

**KIAWAH ISLAND  
COMMUNITY ASSOCIATION, INC.**

KIAWAH ISLAND, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

INDEPENDENT AUDITORS' REPORT

AND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

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**DIRECTORS**

Ben Cheatham – Chair  
Sue Schaffer – Vice Chair  
David Morley – Treasurer  
Cathy Pumphrey  
David DeStefano  
Diana Mezzanotte  
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# Robinson Grant & Co., P.A.

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## **Independent Auditors' Report**

March 4, 2020

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., which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of revenues, expenses and changes in fund balance, comprehensive income and cash flows for the year 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 audit 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, 2019 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Kiawah Island Community Association's 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.

***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 18 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.

*Johnson & Co., P.A.*

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

BALANCE SHEETS

AS OF DECEMBER 31, 2019 AND 2018

	<b>Operating Fund</b>	<b>Reserve Fund</b>	<b>Total 2019</b>	<b>2018 Total</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 3,209,251	\$ 1,678,919	\$ 4,888,170	\$ 3,515,701
Investments	1,141,484	6,491,869	7,633,353	7,080,064
Accrued interest receivable	3,381	26,013	29,394	32,713
Accounts receivable - trade	22,820	-	22,820	-
Accounts receivable - assessments (net)	602,279	40,117	642,396	325
Royalty receivable	37,500	-	37,500	41,200
Prepaid expenses	239,444	82,805	322,249	198,848
<b>Total current assets</b>	<b>5,256,159</b>	<b>8,319,723</b>	<b>13,575,882</b>	<b>10,868,851</b>
<b>NON-CURRENT ASSETS</b>				
Property and equipment, at cost (less accumulated depreciation of \$2,550,956)	3,109,092	-	3,109,092	3,194,826
<b>TOTAL ASSETS</b>	<b>\$ 8,365,251</b>	<b>\$ 8,319,723</b>	<b>\$ 16,684,974</b>	<b>\$ 14,063,677</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 103,481	\$ 183,636	\$ 287,117	\$ 202,764
Accrued payroll and payroll taxes/withholdings	140,744	-	140,744	136,633
Accrued annual leave	323,820	-	323,820	311,362
Deferred revenue - prepaid assessments	314,642	-	314,642	303,141
Accrued expenses	86,406	-	86,406	515,691
Deferred revenue - royalty income	50,156	-	50,156	50,156
Mortgage payable - current portion	60,746	-	60,746	58,682
Deposits held	175,370	-	175,370	40,619
<b>Total current liabilities</b>	<b>1,255,365</b>	<b>183,636</b>	<b>1,439,001</b>	<b>1,619,048</b>
<b>NONCURRENT LIABILITIES</b>				
Deferred revenue - royalty income	300,939	-	300,939	351,095
Mortgage payable (net of current portion)	1,336,694	-	1,336,694	1,397,440
<b>Total noncurrent liabilities</b>	<b>1,637,633</b>	<b>-</b>	<b>1,637,633</b>	<b>1,748,535</b>
<b>Total liabilities</b>	<b>2,892,998</b>	<b>183,636</b>	<b>3,076,634</b>	<b>3,367,583</b>
<b>FUND BALANCES</b>				
Accumulated excess of revenues over expenses	5,467,462	8,092,968	13,560,430	11,035,366
Accumulated other comprehensive income (loss)	4,791	43,119	47,910	(339,272)
<b>Total fund balances</b>	<b>5,472,253</b>	<b>8,136,087</b>	<b>13,608,340</b>	<b>10,696,094</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,365,251</b>	<b>\$ 8,319,723</b>	<b>\$ 16,684,974</b>	<b>\$ 14,063,677</b>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2019</u>	<u>2018 Total</u>
<b><u>Revenues</u></b>				
Assessments	\$ 10,328,501	\$ 1,501,490	\$ 11,829,991	9,898,160
Late charges	14,813	-	14,813	23,493
Other income	828,869	-	828,869	580,977
Recreation initiation fees	51,240	-	51,240	88,510
Contributions to reserve	-	1,300,505	1,300,505	1,738,296
Vehicle access fees	1,235,090	500,000	1,735,090	1,686,315
<b>Total revenues</b>	<b>12,458,513</b>	<b>3,301,995</b>	<b>15,760,508</b>	<b>14,015,751</b>
<b><u>Expenses</u></b>				
General and administrative	2,708,050	-	2,708,050	2,428,463
Land management	2,498,024	-	2,498,024	2,305,183
Lakes management	297,372	-	297,372	253,362
General maintenance	715,139	-	715,139	684,865
