

**KIAWAH ISLAND  
COMMUNITY ASSOCIATION, INC.**  
KIAWAH ISLAND, SOUTH CAROLINA  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

**INDEPENDENT AUDITORS' REPORT**

**AND**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

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**DIRECTORS**

Bruce Stemerman – Chair  
Marilyn Olson – Vice Chair  
Rajan Govindan – Treasurer  
John Connolly  
Lynn Morgenstern  
Dave Singer  
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## **Independent Auditors' Report**

February 16, 2017

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, 2016 and 2015, and the related statements of revenues, expenses and changes in fund balance, 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.

### ***Auditors' 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 auditors' 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, 2016 and 2015, 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 23 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 Grant & Co., P.A.*

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

**BALANCE SHEETS**

AS OF DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash - undesignated	\$ 6,180,096	\$ 5,100,114
Accounts receivable (less allowance for doubtful accounts of \$35,000 and \$40,000, respectively)	1,198,428	111,605
Accounts receivable - other	29,103	28,895
Royalty receivable	37,500	37,500
Prepaid expenses	<u>284,507</u>	<u>212,827</u>
<b>Total current assets</b>	7,729,634	5,490,941
 <b>NON-CURRENT ASSETS</b>		
Property and equipment, at cost (less accumulated depreciation of \$4,797,068 and \$4,441,710, respectively)	6,704,537	5,390,889
 <b>DESIGNATED ASSETS</b>		
Cash - designated	2,812,932	3,958,213
Investments - designated	4,537,090	3,975,316
Accrued interest receivable - designated	<u>32,633</u>	<u>28,177</u>
Total designated assets	<u>7,382,655</u>	<u>7,961,706</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 21,816,826</u>	 <u>\$ 18,843,536</u>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

**BALANCE SHEETS**

AS OF DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 422,031	\$ 179,118
Accrued payroll and payroll taxes/withholdings	90,902	67,799
Accrued annual leave	280,668	262,651
Prepaid assessments	29,884	13,758
Accrued expenses	180,602	1,154
Deferred revenue - royalty income, current	50,156	50,156
Mortgage payable - current	53,689	-
Deposits held	11,637	41,565
<b>Total current liabilities</b>	<u>1,119,569</u>	<u>616,201</u>
<b>NONCURRENT LIABILITIES</b>		
Deferred revenue - royalty income	451,407	501,563
Mortgage payable - noncurrent	1,512,590	-
<b>Total noncurrent liabilities</b>	<u>1,963,997</u>	<u>501,563</u>
<b>Total liabilities</b>	<u>3,083,566</u>	<u>1,117,764</u>
<b>FUND BALANCES</b>		
Accumulated excess of revenues over expenses (undesignated)	11,652,997	9,769,004
Accumulated excess of revenues over expenses (designated)	7,092,301	7,937,346
Accumulated other comprehensive income (loss)	(12,038)	19,422
<b>Total fund balances</b>	<u>18,733,260</u>	<u>17,725,772</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 21,816,826</u>	<u>\$ 18,843,536</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, 2016

