the authority to substitute their own controls in place of this step and step 5, bids.

5. Bids - After bids are considered, the staff liaisons will recommend their selections to the committees, before notification to the selected contractor. Selection of other than the lowest bid for contracts \$25,000 and over requires committee concurrence.

At the annual budget presentation, projects will be grouped as "under \$25,000" or "\$25,000 and over." Within each group, each project will be prioritized and each project will show which of the above five steps have been performed. Approval of the budget by the board constitutes board approval of all projects on the "under \$25,000" list.

Approval of the "25,000 and over" projects must each have a contractor's bid or an internally generated estimate, likely to be within 20% of the contractor's bid. Approval of the budget by the board constitutes approval for all projects on the "\$25,000 and over" list which have a firm contractor's bid. It further constitutes conditional approval of all projects with internal estimates. The condition to be satisfied is that the bid, when received, falls within +120% of the estimate shown in the budget. Projects with bids greater than 20% of the estimate must be reviewed with the board to gain approval, as must each project with a cost over \$2,000 which was not included in the budget but must be done because of an emergency or other unique circumstance.

The annual budget presentation will encompass a ten-year replacement reserves forecast for both the major repair and replacement fund and the landscape capital improvements fund. The board will consider the forecast as part of its fall retreat and then incorporate the document, with the directors' revisions, into the coming year's fiscal budget. The committees act in an advisory capacity and have no authority to spend funds, allocate funds, change operational procedures, or supervise personnel.

Chapter 18

PERSONNEL MATTERS

The purpose of this section is to deal with personnel matters with financial implications that are not addressed in the employee handbook. These matters include payroll procedures, salary advances, and accounting for employee benefits.

The accounting assistant will prepare the bi-weekly payroll. The accounting assistant is responsible for reconciling time punches for hourly employees and making adjustments. All employees will be paid by direct deposit.

The accounting assistant will make the required federal and state tax deposits in a timely manner. The accounting assistant will prepare quarterly payroll returns. The controller will review and sign the payroll returns. The accounting assistant will prepare annual returns such as W-2s and 1099s.

Salary advances will only be made after approval by the department head and at the discretion of the chief operating officer. Advances require signatures of the employee, the department head and the chief operating officer on the standard "advanced request" form. Repayment of the advance by the employee must be made in a timely manner, according to the terms provided on the form as determined by the chief operating officer.

The accounting assistant will update and maintain employee deductions for benefits offered by the Association. The accounting assistant will prepare the following reconciliations:

1. Health insurance deductions
2. Dental insurance deductions
3. 401(k) withholdings per department or fund with the associated company match
4. Other cafeteria plan withholdings

When discrepancies occur either in the amount of employee's gross pay or in deductions:

1. If money is owed to the employee, the owed amount will be added to the employee's next check or,
2. If the employee owes money to the Association, the controller will meet with the chief operating officer to arrive at an amenable solution.

Chapter 19

PROPERTY STATUS CHANGES / NEW LOT SALES

Residential

The payment to the Association of additional fees is triggered when the owner of an unimproved lot takes out an architectural review board building permit, or when the Developer sells a lot from inventory. The controller is responsible for collecting these fees in a timely manner.

Owners of unimproved properties (lots) are assessed one-half the annual assessment amount charged for improved properties. When the owner of an unimproved property obtains a building permit from the architectural review board, the status of the property changes from unimproved to improved. The resulting difference in assessments is prorated over the remaining full quarters of the year. For example, if a permit is taken out in the first quarter, the member must pay 75% of the difference since there are three full quarters left in the year.

Another fee assessed to the member at this time is the recreation center initiation fee special assessment. The 1994 referendum to construct the Sandcastle community center stated that the special assessment levied on Association members would include future properties, and that each owner of a new property (Association member) would pay a full special assessment. So in 1994, for example, the owner of an unimproved lot would have paid the first half of this special assessment. When the building permit is taken out at a later date, the second half of the special assessment would become due. This amount is tied into whatever the general assessment is when the permit is taken out. In other words, as the general assessment increases, so does this fee.

The controller receives building permit lists monthly from the architectural review board, and will bill the member the prorated difference in assessments and the second half of the recreation center initiation fee.

On new lot sales, the Association member (purchaser) will pay the prorated assessment amount for a lot based, as above, on the remaining full quarters. They will also pay the first half of the recreation center initiation fee. In addition, the contribution to reserve fee applies to this transaction and the purchaser will pay 0.50% of the sales price or the general assessment for a lot, whichever is higher. The closing attorneys usually collect these amounts for the Association. In the rare instances when part or all of these fees were not collected at closing, the controller will contact the closing attorney to inform them that a bill and letter of explanation will be sent to the Association member. The controller is also responsible for updating the Association's property management database to include these new properties.