Security - main gate	1,949,648	-	1,949,648	1,677,769
Mechanic's shop	231,816	-	231,816	267,468
Livability	287,134	-	287,134	286,011
Recreation operations	1,663,119	-	1,663,119	1,465,957
Security - second gate	187,349	-	187,349	200,181
Major repairs and replacements	-	2,495,998	2,495,998	7,083,172
Landscape - capital improvements	-	244,837	244,837	243,630
Landscape maintenance - Ocean Park neighborhood	133,198	-	133,198	-
Landscape maintenance - Preserve neighborhood	202,334	-	202,334	33,010
<b>Total expenses</b>	<b>10,873,183</b>	<b>2,740,835</b>	<b>13,614,018</b>	<b>16,929,071</b>
<b>Excess (deficit) of operating revenues over expenses</b>	<b>1,585,330</b>	<b>561,160</b>	<b>2,146,490</b>	<b>(2,913,320)</b>
<b><u>Non-operating revenues (expenses)</u></b>				
Investment income	201,426	308,173	509,599	200,077
Interest expense	(52,896)	-	(52,896)	(55,106)
Depreciation expense	(355,434)	-	(355,434)	(404,430)
Royalty income	264,017	-	264,017	258,416
Gain (loss) on disposition of property and equipment	13,288	-	13,288	601
<b>Total non-operating revenues (expenses)</b>	<b>70,401</b>	<b>308,173</b>	<b>378,574</b>	<b>(442)</b>
<b>Excess (deficit) of revenues over expenses</b>	<b>1,655,731</b>	<b>869,333</b>	<b>2,525,064</b>	<b>(2,913,762)</b>
<b>ACCUMULATED EXCESS - January 1, 2019</b>	<b>4,210,996</b>	<b>6,824,370</b>	<b>11,035,366</b>	<b>13,949,128</b>
Transfer to/from other funds	(399,265)	399,265	-	-
<b>ACCUMULATED EXCESS - December 31, 2019</b>	<b>\$ 5,467,462</b>	<b>\$ 8,092,968</b>	<b>\$ 13,560,430</b>	<b>11,035,366</b>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
 STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2019</u>	<u>Total 2018</u>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	\$ 1,655,731	\$ 869,333	2,525,064	(2,913,762)
<b><u>OTHER COMPREHENSIVE INCOME</u></b>				
Unrealized gain (loss) on investments	<u>69,505</u>	<u>317,680</u>	<u>387,185</u>	<u>(297,848)</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 1,725,236</u>	<u>\$ 1,187,013</u>	<u>2,912,249</u>	<u>(3,211,610)</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficit) revenues over expenses	\$ 2,525,064	\$ (2,913,762)
Adjustments to reconcile excess (deficit) revenues over expenses to net cash flow provided by (used in) operating activities:		
Depreciation	355,434	404,430
Investment revenues	(196,854)	(15,085)
Loss (gain) on sale of property and equipment	(13,288)	(601)
Amortization of bond premiums and discounts	27,600	39,696
(Increase) decrease in:		
Accounts interest receivable	3,320	2,615
Accounts receivable - trade	(1,318)	2,422
Accounts receivable - assessments	(563,419)	28,312
Royalty receivable	3,700	(3,700)
Prepaid expenses	(123,402)	(28,715)
Increase (decrease) in:		
Accounts payable	84,352	(1,083,932)
Accrued payroll and payroll taxes/withholdings	4,111	35,987
Accrued annual leave	12,457	29,513
Deferred revenue - prepaid assessments	11,501	240,851
Accrued expenses	(429,285)	496,760
Deferred revenue - royalty income	(50,156)	(50,156)
Deposits held	134,751	12,356
<b>NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 1,784,568</u>	<u>\$ (2,803,009)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(271,567)	(425,437)
Proceeds from sale of property and equipment	14,134	9,276
Purchase of investments	(1,874,018)	(3,058,338)
Proceeds from maturities of debt securities	1,778,034	608,030
<b>NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(353,417)</u>	<u>(2,866,469)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage	(58,682)	(56,471)
<b>NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(58,682)</u>	<u>(56,471)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,372,469	(5,725,949)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	3,515,701	9,241,650
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 4,888,170</u>	<u>\$ 3,515,701</u>
<b><u>CASH PER BALANCE SHEET</u></b>		
Operating fund	\$ 3,209,251	2,908,394
Reserve fund	1,678,919	607,307
Total cash per balance sheet	<u>\$ 4,888,170</u>	<u>3,515,701</u>
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Amount of Interest Paid	<u>\$ 52,896</u>	<u>\$ 55,106</u>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 1 – Nature of Organization**

