

**KIAWAH ISLAND
COMMUNITY ASSOCIATION, INC.**
KIAWAH ISLAND, SOUTH CAROLINA
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.

INDEPENDENT AUDITORS' REPORT

AND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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Independent Auditors' Report

February 19, 2015

The Board of Directors
Kiawah Island Community Association, Inc.
Kiawah Island, South Carolina

We have audited the accompanying financial statements of Kiawah Island Community Association, Inc. (the "Association"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in fund balances, comprehensive income and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement; whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kiawah Island Community Association, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Robinson Alant & Co., P.A.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.

BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash - undesignated	\$ 3,571,748	\$ 3,205,883
Accounts receivable (less allowance for doubtful accounts of \$75,000 and \$50,000, respectively)	115,499	132,541
Accounts receivable - other	27,956	5,474
Royalty receivable	601,875	-
Prepaid expenses	<u>183,267</u>	<u>243,222</u>
Total current assets	4,500,345	3,587,120
 NON-CURRENT ASSETS		
Property and equipment, at cost (less accumulated depreciation of \$4,110,136 and \$3,979,143, respectively)	5,666,755	5,582,831
 DESIGNATED ASSETS		
Cash - designated	3,403,363	2,189,576
Investments - designated	5,377,592	5,951,746
Accrued interest receivable - designated	88,832	88,024
Accrued interest paid - designated	<u>-</u>	<u>1,066</u>
Total designated assets	<u>8,869,787</u>	<u>8,230,412</u>
 TOTAL ASSETS	 <u>\$ 19,036,887</u>	 <u>\$ 17,400,363</u>

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.

BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable	\$ 260,156	\$ 157,915
Accrued payroll and payroll taxes/withholdings	48,930	51,894
Accrued annual leave	247,445	241,068
Prepaid assessments	17,161	28,736
Accrued expenses	54,051	229,664
Deferred revenue - royalty income, current	50,156	-
Deposits held	<u>26,670</u>	<u>29,017</u>
Total current liabilities	704,569	738,294
NONCURRENT LIABILITIES		
Deferred revenue - royalty income	<u>551,719</u>	<u>-</u>
Total liabilities	<u>1,256,288</u>	<u>738,294</u>
FUND BALANCES		
Accumulated excess of revenues over expenses (undesignated)	9,069,132	8,486,205
Accumulated excess of revenues over expenses (designated)	8,690,161	8,178,358
Accumulated other comprehensive income (loss):	<u>21,306</u>	<u>(2,494)</u>
Total fund balances	<u>17,780,599</u>	<u>16,662,069</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,036,887</u>	<u>\$ 17,400,363</u>

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	UNDESIGNATED					DESIGNATED			
	Total	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	Preserve Fence Fund	Landscape Capital Improvements
REVENUES									
Assessments	\$ 8,489,147	\$ 6,464,401	\$ 494,806	\$ 188,724	\$ -	\$ 1,328,766	\$ -	\$ 12,450	\$ -
Late charges	43,329	38,364	3,611	1,259	-	-	-	95	-
Interest income	146,650	47,853	5,333	4,484	-	88,787	-	193	-
Other income	568,925	268,603	300,322	-	-	-	-	-	-
Initiation fees	49,749	-	49,749	-	-	-	-	-	-
Contribution to reserve	1,366,749	-	-	-	-	1,366,749	-	-	-
Vehicle access fees	962,113	962,113	-	-	-	-	-	-	-
GROSS REVENUES	11,626,662	7,781,334	853,821	194,467	-	2,784,302	-	12,738	-
EXPENSES AND OTHER GAINS/LOSSES									
General and administrative	2,670,728	2,670,728	-	-	-	-	-	-	-
Land management	1,672,200	1,672,200	-	-	-	-	-	-	-
Lakes management	260,013	260,013	-	-	-	-	-	-	-
General maintenance	386,756	386,756	-	-	-	-	-	-	-
Security - main gate	1,208,904	1,208,904	-	-	-	-	-	-	-
Mechanic's shop	237,558	237,558	-	-	-	-	-	-	-
Livability	232,836	232,836	-	-	-	-	-	-	-
Sandcastle operations	1,061,477	-	1,061,477	-	-	-	-	-	-
Boat/Canoe storage launch	36,110	36,110	-	-	-	-	-	-	-
Security - second gate	226,146	-	-	226,146	-	-	-	-	-
Depreciation	462,115	-	-	-	462,115	-	-	-	-
Loss (gain) on sale of property and equipment	(37,444)	(37,444)	-	-	-	-	-	-	-
Loss (gain) on sale of investments	(9,114)	-	-	-	-	(9,114)	-	-	-
Major repairs and replacements	1,764,983	-	-	-	-	1,764,983	-	-	-
Landscape improvements	358,664	-	-	-	-	-	-	18,312	340,352
TOTAL EXPENSES AND OTHER GAINS/LOSSES	10,531,932	6,667,661	1,061,477	226,146	462,115	1,755,869	-	18,312	340,352
EXCESS (DEFICIT) REVENUES OVER EXPENSES	1,094,730	1,113,673	(207,656)	(31,679)	(462,115)	1,028,433	-	(5,574)	(340,352)
ACCUMULATED EXCESS - January 1, 2014	16,664,563	2,550,517	352,857	-	5,582,831	7,689,019	471,141	18,198	-
Transfer to/from other funds	-	(265,000)	265,000	31,679	-	(340,352)	(31,679)	-	340,352
Purchase/Disposal of assets	-	(404,095)	(2,920)	-	546,040	(139,025)	-	-	-
ACCUMULATED EXCESS - December 31, 2014	\$ 17,759,293	\$ 2,995,095	\$ 407,281	\$ -	\$ 5,666,756	\$ 8,238,075	\$ 439,462	\$ 12,624	\$ -