In any event, the controller will apply the collection policy's timetable for amounts due.

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.

Pursuant to a board resolution approved on June 6, 2006, the board defines “such time as construction has occurred” to mean the time that a new structure is “dried-in.” A dried-in system has walls and a roof and is ready for the installation of an HVAC system.

Chapter 20

PURCHASING POLICY (Supersedes Internal Policies)

Each department head is responsible for his/her department's purchases. A purchase order is required for every Association purchase of goods or one-time services. A purchase order is not required for monthly services such as utilities or lease payments for office space or equipment.

All purchase order numbers are automatically generated in the Financial Edge accounting system. Generally, the following positions will have the authority to purchase materials or one-time services on behalf of the Association. This list is not all-inclusive due to future changes in Association personnel and extenuating circumstances that may occur from time to time. For example, a department head or supervisor may be out for vacation or illness. Any employee ordering in their supervisor's absence will obtain approval immediately upon the supervisor's return.

1. General and Administrative
 - a. Chief operating officer
 - b. Director of governance and communications
 - c. Director of human resources
 - d. Director of member services
 - e. Controller
2. Security
 - a. Director of security
 - b. Three community service supervisors
3. Maintenance
 - a. Director of major repair and replacement
 - b. Director of lakes management
 - c. Director of land management
 - d. General maintenance supervisor
4. Recreation Center
 - a. Director of recreation
 - b. Private event administrator

When an item or service is needed, the employee initiating the purchase will obtain a purchase order from that department's employee in charge of the log. The purchase order number, vendor, person making the request, and the purpose will be logged.

After the purchase order is obtained, the purchase order must be filled out containing the following information:

1. Date
2. Vendor name, address, and phone/fax numbers
3. Ship-to address
4. Expected delivery date
5. Quantity ordered
6. Item description
7. Price per item

8. Total purchase cost
9. Sales tax and delivery charges
10. Account classification
11. Purchaser's signature

Only after the purchase order is filled out can the purchase request be made. When costs are ambiguous, a cost estimate will be made. Whether written approval by the department head is required before the order can be placed is left up to the individual department head. However, as stated earlier, the department head has the sole responsibility for purchases made.

After the order has been placed, the purchase order will be kept in a central location in each department. This will be done to expedite the delivery process for goods. For example, if the turf foreman is in the field at the time of a delivery, the maintenance administrative assistant then has access to the purchase order to compare it to the receiving report. In comparing the receiving report to the delivery, item count and condition of the materials will be thoroughly inspected. If not present at the time of delivery, the original purchaser will be notified of the delivery immediately.

At this point, the purchase order and the receiving report will be kept in a separate file pending receipt of the invoice for payment. Whoever has the responsibility of filling out the check request will compare the vendor's invoice to the purchase order and the receiving report. If no discrepancies are found, the check request will be filled out showing the vendor's name and address, invoice number, date when goods were received or service was performed, payment due date, purchase order number, description of the goods or services, the amount of payment, the account classification, and the signature of the person making the request. The purchase order and invoice will be attached to the check request and sent to the accounting assistant. The accounting assistant will cut checks every Thursday for approved check requests received by Tuesday.

If discrepancies exist between the invoice, the receiving report and the purchase order, the original purchaser and department head will be notified immediately. The department head is responsible for reconciling any differences. The department head may from time to time call on the controller's assistance in such matters.

Chapter 21

THIRD PARTY RECEIPTS/ BILLINGS

When a third party either commits to reimbursing the Association or causes damage to Association property, the controller will bill and collect from the third party.

If a third party reimburses the Association for costs already budgeted, the amount billed will be credited to the major repairs and replacement fund. If the reimbursement is for services provided by the Association above and beyond the budget, the individual department will be credited with the billed amount.

The general insurance section provides details for billing third parties when they have caused damage to Association property. If a dispute arises in this instance or with a third party reimbursement, the controller will inform the chief operating officer of the circumstances. The chief operating officer will work toward dispute resolution with the Association's chief executive officer. If the dispute cannot be resolved between the Association and the third party, legal counsel will be sought.

Chapter 22

USER FEES

The Association charges user fees to those Association members and commercial entities that utilize certain services provided by the Association. For example, members are charged fees for use of the Sandcastle community center, the boat storage and launch areas and mailbox replacement. Since the Association owns nearly all roads behind the main security gate, commercial entities are charged access fees. The current schedule of user fees, including access fees, is located on the Association's website at www.kiawab-owners.org.

Sandcastle Community Center Fees

The Sandcastle community center charges member fees for use of the fitness center, meeting rooms, and pool. The community center advisory committee is responsible for recommending fee schedules for board approval. Fees are collected in advance, using point-of-sale software.