Kiawah Island Community Association, Inc. (the Association) is a non-stock corporate property owners' association whose Declaration of Covenants and Restrictions of the Kiawah Island Community Association, Inc. were adopted December 21, 1977. In addition, on July 8, 2010, the Internal Revenue Service approved the Association's application to be treated as a tax-exempt entity. The Association's primary purpose is to maintain the common areas of and to provide various services to the property owners of Kiawah Island Community Association, Inc.

The Association is geographically located on Kiawah Island which is approximately 10,000 acres in size and lies within a coastal region 21 miles south of Charleston, South Carolina. The Association consists of approximately 4,307 residential properties, of which approximately 87.86% are improved, 63 commercial properties and various common areas including roads, lakes and lagoons, recreational facilities, pathways, nature trails and various other forms of infrastructure. The Association occupies the majority of the surrounding area of Kiawah Island, SC and the number of properties within the Association is the largest of all developments located on Kiawah Island.

**Note 2 – Summary of Significant Accounting Policies**

**Accounting Method**

The Association uses the accrual method of accounting whereby revenues are recognized when earned and expenses when incurred.

**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 for reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and Association management. Disbursements from reserve funds may be utilized for items such as building repairs, pavement resurfacing, infrastructure replacements and other similar repairs or additions. Financial resources are classified for accounting and reporting purposes in the following funds which are established according to their nature and purpose:

- Operating Fund - accounts for financial resources available for the general daily operations of the Association.
- Reserve Fund - accumulates funds designated for future major repairs and replacements of existing facilities and equipment, board-approved capital projects, major landscape repairs and replacements and 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, interest-bearing money market funds and deposit accounts.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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 assets 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.

**Allowance for Doubtful Accounts**

Assessments are considered delinquent after thirty days of nonpayment and a late fee of 1.5% of the unpaid balance is charged monthly. 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. The amount calculated is based on the balance of outstanding assessments receivable on properties in foreclosure at the end of the year and its prior history of assessments deemed uncollectible. As of December 31, 2019 and 2018, the Association's allowance for doubtful accounts was \$6,415 and bad debt expense for the years ended December 31, 2019 and 2018 totaled \$3,600 and \$2,895, respectively.

**Property and Equipment**

Property and equipment, with both an estimated useful life of more than one year and a cost of more than \$2,500 when purchased, are accounted for on the balance sheet at their original cost amount. Depreciation is provided using the straight-line method of calculation over the estimated useful lives of the respective assets. Maintenance and repair costs are charged to expenses as incurred; major renovations and improvements are capitalized.

The Association owns significant amounts of real property and improvements including 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 and thus have no fair market value other than that related to their intended use. In conformity with industry practice, such assets are not accounted for 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.

**Contributions to Reserve**

Those who purchase applicable property within the Association pay, at the transaction's closing, a fee in the amount of 0.50% of the gross purchase price of the property. Amounts collected from these transactions are designated for major repairs and replacements and capital improvements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Investment Securities**

As of December 31, 2019, investments held by the Association consist of both debt and equity-type investment securities.

In accordance with Accounting Standards Codification (ASC) 320-10, *Investments - Debt Securities*, debt-type securities are classified into one of the following categories: (a) *trading*, (b) *available-for-sale* or (c) *held-to-maturity*. While not precluded from being categorized as *trading* or *held-to-maturity*, as of December 31, 2019 and 2018, **debt-type** investment securities owned by the Association are classified as *available-for-sale*. Securities considered to be *available-for-sale* are recorded at fair value with unrealized holding gains and losses being excluded from earnings and are, instead, reported as a separate component of accumulated other comprehensive income. Realized gains and losses, which result from the actual sale of securities, are determined on a specific-identification basis.

For the year ended December 31, 2019, and regarding **equity-type** securities with readily determinable values, the Financial Accounting Standards Board (FASB) issued guidance creating Accounting Standards Codification (ASC) 321-10, *Investments – Equity Securities*, which requires these assets be accounted for at fair value with any related unrealized gains or losses included in earnings. To the contrary, for the year ended December 31, 2018, equity-type securities owned by the Association were classified as *available-for-sale* and are recorded at fair value with unrealized holding gains and losses being excluded from operational earnings and are, instead, reported as a separate component of accumulated other comprehensive income. Realized gains and losses, resulting from the actual sale of securities, are determined on a specific-identification basis.