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	UNDESIGNATED					DESIGNATED			
	Total	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	Preserve Fence Fund	Landscape Capital Improvements
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ 1,094,730	\$ 1,113,673	\$ (207,656)	\$ (31,679)	\$ (462,115)	\$ 1,028,433	\$ -	\$ (5,574)	\$ (340,352)
OTHER COMPREHENSIVE INCOME									
Unrealized gain/(loss) on investments	23,800	-	-	-	-	23,800	-	-	-
COMPREHENSIVE INCOME (LOSS)	\$ 1,118,530	\$ 1,113,673	\$ (207,656)	\$ (31,679)	\$ (462,115)	\$ 1,052,233	\$ -	\$ (5,574)	\$ (340,352)

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013

	UNDESIGNATED					DESIGNATED			
	Total	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	Preserve Fence Fund	Landscape Capital Improvements
REVENUES									
Assessments	\$ 7,513,033	\$ 6,133,008	\$ 467,521	\$ 238,052	\$ -	\$ 662,102	\$ -	\$ 12,350	\$ -
Late charges	34,404	29,972	2,906	1,427	-	-	-	99	-
Interest income	126,496	36,770	4,079	3,792	-	81,665	-	190	-
Other income	434,947	199,402	235,545	-	-	-	-	-	-
Initiation fees	30,915	-	30,915	-	-	-	-	-	-
Contribution to reserve	1,513,436	-	-	-	-	1,513,436	-	-	-
Vehicle access fees	906,444	906,444	-	-	-	-	-	-	-
GROSS REVENUES	10,559,675	7,305,596	740,966	243,271	-	2,257,203	-	12,639	-
EXPENSES AND OTHER GAINS/LOSSES									
General and administrative	2,505,935	2,505,935	-	-	-	-	-	-	-
Land management	1,488,839	1,488,839	-	-	-	-	-	-	-
Lakes management	312,212	312,212	-	-	-	-	-	-	-
General maintenance	427,566	427,566	-	-	-	-	-	-	-
Security - main gate	1,309,051	1,309,051	-	-	-	-	-	-	-
Mechanic's shop	204,279	204,279	-	-	-	-	-	-	-
Livability	-	-	-	-	-	-	-	-	-
Sandcastle operations	962,390	-	962,390	-	-	-	-	-	-
Boat/Canoe storage launch	62,865	62,865	-	-	-	-	-	-	-
Security - second gate	208,825	-	-	208,825	-	-	-	-	-
Depreciation	397,588	-	-	-	397,588	-	-	-	-
Loss (gain) on sale of property and equipment	(46,995)	(46,469)	(526)	-	-	-	-	-	-
Loss (gain) on sale of investments	(26,845)	-	-	-	-	(26,845)	-	-	-
Major repairs and replacements	1,169,994	-	-	-	-	1,169,994	-	-	-
Landscape improvements	338,687	-	-	-	-	-	-	18,820	319,867
TOTAL EXPENSES AND OTHER GAINS/LOSSES	9,314,391	6,264,278	961,864	208,825	397,588	1,143,149	-	18,820	319,867
EXCESS (DEFICIT) REVENUES OVER EXPENSES	1,245,284	1,041,318	(220,898)	34,446	(397,588)	1,114,054	-	(6,181)	(319,867)
ACCUMULATED EXCESS - January 1, 2013	15,419,279	2,585,846	358,760	-	5,357,979	6,642,320	449,995	24,379	-
Transfer to/from other funds	-	(565,000)	265,000	(34,446)	-	(19,867)	34,446	-	319,867
Purchase/Disposal of assets	-	(511,647)	(50,005)	-	622,440	(47,488)	(13,300)	-	-
ACCUMULATED EXCESS - December 31, 2013	\$ 16,664,563	\$ 2,550,517	\$ 352,857	\$ -	\$ 5,582,831	\$ 7,689,019	\$ 471,141	\$ 18,198	\$ -