Daily cash receipts and check payments are held segregated, by service, in the office safe. On Monday of each week, the director, recreation or the private event administrator will bring the deposit, with all supporting documentation, to the accounting assistant. The accounting assistant will prepare the actual bank deposit and credit appropriate income accounts.

Fitness center fees are charged on a daily, weekly, monthly, quarterly, and annual basis. A log is kept separating the term of usage. The fitness coordinator is responsible for reconciling the actual cash received with the logs. The member using the facility will sign an agreement indemnifying the Association in case of injury as a result of the fitness center usage.

The director of recreation and private event administrator control the rental of rooms for parties and meetings. A database scheduling system is used to track and make reservations. Deposits are required for most rentals and these checks will be collected and deposited at the time of reservation. The actual user fee will be collected right before the event takes place. The deposit will be refunded to the member in an expeditious manner, with the director reserving the right to withhold any amount to cover damages that might have occurred during the event.

Catered dinners are held at the Sandcastle on a regular basis. Participating members may pay by check or cash and will make their payments to the individual caterer. The caterer will be charged the Association's commission at the end of the event. The commission may be paid from cash collected from the event or by a check from the caterer. Nonpayment from caterers will adversely affect their presence at future events.

Though members and family residing with them pay nothing for use of the pool, their guests are subject to a daily user fee for all individuals over the age of ten. Recreation department staff is responsible for collecting this fee and reconciling the guest log. Non-refundable bulk tickets may be purchased in advance for a discount.

The snack bar concessionaire is billed on a monthly basis based on commission percentage times pre-tax sales.

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Boat Storage & Rhett's Bluff Launch Areas

As stated in the fund accounting and fund definition section of this manual, revenues collected for this area are for the Kestrel Court boat storage yard, and for launch access, dock access and pavilion rental fees for the Rhett's Bluff River landing. Again, all fees for this area are collected up front. The board determines the fee schedule. The fiscal year for these fees is October 1 through September 30. Access to these areas is administered through the administrative member services department.

Annual rates will be charged for boat storage. If members sell their boats or sell their properties during the fiscal year after the fee was paid, a prorated refund will be issued. All users will sign an agreement that indemnifies the Association for any damage that might occur while their boats are being stored. If at renewal time, a member leaves his boat in storage but does not pay the annual fee, member services staff will make every attempt to contact him to rectify the situation. If the member is unresponsive, member services staff will ask the chief operating officer to consult with legal counsel to determine the legal steps necessary to declare the boat abandoned. The board will be kept abreast of the progress of any legal actions the Association may take.

Rhett's Bluff boat launch fees will also be charged on an annual basis, based on the same fiscal year as boat storage. This fee will be prorated to owners who want this access during the current fiscal year. This fee will be refunded if the member sells his property during the fiscal year. It is the member's responsibility to notify staff that he is eligible for this refund.

Rhett's Bluff dock access fees will be charged on an annual basis. Due to the low fee charged for this access, if a member wants this access during the fiscal year, no proration will be made. Likewise, refunds for property sales are not permitted.

Both the storage and launch areas will be locked. Member services staff will check boat inventory monthly and report any discrepancies to administrative management. Members obtain a key from the Association upon payment of a deposit and completion of an agreement. Refunds will be issued in a timely manner after the key has been returned to the Association. Staff will change the keys and locks in these areas every other year.

Member services staff is responsible for notifying current users of renewals each September. Member services staff is responsible for maintaining separate files on members using the various services. Signed agreements will be included in these files. The agreement will explain annual and prorated charges as well as general rules. The agreement will also specify the procedure for the member to obtain a refund.

The Rhett's Bluff River landing includes a pavilion, which is very popular for parties. Members may rent this facility. A user fee and deposit are required; deposits must be collected when the reservation is made, with the balance due 30 days before the scheduled event. A key to gain access is issued. The deposit refund will be released only when the key is returned and either the Association's maintenance department or its security department has inspected the area. The Association reserves the right to withhold any or all of the deposit to pay for damages or clean up costs, and to bill additional amounts if damages exceed the deposit. The controller will process deposit refunds in a timely manner.

Mailbox Replacement

The Association's general maintenance department is responsible for painting and replacing member mailboxes, posts and lettering. If a mailbox or post needs to be replaced, the general maintenance department may replace the item without authorization from the member. (Notification of this has been made in past issues of the *Kiamah Island Digest* and in each new owner welcome guide.) The member will be charged the material replacement cost only. No charge for Association labor will be included. The Association maintenance employee doing the replacement will leave notice in the member's mailbox noting the replacement and the charge.

At the end of each month, the general maintenance supervisor will complete work orders identifying what was replaced at the property address. The controller will then bill the member. The general maintenance department will keep the old boxes and posts for thirty days in case the member would like to inspect them.