	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
<b>REVENUES</b>									
Assessments	\$ 10,445,228	\$ 8,334,100	\$ 553,900	\$ 193,319	\$ -	\$ 1,347,784	\$ -	\$ 16,125	\$ -
Late charges	35,231	29,736	4,311	1,100	-	-	-	84	-
Investment income	146,288	32,518	3,043	1,985	-	108,687	-	55	-
Royalty income	216,805	216,805	-	-	-	-	-	-	-
Other income	639,998	340,185	299,813	-	-	-	-	-	-
Initiation fees	47,700	-	47,700	-	-	-	-	-	-
Contribution to reserve	1,446,658	-	-	-	-	1,446,658	-	-	-
Vehicle access fees	1,153,930	1,153,930	-	-	-	-	-	-	-
<b>GROSS REVENUES</b>	<b>14,131,838</b>	<b>10,107,274</b>	<b>908,767</b>	<b>196,404</b>	<b>-</b>	<b>2,903,129</b>	<b>-</b>	<b>16,264</b>	<b>-</b>
<b>EXPENSES AND OTHER GAINS/LOSSES</b>									
General and administrative	2,758,055	2,758,055	-	-	-	-	-	-	-
Land management	2,188,604	2,188,604	-	-	-	-	-	-	-
Lakes management	232,947	232,947	-	-	-	-	-	-	-
General maintenance	517,697	517,697	-	-	-	-	-	-	-
Security - main gate	1,331,078	1,331,078	-	-	-	-	-	-	-
Mechanic's shop	249,455	249,455	-	-	-	-	-	-	-
Livability	244,671	244,671	-	-	-	-	-	-	-
Sandcastle operations	1,130,543	-	1,130,543	-	-	-	-	-	-
Boat/Canoe storage launch	33,574	33,574	-	-	-	-	-	-	-
Security - second gate	225,916	-	-	225,916	-	-	-	-	-
Depreciation	494,610	-	-	-	494,610	-	-	-	-
Loss (gain) on sale of property and equipment	(19,211)	(19,211)	-	-	-	-	-	-	-
Loss (gain) on sale of investments	-	-	-	-	-	-	-	-	-
Major repairs and replacements	3,412,316	-	-	-	-	3,412,316	-	-	-
Landscape improvements	292,635	-	-	-	-	-	-	22,732	269,903
<b>TOTAL EXPENSES AND OTHER GAINS/LOSSES</b>	<b>13,092,890</b>	<b>7,536,870</b>	<b>1,130,543</b>	<b>225,916</b>	<b>494,610</b>	<b>3,412,316</b>	<b>-</b>	<b>22,732</b>	<b>269,903</b>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	<b>1,038,948</b>	<b>2,570,404</b>	<b>(221,776)</b>	<b>(29,512)</b>	<b>(494,610)</b>	<b>(509,187)</b>	<b>-</b>	<b>(6,468)</b>	<b>(269,903)</b>
<b>ACCUMULATED EXCESS - January 1, 2016</b>	<b>17,706,350</b>	<b>3,975,022</b>	<b>403,092</b>	<b>-</b>	<b>5,390,890</b>	<b>7,523,626</b>	<b>405,884</b>	<b>7,836</b>	<b>-</b>
Transfer to/from other funds	-	(1,469,705)	(66,627)	29,512	1,536,332	(269,903)	(29,512)	-	269,903
Transfer of fixed assets	-	(1,773,791)	(1,579)	-	1,805,345	(28,130)	(1,845)	-	-
<b>ACCUMULATED EXCESS - December 31, 2016</b>	<b>\$ 18,745,298</b>	<b>\$ 3,301,930</b>	<b>\$ 113,110</b>	<b>\$ -</b>	<b>\$ 8,237,957</b>	<b>\$ 6,716,406</b>	<b>\$ 374,527</b>	<b>\$ 1,368</b>	<b>\$ -</b>

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, 2016

	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
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	\$ 1,038,948	\$ 2,570,404	\$ (221,776)	\$ (29,512)	\$ (494,610)	\$ (509,187)	\$ -	\$ (6,468)	\$ (269,903)
<b>OTHER COMPREHENSIVE INCOME</b>									
Unrealized gain/(loss) on investments	(31,460)	-	-	-	-	(31,460)	-	-	-
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 1,007,488</u>	<u>\$ 2,570,404</u>	<u>\$ (221,776)</u>	<u>\$ (29,512)</u>	<u>\$ (494,610)</u>	<u>\$ (540,647)</u>	<u>\$ -</u>	<u>\$ (6,468)</u>	<u>\$ (269,903)</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, 2015