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	UNDESIGNATED					DESIGNATED			
	Total	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	Preserve Fence Fund	Landscape Capital Improvements
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ 1,245,284	\$ 1,041,318	\$ (220,898)	\$ 34,446	\$ (397,588)	\$ 1,114,054	\$ -	\$ (6,181)	\$ (319,867)
OTHER COMPREHENSIVE INCOME									
Unrealized gain/(loss) on investments	(1,068)	-	-	-	-	(1,068)	-	-	-
COMPREHENSIVE INCOME (LOSS)	<u>\$ 1,244,216</u>	<u>\$ 1,041,318</u>	<u>\$ (220,898)</u>	<u>\$ 34,446</u>	<u>\$ (397,588)</u>	<u>\$ 1,112,986</u>	<u>\$ -</u>	<u>\$ (6,181)</u>	<u>\$ (319,867)</u>

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficit) revenues over expenses	\$ 1,094,730	\$ 1,245,284
Adjustments to reconcile excess (deficit) revenues over expenses to net cash flow provided by (used in) operating activities:		
Depreciation	462,115	397,588
Provision for losses on receivables	25,000	30,000
Loss (gain) on sale of property and equipment	(37,444)	(46,995)
Loss (gain) on sale of investments	(9,114)	(26,845)
Amortization of bond premiums and discounts	70,152	26,340
(Increase) decrease in:		
Accounts receivable	(7,958)	(41,139)
Accounts receivable - other	(22,482)	(3,727)
Accrued interest on investments	258	(42,389)
Prepaid expenses	59,955	(40,678)
Increase (decrease) in:		
Accounts payable	102,241	53,606
Accrued payroll and payroll taxes/withholdings	(2,964)	(123,626)
Accrued annual leave	6,377	25,671
Prepaid assessments	(11,575)	(1,550)
Accrued expenses	(175,613)	210,368
Deferred revenue	-	(8,727)
Deposits held	(2,347)	(18,425)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,551,331</u>	<u>1,634,756</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(548,197)	(629,820)
Proceeds from sale of property and equipment	39,602	54,376
Purchase of investments	(1,164,612)	(4,819,632)
Proceeds from sale of investments	<u>1,701,528</u>	<u>1,633,286</u>

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NET CASH FLOWS PROVIDED BY (USED IN)		
INVESTING ACTIVITIES	<u>28,321</u>	<u>(3,761,790)</u>
NET INCREASE (DECREASE) IN CASH	1,579,652	(2,127,034)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,395,459</u>	<u>7,522,493</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,975,111</u>	<u>\$ 5,395,459</u>
 <u>CASH SUMMARY</u>		
Undesignated	\$ 3,571,748	\$ 3,205,883
Designated	<u>3,403,363</u>	<u>2,189,576</u>
	<u>\$ 6,975,111</u>	<u>\$ 5,395,459</u>

SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS

The Association records its investments that are classified as "available for sale" at their fair market value. In accordance with this method of reporting investments, the Association recorded unrealized gains (losses) of \$23,800 and (\$1,068) in 2014 and 2013, respectively.