Commercial Access Fees

Commercial access fees will be charged to commercial entities. The fees generated from this activity will go straight into the major repair and replacement fund, earmarked for road resurfacing. The board sets rates. Rates are based on the number of wheels of the vehicle and the term of the access desired. The fiscal year for this fee is April 1 through March 31. Commercial entities have the option of paying a daily trip fee to receive a paper pass or buying a decal to gain annual access through the Association's security gate. A fleet rate for larger commercial entities is also available. The security department administers this program.

Fees once again are collected up front. In the event a check from a commercial entity is returned due to insufficient funds, the controller is the first to receive such information. The controller will redeposit the check. If the check is returned again, the controller will notify the commercial entity and the commercial pass administrator. The commercial entity will be given the opportunity, through the controller, to make good on payment. The controller will notify the commercial pass administrator when to deny further access to the commercial entity. A \$25 administrative fee will also be charged to the commercial entity.

Daily trip fees are charged for daily paper passes, which are pre-numbered. Daily trip fees are collected at the main gate and the pass office. Beginning with the first shift each day, a new daily pass log will be used. Employees issuing passes will complete the daily pass log, which will include the pass number, the entity, and the amount collected.

At the end of each main gate shift, the shift supervisor will reconcile the daily pass log to the amount actually collected. The shift supervisor will continue to place the money collected on their shift into a sealed envelope. At the end of each day, which is the end of third shift, the commercial pass administrator will reconcile the daily pass log to actual money collected for the day. The commercial pass administrator will also ensure that the next day's pass log has the correct beginning number. The pass coordinators will keep their own pass logs in the same manner.

The commercial pass administrator will receive the money collected and the pass logs from the main gate and the pass office. The commercial pass administrator is responsible for reviewing the daily reconciliations and is also responsible for investigating any variances. The daily pass logs and monies

collected will then be turned over to the accounting assistant for deposit. Voided passes and trip tickets, if any, will be attached to the daily pass logs to account for each pass issued that day.

A renewal letter will be sent to commercial decal holders at least forty-five days prior to expiration. Pre-numbered decals will be used. The pass coordinators are responsible for collecting the money and entering the decal information into security's database. During the renewal period, which lasts approximately two months, separate daily decal deposits will be prepared. When the decal renewal period has passed, weekly deposits will suffice.

Because cash is associated with all of these fees, the associated department must vigilantly maintain supporting documentation. The above policy does warrant a viable audit trail for collection and deposit of these fees. The controller, from time to time, may perform internal auditing techniques to ensure Association employees are in compliance with Association policies and procedures. The controller will coordinate any extensive internal studies with the appropriate department head.

Preserve Boathouse & Pavilion Areas

As stated in the fund accounting and fund definition section of this manual, revenues collected for this area are for the rental of canoe and kayak spaces and pavilion rent for parties. All fees for this area are collected up front. The board determines the fee schedule. The fiscal year for these fees is October 1 through September 30. Access to these areas is administered through the administrative member services department.

Annual rates will be charged for canoe and kayak storage. If a member sells his canoe or kayak, or sells his property during the fiscal year after the fee was paid, a prorated refund will be issued. All users will sign an agreement that indemnifies the Association for any damage that might occur while their property is being stored. If at renewal time, the member leaves their canoe or kayak in storage but does not pay the annual fee, member services staff will make every attempt to contact him to rectify the situation. If the member is unresponsive, member services staff will ask the chief operating officer to consult legal counsel to determine the legal steps necessary to declare the property abandoned. The board will be kept abreast of the progress of any legal actions the Association may take.

Member services staff will check canoe and kayak inventory monthly and report any discrepancies to administrative management. Members obtain a key for the bathroom facilities from the Association upon payment of a deposit and completion of an agreement. Refunds will be issued in a timely manner after the key has been returned to the Association. Staff will change the keys and locks in these areas every other year.

Member services staff is responsible for notifying current users of renewals each September. Member services staff is responsible for maintaining separate files on members using the various services. Signed agreements will be included in these files. The agreement will explain annual and prorated charges as well as general rules. The agreement will also specify the procedure for the member to obtain a refund.

The Preserve area also includes a pavilion that is very popular for parties. Members may rent this facility. A user fee and deposit are required; deposits must be collected when the reservation is made, with the balance due 30 days before the scheduled event. A key to gain access to the bathroom

facilities is issued. The deposit refund will be released only when the key is returned and either the Association's maintenance department or its security department has inspected the area. The Association reserves the right to withhold any or all of the deposit to pay for damages or clean up costs, and to bill additional amounts if damages exceed the deposit. The controller will process deposit refunds in a timely manner.