	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
<b>REVENUES</b>									
Assessments	\$ 8,907,849	\$ 6,839,043	\$ 523,391	\$ 191,203	\$ -	\$ 1,341,562	\$ -	\$ 12,650	\$ -
Late charges	40,232	34,148	4,680	1,262	-	-	-	142	-
Investment income	137,354	54,983	5,295	3,914	-	73,002	-	160	-
Royalty income	205,625	205,625	-	-	-	-	-	-	-
Other income	620,679	359,823	260,856	-	-	-	-	-	-
Initiation fees	55,261	-	55,261	-	-	-	-	-	-
Contribution to reserve	1,659,560	-	-	-	-	1,659,560	-	-	-
Vehicle access fees	1,078,880	1,078,880	-	-	-	-	-	-	-
<b>GROSS REVENUES</b>	<b>12,705,440</b>	<b>8,572,502</b>	<b>849,483</b>	<b>196,379</b>	<b>-</b>	<b>3,074,124</b>	<b>-</b>	<b>12,952</b>	<b>-</b>
<b>EXPENSES AND OTHER GAINS/LOSSES</b>									
General and administrative	2,749,303	2,749,303	-	-	-	-	-	-	-
Land management	1,955,622	1,955,622	-	-	-	-	-	-	-
Lakes management	218,175	218,175	-	-	-	-	-	-	-
General maintenance	478,586	478,586	-	-	-	-	-	-	-
Security - main gate	1,222,326	1,222,326	-	-	-	-	-	-	-
Mechanic's shop	265,519	265,519	-	-	-	-	-	-	-
Livability	240,839	240,839	-	-	-	-	-	-	-
Sandcastle operations	1,091,141	-	1,091,141	-	-	-	-	-	-
Boat/Canoe storage launch	41,039	41,039	-	-	-	-	-	-	-
Security - second gate	229,957	-	-	229,957	-	-	-	-	-
Depreciation	485,019	-	-	-	485,019	-	-	-	-
Loss (gain) on sale of property and equipment	(9,823)	(9,823)	-	-	-	-	-	-	-
Loss (gain) on sale of investments	-	-	-	-	-	-	-	-	-
Major repairs and replacements	3,187,580	-	-	-	-	3,187,580	-	-	-
Landscape improvements	603,100	-	-	-	-	-	17,740	585,360	-
<b>TOTAL EXPENSES AND OTHER GAINS/LOSSES</b>	<b>12,758,383</b>	<b>7,161,586</b>	<b>1,091,141</b>	<b>229,957</b>	<b>485,019</b>	<b>3,187,580</b>	<b>-</b>	<b>17,740</b>	<b>585,360</b>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	<b>(52,943)</b>	<b>1,410,916</b>	<b>(241,658)</b>	<b>(33,578)</b>	<b>(485,019)</b>	<b>(113,456)</b>	<b>-</b>	<b>(4,788)</b>	<b>(585,360)</b>
<b>ACCUMULATED EXCESS - January 1, 2015</b>	<b>17,759,293</b>	<b>2,995,095</b>	<b>407,281</b>	<b>-</b>	<b>5,666,756</b>	<b>8,238,075</b>	<b>439,462</b>	<b>12,624</b>	<b>-</b>
Transfer to/from other funds	-	(265,000)	265,000	33,578	-	(585,360)	(33,578)	-	585,360
Transfer of fixed assets	-	(165,989)	(27,531)	-	209,153	(15,633)	-	-	-
<b>ACCUMULATED EXCESS - December 31, 2015</b>	<b>\$ 17,706,350</b>	<b>\$ 3,975,022</b>	<b>\$ 403,092</b>	<b>\$ -</b>	<b>\$ 5,390,890</b>	<b>\$ 7,523,626</b>	<b>\$ 405,884</b>	<b>\$ 7,836</b>	<b>\$ -</b>

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, 2015

	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
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	\$ (52,943)	\$ 1,410,916	\$ (241,658)	\$ (33,578)	\$ (485,019)	\$ (113,456)	\$ -	\$ (4,788)	\$ (585,360)
<b>OTHER COMPREHENSIVE INCOME</b>									
Unrealized gain/(loss) on investments	(1,884)	-	-	-	-	(1,884)	-	-	-
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ (54,827)</u>	<u>\$ 1,410,916</u>	<u>\$ (241,658)</u>	<u>\$ (33,578)</u>	<u>\$ (485,019)</u>	<u>\$ (115,340)</u>	<u>\$ -</u>	<u>\$ (4,788)</u>	<u>\$ (585,360)</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficit) revenues over expenses	\$ 1,038,948	\$ (52,943)
Adjustments to reconcile excess (deficit) revenues over expenses to net cash flow provided by (used in) operating activities:		
Depreciation	494,610	485,019
Provision for losses on receivables	(5,000)	(35,000)
Loss (gain) on sale of property and equipment	(19,211)	(9,823)
Amortization of bond premiums and discounts	56,661	58,472
(Increase) decrease in:		
Accounts receivable	(1,081,823)	38,894
Accounts receivable - other	(208)	(939)
Royalty receivable	-	564,375
Accrued interest on investments	(4,456)	60,655
Prepaid expenses	(71,680)	(29,560)
Increase (decrease) in:		
Accounts payable	242,913	(81,038)
Accrued payroll and payroll taxes/withholdings	23,103	18,869
Accrued annual leave	18,017	15,206
Prepaid assessments	16,126	(3,403)
Accrued expenses	179,448	(52,897)
Deferred revenue - royalty income	(50,156)	(50,156)
Deposits held	(29,928)	14,895
<b>NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>807,364</u>	<u>940,626</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,808,258)	(211,545)
Proceeds from sale of property and equipment	19,211	12,215
Purchase of investments	(1,703,842)	(254,890)
Proceeds from sale of investments	<u>1,053,947</u>	<u>1,596,810</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>NET CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>INVESTING ACTIVITIES</b>	<u>(2,438,942)</u>	<u>1,142,590</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage	(8,721)	-
Proceeds from mortgage loan	<u>1,575,000</u>	<u>-</u>
<b>NET CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>INVESTING ACTIVITIES</b>	<u>1,566,279</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(65,299)	2,083,216
CASH AND CASH EQUIVALENTS, beginning of year	<u>9,058,327</u>	<u>6,975,111</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,993,028</u>	<u>\$ 9,058,327</u>
<b><u>CASH SUMMARY</u></b>		
Undesignated	\$ 6,180,096	\$ 5,100,114
Designated	<u>2,812,932</u>	<u>3,958,213</u>
	<u>\$ 8,993,028</u>	<u>\$ 9,058,327</u>
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Amount of Interest Paid	<u>\$ 10,127</u>	<u>\$ -</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 (\$31,460) and (\$1,884) in 2016 and 2015, respectively.