The accompanying notes are an integral part of the financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 – NATURE OF ORGANIZATION

Kiawah Island Community Association, Inc. (the “Association”) is a non-profit, non-stock, corporate homeowners' association. On July 8, 2010, the IRS approved the Association’s application to be treated as a tax-exempt entity. The membership consists of most property owners on Kiawah Island, South Carolina. The "Declaration of Covenants and Restrictions of the Kiawah Island Community Association, Inc." was adopted December 21, 1977. Kiawah Island is located 21 miles south of Charleston, South Carolina. The island consists of approximately 10,000 acres. There are approximately 4,236 residential properties, of which approximately 83.3% are improved. In addition, there are 59 commercial properties.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Association uses the accrual method of accounting. Revenues, which consist primarily of property assessments, are recognized when earned. Expenses are recognized when incurred.

The Association uses fund accounting, which requires that funds, such as operating funds, property funds, and funds designated for future major repair and replacement costs, be classified separately for accounting and reporting purposes. The disbursements from the operating fund are generally at the discretion of the Board of Directors and management for operating expenses. The disbursements from the reserve funds may only be utilized in accordance with the established purposes for accumulation. These replacement disbursements are comprised of building repairs, pavement resurfacing, and other infrastructure replacements, repairs or additions.

Fund Basis of Accounting

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

- General Operations Fund - This fund is used to account for financial resources available for the general operations of the Association.
- Recreation Center Fund - This fund provides funds for operations of the recreation community center activities.
- Vanderhorst Gate Fund - This fund provides funds for the operations of the second security gate.
- Personal and Real Property Fund - This fund accounts for capitalized property.
- Preserve Fence Fund - This fund accounts for future repairs and maintenance of the split rail fence and for other extraordinary land management costs in the Preserve.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Basis of Accounting (continued)

- Major Repair and Replacements Fund and Landscape Capital Improvements Fund - These funds are used to accumulate funds designated for future major repairs and replacements of existing facilities and equipment plus capital projects approved by the Board, and for the major landscape repairs and replacements plus the ongoing landscape capital projects.

Cash Equivalents

For purpose of the statement of cash flows, the association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. This includes any operating bank accounts and interest bearing money market and deposit accounts.

Allowance for Doubtful Accounts

Assessments are considered delinquent after thirty days and a late fee of 1.5% is charged each month on the unpaid balance. The Association's policy is to retain legal counsel and place liens on the properties of those members whose assessments are 120 days or more delinquent. The Association provides an allowance for doubtful accounts equal to the estimated uncollectible portion of assessments receivable which is based on management's evaluation of outstanding assessments receivable at the end of the year and their prior history of writing off uncollectible assessments. At December 31, 2014 and 2013, the Association's allowance for doubtful accounts was \$75,000 and \$50,000, respectively.

Property and Equipment

Property and equipment, when purchased, are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renovations and improvements are capitalized.

The Association owns significant amounts of real property and improvements as follows: Common areas and rights of way, roadways, leisure trails and lakes. These properties are being conveyed periodically to the Association for the consideration of \$1 under an agreement with the developer or conveyed by means of a 99 year lease agreement. These common properties are real property directly associated with the individual ownership of member properties and dedicated for the use of the entire community. They cannot be sold separately and thus have no fair market value other than related to their intended use. Such assets are not recognized in the financial statements of the Association. The Association is responsible for the upkeep, repair, maintenance and improvement of these assets. Replacements and improvements to the common area assets are expensed as incurred.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities

Investment securities at December 31, 2014 and 2013 consist of debt securities. The Association classifies its debt securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt securities are those securities in which the Association has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale. All of the Association's investment securities are classified as available-for-sale at December 31, 2014 and 2013.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Association considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry in which the investee operates. Because the Association has the intent and the ability to hold these securities until a market price recovery or maturity, investment securities at December 31, 2014 and 2013 are not other than temporarily impaired. No impairments were recognized by the Association during the years ended December 31, 2014 and 2013.

Fair Value Measurements

The Association applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 7).

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses. Annual assessments for unimproved and improved properties (for type A residential) ranged between \$786 to \$1,667 and \$749 to \$1,619 for 2014 and 2013, respectively. In addition, the board approved a Supplemental Annual Assessment in 2014 and 2013 of \$150 for unimproved and \$300 for improved properties. This assessment provides revenue for the reserve fund for infrastructure repair and replacement. The annual budgets and member's assessments are determined by the Board of Directors, within the restrictions imposed by the governing documents. The Association retains excess funds at the end of the operating year, if any, for use in future periods.

Vehicle Access Fees

The Association charges a vehicle access fee to commercial entities doing business on the island. The fee is determined annually by the Board of Directors and consists of annual business passes and daily trip fees. Fees are accumulated in the general operations fund to fund road and drainage repairs and replacements. Total fees for 2014 and 2013 were \$962,113 and \$906,444, respectively.

Contribution to Reserve Fees

A contribution to reserve fee in the amount of 0.50% of the gross purchase price of real estate transfers of subject property is collected at closing from the buyer. This fee is designated for major repairs and replacements and landscape capital improvements.

Uninsured Cash Balance

The Association maintains a portion of its cash balances at several banks and invests the balance in money market funds. Cash balances are insured by the FDIC up to \$250,000 through December 31, 2014. This coverage, however, does not protect against losses from any change in the market value of investments. The Association's uninsured balances totaled \$6,693,180 at December 31, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 19, 2015, the date that the financial statements were available to be issued.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 3 – COMPREHENSIVE INCOME

The Association complies with the provisions of FASB ASC 220, *Comprehensive Income*, which establishes rules for the reporting and presentation of comprehensive income and its components. Accounting principles generally require that recognized revenue, expense, gains and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gain and loss on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Unrealized gains (losses) on available for sale securities	\$ 23,800	\$ (1,068)
Other comprehensive income (loss)	<u>\$ 23,800</u>	<u>\$ (1,068)</u>

Changes in accumulated other comprehensive income are as follows:

	<u>2014</u>	<u>2013</u>
Accumulated other comprehensive income, beginning balance	\$ (2,494)	\$ (1,426)
Change during the year	<u>23,800</u>	<u>(1,068)</u>
Accumulated other comprehensive income, ending balance	<u>\$ 21,306</u>	<u>\$ (2,494)</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Major classifications of property and equipment and their respective useful lives at December 31 are as follows:

Description	Estimated Lives	<u>2014</u>	<u>2013</u>
Land	non-depreciable	\$ 40,253	\$ 40,253
Land improvements	10-40 yrs.	95,697	95,697
Buildings and improvements	5-40 yrs.	6,578,544	6,442,886
Swimming pool	20 yrs.	816,369	816,369
Furniture and equipment	3-15 yrs.	1,537,689	1,508,377
Vehicles and trailers	5-10 yrs.	<u>708,339</u>	<u>658,392</u>
		9,776,891	9,561,974
Less: accumulated depreciation		<u>(4,110,136)</u>	<u>(3,979,143)</u>
		<u>\$ 5,666,755</u>	<u>\$ 5,582,831</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$462,115 and \$397,588, respectively.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents provide for the levying of the annual general purpose assessment which, in addition to providing funds for general operations of the Association, also provides for the repair and maintenance of the common properties, e.g., roads, bridges, lakes, drainage systems, etc. Accumulated funds, which aggregate \$8,690,161 and \$8,178,358 at December 31, 2014 and 2013, respectively, are held in separate accounts and are not available for general operating purposes.

An independent review of expected infrastructure repair and replacement costs was conducted by an outside consultant in 2012, with ongoing quarterly updates. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Over the last five year period, expenditures for major repairs and maintenance have averaged \$1,703,868. The Association receives contribution to reserve fees each year to help fund these expenditures. Over the last five year period, these fees have averaged \$1,332,941. In 2014 and 2013, the board approved a Supplemental Annual Assessment to further help fund these expenditures which amounted to \$1,366,749 and \$662,102, respectively. It is possible, however, that amounts accumulated in the major repair and replacement funds, plus the annual sources of revenue, may not be adequate to meet all the future needs for major repairs and replacements and that the Association may need to consider alternate sources of revenue to ensure continued funding of necessary repair and replacement projects. The Association has the right to increase annual assessments up to the maximum amount set forth in the covenants; levy special assessments, subject to member approval; transfer funds from operations; or delay repairs and replacements until funds are available.