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**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 4,239 residential properties, of which approximately 85.4% are improved. In addition, there are 60 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, 2016 AND 2015

**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 funds 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 the balance of outstanding assessments receivable on properties in foreclosure at the end of the year and its prior history of writing off uncollectible assessments. At December 31, 2016 and 2015, the Association's allowance for doubtful accounts was \$35,000 and \$40,000, respectively, and bad debt expense totaled \$32,406 and \$31,825 for 2016 and 2015, respectively.

**Property and Equipment**

Property and equipment, with a useful life in excess of one year and costing more than \$1,000 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, 2016 AND 2015

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment Securities**

Investment securities at December 31, 2016 and 2015 consist of debt securities. Debt securities are classified in one of three categories: trading, available for sale, or held to maturity. While not precluded from trading or held to maturity investments, all of the Association's investment securities are classified as available-for-sale at December 31, 2016 and 2015.

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, 2016 and 2015 are not other than temporarily impaired. No impairments were recognized by the Association during the years ended December 31, 2016 and 2015.

**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).

**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, 2016. This coverage, however, does not protect against losses from any change in the market value of investments. The Association's uninsured balances totaled \$7,874,346 at December 31, 2016.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**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 \$866 to \$1,828 and \$825 to \$1,745 for 2016 and 2015, respectively. In addition, the board approved a supplemental annual assessment in 2016 and 2015 of \$150 for unimproved and \$300 for improved properties. This assessment is designated by the board to provide revenue for the reserve fund for infrastructure repair and replacement. In December 2016, the board approved an additional supplemental annual assessment of \$125 for unimproved and \$250 for improved properties, and totaling \$1,127,317, to help fund the ongoing clean-up and necessary repairs following Hurricane Matthew which moved up the coast of South Carolina on October 7<sup>th</sup> as a category 2 storm. This assessment was not designated for scheduled major repairs and replacements; accordingly, it is reported as a part of general operations fund assessments on the statement of revenues, expenses, and changes in fund balance. 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 2016 and 2015 were \$1,153,930 and \$1,078,880, 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.

**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 16, 2017, the date that the financial statements were available to be issued.



**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**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 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unrealized gains (losses) on available-for-sale securities	\$ (31,460)	\$ (1,884)
Other comprehensive income (loss)	<u>\$ (31,460)</u>	<u>\$ (1,884)</u>

Changes in accumulated other comprehensive income are as follows:

	<u>2016</u>	<u>2015</u>
Accumulated other comprehensive income, beginning balance	\$ 19,422	\$ 21,306
Change during the year	<u>(31,460)</u>	<u>(1,884)</u>
Accumulated other comprehensive income, ending balance	<u>\$ (12,038)</u>	<u>\$ 19,422</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

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

<u>Description</u>	<u>Estimated Lives</u>	<u>2016</u>	<u>2015</u>
Land	non-depreciable	\$ 40,253	\$ 40,253
Land improvements	10-40 yrs.	95,697	95,697
Buildings and improvements	5-40 yrs.	8,157,532	6,582,532
Swimming pool	20 yrs.	817,494	817,494
Furniture and equipment	3-15 yrs.	1,604,901	1,572,052
Vehicles and trailers	5-10 yrs.	<u>785,728</u>	<u>724,571</u>
		11,501,605	9,832,599
Less: accumulated depreciation		<u>(4,797,068)</u>	<u>(4,441,710)</u>
		<u>\$ 6,704,537</u>	<u>\$ 5,390,889</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$494,610 and \$485,019, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**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 \$7,092,301 and \$7,937,346 at December 31, 2016 and 2015, 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 \$2,491,389. The Association receives contribution to reserve fees each year to help fund these expenditures. Over the last five year period, these fees have averaged \$1,478,464. In 2016 and 2015, the board approved a supplemental annual assessment to further help fund these expenditures which amounted to \$1,347,784 and \$1,341,562, 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, 2016:

Available for sale:	<u>Cost</u>	<u>Fair Value</u>
Due before one year	\$ 809,848	\$ 814,456
Due after one year through five years	3,021,976	3,029,314
Due after five years through ten years	717,304	693,320
	<u>\$ 4,549,128</u>	<u>\$ 4,537,090</u>

Proceeds from the sale of investment securities classified as available for sale were \$1,053,947 in 2016 and \$1,596,810 in 2015; gross realized gains in 2016 and 2015 were \$-0-.

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, 2016 and 2015 are as follows:

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 6 – INVESTMENTS (continued)**

	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
<u>December 31, 2016</u>				
Certificates of deposit	\$ 450,000	\$ 5,346	\$ -	\$ 455,346
Corporate bonds	3,521,257	(34,031)	-	3,487,226
U.S. Treasury investments	577,871	16,647	-	594,518
	<u>\$ 4,549,128</u>	<u>\$ (12,038)</u>	<u>\$ -</u>	<u>\$ 4,537,090</u>
<u>December 31, 2015</u>				
Certificates of deposit	\$ 1,103,947	\$ 5,818	\$ -	\$ 1,109,765
Corporate bonds	2,303,366	8,290	-	\$ 2,311,656
U.S. Treasury investments	548,581	5,314	-	553,895
	<u>\$ 3,955,894</u>	<u>\$ 19,422</u>	<u>\$ -</u>	<u>\$ 3,975,316</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.

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, 2016 and 2015:

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**NOTE 7 – FAIR VALUE MEASUREMENTS (continued)**

Fair Value Measurements at Reporting Date Using:			
December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 4,537,086	\$ 4,537,086	\$ -	\$ -

Fair Value Measurements at Reporting Date Using:			
December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 3,975,316	\$ 3,975,316	\$ -	\$ -

**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 paid the Association an initial payment of \$802,500, based upon the number of residential units, which was 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.

At December 31, 2014, the initial fee was recorded, net of the related commission, as deferred income and as a royalty receivable in the amount of \$601,875. The deferred income is being amortized over the twelve year term of the contract. At December 31, 2016 and 2015, the balance of the deferred revenue totaled \$501,563 and \$551,719, respectively, and the net related royalty income was \$57,156 and \$55,431 for 2016 and 2015, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 8 – DEFERRED ROYALTY INCOME (continued)**

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. The net amount of this royalty income for 2016 and 2015 totaled \$159,649 and \$150,194, respectively.

**NOTE 9 – MORTGAGE PAYABLE**

In October 2016, the Association took out a mortgage in the amount of \$1,575,000 to finance the purchase of the building that houses its administrative offices. The mortgage bears interest at a rate of 3.8% and is payable in one hundred and nineteen principal and interest monthly payments of \$9,424 with a final payment of \$946,597 due on October 19, 2026. The mortgage is secured by the building, the Association’s personal property, and any rental/lease income associated with the building. The mortgage also requires the Association to maintain the banking account it holds with the mortgage holder and gives the mortgage holder a right of offset against any cash or investment accounts held at the mortgage holder in the event of default. At December 31, 2015, the balance of the mortgage was \$1,566,278 and interest paid totaled \$10,128 during 2016.

The Association is leasing a portion of the building to the former owner until the earlier of eighteen months or forty five days after the former owner receives a certificate of occupancy on their new building. During this term, rent is fixed at \$7,656 plus a percentage of certain operating costs. During the year ended December 31, 2016, the Association received rents in the amount of \$26,127.