NOTE 6 – INVESTMENTS

Maturities of debt securities classified as available-for-sale were as follows at December 31, 2014:

Available for sale:	<u>Cost</u>	<u>Fair Value</u>
Due before one year	\$ 1,515,181	\$ 1,515,726
Due after one year through five years	2,418,987	2,430,884
Due after five years through ten years	<u>1,422,118</u>	<u>1,430,982</u>
	<u>\$ 5,356,286</u>	<u>\$ 5,377,592</u>

Proceeds from the sale of investment securities classified as available for sale were \$1,701,528 in 2014 and \$1,633,286 in 2013; gross realized gains in 2014 and 2013 were \$9,114 and \$26,845, respectively.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 6 – INVESTMENTS (continued)

The cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale investment securities by major security type and class of security as of December 31, 2014 and 2013 are as follows:

	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
<u>December 31, 2014</u>				
Certificates of deposit	\$ 1,753,777	\$ 1,471	\$ -	\$ 1,755,248
Corporate bonds	2,961,838	9,687	-	2,971,525
U.S. Treasury investments	547,638	5,347	-	552,985
Government bonds	93,033	4,801	-	97,834
	<u>\$ 5,356,286</u>	<u>\$ 21,306</u>	<u>\$ -</u>	<u>\$ 5,377,592</u>
<u>December 31, 2013</u>				
Certificates of deposit	\$ 1,100,000	\$ -	\$ (834)	\$ 1,099,166
Corporate bonds	3,671,221	-	(17,695)	\$ 3,653,526
U.S. Treasury investments	1,089,986	5,764	-	1,095,750
Government bonds	93,033	10,271	-	103,304
	<u>\$ 5,954,240</u>	<u>\$ 16,035</u>	<u>\$ (18,529)</u>	<u>\$ 5,951,746</u>

NOTE 7 – FAIR VALUE MEASUREMENTS

The Association applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The following tables present assets that are measured at fair value on a recurring basis at December 31, 2014 and 2013:

Fair Value Measurements at Reporting Date Using:			
December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 5,377,592	\$ 5,377,592	\$ -	\$ -

Fair Value Measurements at Reporting Date Using:			
December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 5,951,746	\$ 5,951,746	\$ -	\$ -

NOTE 8 – DEFERRED ROYALTY INCOME

On December 30, 2014, the Association entered into an agreement with Comcast of Georgia/South Carolina II, LLC (Comcast), to allow Comcast use of easements within the association to install and maintain broadband services on Kiawah Island and to allow exclusive use of the Association’s name in marketing materials. The term of this agreement is twelve years, with automatic one month renewal periods thereafter until either party terminates the agreement. Comcast will pay the Association an initial payment of \$802,500, based upon the number of residential units, which is due within 90 days of execution of the contract. An additional per unit payment will be due for any additional units added in the future.

The Association engaged a consulting firm to help negotiate and secure the Comcast agreements described above. The terms of the agreement with the consultant specify that the Association will pay the consultant a commission equal to 25% of all monies received from Comcast throughout the life of the contract.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 8 – DEFERRED ROYALTY INCOME (continued)

At December 31, 2014, the initial fee has been recorded, net of the related commission, as deferred income and as a royalty receivable in the amount of \$601,875 and will be amortized over the twelve year term of the contract.

In addition to the per unit fee described above, the Association also entered into a concurrent twelve year agreement with Comcast whereby the Association will receive a percentage, varying from 0% to 9%, of the broadband service revenue that Comcast receives from the Association's members based upon the overall number of Association residential units that subscribe to Comcast's services. This will be calculated and paid on a quarterly basis. A related 25% commission will be paid on these amounts.

NOTE 9 – FEDERAL AND STATE INCOME TAXES

During December 2008, the Association filed an exemption application (Form 1024 – Application for Recognition of Exemption Under Section 501(a)) with the IRS to be recognized as a social welfare organization under Internal Revenue Code section 501(c)(4). The application was approved on July 8, 2010.

The Association is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code, except on income derived from unrelated business activities. In 2012, the Association began selling advertising space in their monthly digest which is subject to tax as unrelated business income. The Association discontinued this activity in late 2013. At December 31, 2014 and 2013, the Association recorded a tax liability of \$0 on this unrelated business activity. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Association's tax returns for 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after filing.

NOTE 10 - RETIREMENT PLAN

The Association maintains a defined contribution retirement plan, which allows eligible employees meeting minimum age and service requirements to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Total deferrals in any plan year may not exceed the dollar limit, which is determined by law.