Mortgage debt service requirements to maturity are as follows:

Year ending December 31,	Principal	Interest	Total
2017	\$ 53,690	\$ 59,401	\$ 113,091
2018	55,795	57,296	113,091
2019	57,983	55,108	113,091
2020	60,106	52,985	113,091
2021	62,614	50,477	113,091
2022 - 2026	1,276,091	207,688	1,483,779
Total	<u>\$ 1,566,279</u>	<u>\$ 482,955</u>	<u>\$ 2,049,234</u>

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**NOTE 10 – LINE OF CREDIT**

The Association has one line of credit that carries a variable interest rate equal to that of the bank's prime rate. The line is secured by a right of offset against bank and investment accounts the Association maintains with the lender. The total amount of the line of credit available for the Association is \$2,500,000 and the current maturity date is October 5, 2017. The Association has made no draws on this line and accordingly had no outstanding balances at December 31, 2016 and 2015.

**NOTE 11 – 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. 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 are subject to examination by the IRS, generally for three years after filing.

**NOTE 12 - 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 the employee's contribution at a rate of 70% on the first 5% of the employee's gross wages. The Association's expense was \$89,127 and \$79,613 for the years ended December 31, 2016 and 2015, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**NOTE 13 – 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>		
2017	\$	32,653
2018		32,653
2019		14,904
2020		1,774
Thereafter		-
Total minimum lease payments	\$	<u>81,984</u>

Rent expense associated with lease payments in 2016 and 2015 was \$204,641 and \$206,748, respectively.

**NOTE 14 - 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 144 and 96 properties during 2016 and 2015, respectively, of which 122 are lots in inventory, 13 are unsubdivided and 9 are commercial for 2016. Assessments paid by KRA for this inventory was \$251,256 and \$251,824 in 2016 and 2015, respectively. In addition to these totals, \$33,271 was owed at December 31, 2016 for the supplemental annual assessment approved in December to help fund Hurricane Matthew repairs and cleanup.

**NOTE 15 – 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, 2016 AND 2015

**NOTE 16 – COMMITMENTS**

At December 31, 2016, the Association had several major repairs and replacement or administrative contracts that commenced in 2016 but had not been completed by December 31, 2016. The total amount of the contracts was \$2,290,853. Management estimated that \$475,340 of the total contract amounts were attributable to work performed during 2016 and \$446,677 of this amount is included as major repairs and replacements on the statement of revenues, expenses and changes in fund balance whereas the remaining \$28,663 is for work performed for a third party and is recorded as a receivable from that third party at December 31, 2016. The remaining amounts outstanding totaled \$1,815,513 and are expected to be completed and expensed, billed to the appropriate third party, or rebid in 2017.



**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**  
**FOR THE YEAR ENDING DECEMBER 31, 2016**

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 except for the preserve split rail fence and administrative building. These items were not included in the most recent study and are based on management's internal 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 December 2016, the most recent quarterly update, 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.

<b>Component</b>	<b>Estimated Replacement Lives</b>	<b>Estimated Replacement Costs</b>	<b>Fund Balance December 31, 2016</b>
Street repair, resurfacing	1-22 years	\$ 15,295,420	
Off-road drainage system	1-34 years	16,039,703	
Buildings and structures:			
Security gate house #1	1-28 years	128,357	
Maintenance facility	1-29 years	688,886	
Boardwalks	1-40 years	1,477,657	
Walking bridges	1-39 years	1,273,182	
Roadway bridges	1-31 years	8,497,217	
Observation towers	1-27 years	282,080	
Revetments/bulkheads	1-39 years	913,298	
Docks	1-27 years	190,920	
Rhetts' Bluff facility	1-49 years	677,191	
Canoe/Boat launch & pavilion	1-33 years	373,461	
Sandcastle recreation center	1-29 years	2,696,482	
Administrative Building	1-40 years	1,575,000	
Irrigation	1-8 years	20,047	
Signage	1-40 years	1,489,534	
Railings	1-35 years	162,305	
		\$ 51,780,740	\$ 6,716,406
Security gate house - second gate	1-28 years	54,517	374,527
Preserve split rail fence	1-30 years	17,937	1,368
Totals		<u>\$ 51,853,194</u>	<u>\$ 7,092,301</u>

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

See accompanying independent accountants' audit report.