The Association will match \$0.70 for each \$1.00 of a participants' contribution up to a maximum contribution of 5% of compensation. The Association's expense was \$73,842 and \$65,755 for the years ended December 31, 2014 and 2013, respectively.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 11 – OPERATING LEASES

The Association maintains various operating leases for machinery, office space and office equipment. The future annual lease payments required under these operating leases are as follows:

<u>For year ending December 31,</u>	
2015	\$ 123,745
2016	95,821
2017	32,723
2018	22,579
Thereafter	<u>9,408</u>
Total minimum lease payments	<u>\$ 284,276</u>

Rent expense associated with lease payments in 2014 and 2013 was \$208,530 and \$191,727, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

Kiawah Resort Associates (KRA), the developer, held one seat on the Association’s board for the years covered in these financial statements. Additionally, KRA owned 92 and 87 properties during 2014 and 2013, respectively, of which 71 are lots in inventory, 12 are unsubdivided and 9 are commercial for 2014. Assessments paid by KRA for this inventory was \$261,687 and \$234,239 in 2014 and 2013, respectively.

NOTE 13 – CONCENTRATIONS

Kiawah Island is a coastal community located on the upper-part of the southeastern coast of the United States and is a vacation destination for thousands of people each year. The members of the Association include persons purchasing a home for personal residential use as well as those purchasing homes and land for investment and commercial/rental purposes. Although the Association’s members, and those vacationing on Kiawah Island, are not necessarily from a concentrated geographical area, the Association is exposed to risks associated with conditions affecting the economy, real estate, tourism and weather for its geographical area.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 14 – COMMITMENTS

The Association engages various outside organizations to provide contractual services for the care and maintenance of its common properties. These organizations are compensated monthly for their services. The approximate fees incurred for services under these contractual obligations for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Pool facility	\$ 56,692	\$ 32,840
HVAC service	\$ 10,325	\$ 10,875
Elevator service	5,076	5,029
	\$ 72,093	\$ 48,744

The Association had several major repairs and replacement and administrative contracts that commenced in 2014 but had not been completed by December 31, 2014. The total amount of the contracts was \$620,112. Management estimated that \$366,141 of the total contract amounts were attributable to work performed during 2014 and these amounts are included in major repairs and replacements and general and administrative expense on the statement of revenues, expenses and changes in fund balance. The remaining amounts outstanding on these contracts totaled \$253,971 and are expected to be completed and expensed in 2015.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.
FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
FOR THE YEAR ENDING DECEMBER 31, 2014

The Association engaged Design Management Associates to conduct a replacement reserve study in September 2012, with on-going quarterly updates, to estimate the remaining useful lives and replacement costs of the components of common property. The study covered all of the categories below except for the Preserve split rail fence. The estimated remaining life and replacement costs of the Preserve split rail fence are management's estimate. All of the estimates were based on future estimated replacement costs. Replacement costs were based on the estimated costs to repair or replace common property components at the date of the study. Estimated current replacement costs have not been revised since the study and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement. The following information is based on the study, and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Replacement Lives</u>	<u>Estimated Replacement Costs</u>	<u>Fund Balance December 31, 2014</u>
Street repair, resurfacing	1-22 years	\$ 17,162,238	
Off-road drainage system	1-63 years	7,465,322	
Buildings and structures:			
Security gate house #1	1-28 years	133,266	
Maintenance facility	4-29 years	581,829	
Boardwalks	1-38 years	1,457,957	
Walking bridges	1-37 years	1,980,714	
Roadway bridges	1-34 years	2,972,370	
Observation towers	1-30 years	338,432	
Revetments/bulkheads	1-37 years	617,900	
Docks	1-19 years	191,443	
Rhetts' Bluff facility	5-49 years	485,650	
Canoe/Boat launch & pavilion	4-33 years	337,571	
Sandcastle recreation center	1-29 years	2,475,972	
Irrigation	1-10 years	93,662	
Dredging	1-7 years	820,000	
Landscape	1-19 years	43,509	
Railings	20-37 years	192,027	
		\$ 37,349,862	\$ 8,238,075
Security gate house - second gate	4-28 years	75,140	439,462
Preserve split rail fence	1-30 years	71,022	12,624
Totals		\$ 37,496,024	\$ 8,690,161

Actual expenditures may vary from the estimated future expenditures and the variations may be material.