Investments are considered impaired when the associated fair value has declined below the original adjusted cost basis. If an impairment is determined to be *other-than-temporary*, the cost basis of the investment is adjusted to the current fair value and the impairment loss is charged against earnings. To determine whether an impairment is *other-than-temporary*, the Association 1) considers whether it has both the ability and intent to hold the investment until a subsequent market price recovery and 2) examines any evidence that indicates the cost of the investment may be recoverable outweighs any indications to the contrary. During this assessment, the following factors are examined: reasons for the impairment, the severity and possible duration of the impairment, change 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 both the intent and ability to hold securities until a market price recovery or maturity, investment securities at December 31, 2019 and 2018 are not considered to be *other-than-temporarily* impaired. There were no impairments recognized by the Association during the years ended December 31, 2019 or 2018.

**Reclassifications**

To conform to the current year presentation, certain amounts from 2018 have been reclassified.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 and 2018**

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Fair Value Measurements**

The Association applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets which, on a recurring basis, are recognized at fair value in the financial statements. GAAP defines fair value as either the price on the measurement date that would either be (a) received to sell an asset or (b) paid to transfer a liability in an orderly transaction between market participants. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements. See Note 10 for additional details.

**Vehicle Access Fees**

The Association charges a fee to commercial entities purchasing daily and annual passes which allow access to the Association for business purposes. The amount of the fee charged is determined annually by the board of directors. To provide amounts for future road and drainage repairs and replacements, amounts collected are accumulated in the operating fund. Total fee revenues for 2019 and 2018 were \$1,735,090 and \$1,686,315, respectively, of which \$500,000 were specifically designated by the board for future major capital repairs and replacements.

**Uninsured Cash Balances**

The Association maintains its cash balances at several banks which are insured by the Federal Deposit Insurance Corporation (FDIC) for a maximum of \$250,000 per bank in which the Association has funds invested. As of December 31, 2019, the Association’s uninsured balances totaled \$3,005,995. The Association manages this risk by depositing with reputable financial institutions and believes there is no significant possibility of loss with respect to these deposits. FDIC coverage does not protect against losses from changes in the market value of investments.

**Assessment Revenues**

To provide funds for the Association’s operating expenses, members are subject to annual assessments. These assessments and yearly budgets are determined annually, within restrictions imposed by the governing documents, by the board of directors. In addition to annual assessments, in 2019 and 2018, the board approved a supplemental assessment which is designated by the board to provide revenue for the reserve fund for future needed repair and replacement of infrastructure components. Any excess funds at year-end are retained by the Association for use in future periods. A summary of amounts assessed, for both improved and unimproved lots, for the 2019 and 2018 years are as follows:

<u>Assessment Type</u>	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>
Annual	\$1,005 - \$2,106	\$913 - \$1,922
Supplemental - Reserves	\$163 - \$325	\$150 - \$300
Supplemental - Natural Disasters	\$65 - \$130	\$-0-

This supplemental assessment for natural disasters totaled \$606,632 and \$-0-, respectively for the years ended December 31, 2019 and 2018.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Deferred Revenue – Prepaid Assessments**

Deferred revenue – prepaid assessments revenues consist of assessment amounts applicable for the 2020 operating cycle but received from members prior to December 31, 2019. In the year in which they are received, deferred revenue is recorded as a liability and then subsequently, in the year in which it is earned, reclassified to revenue within the *Statement of Revenues, Expenses and Changes in Fund Balance*. As of December 31, 2019 and 2018, deferred revenue related to assessments prepaid by Association members totaled \$314,642 and \$303,141, respectively.

**Revenue Recognition**

Effective beginning for the year ended December 31, 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Code (ASC) 606 which requires the deferral of revenue associated with certain customer contracts until the subsequent time in which the corresponding services are rendered. Association management has reviewed the terms of ASC 606 and concludes that, as a result of the lack of a customer-type relationship (as defined by the Code) with its members, ASC 606 is not applicable and the deferral of any such revenue is not required.

**Note 3 – Federal and State Income Taxes**

In December 2008, the Association filed an exemption application with the Internal Revenue Service to be recognized under Internal Revenue Code section 501(c)(4) as a social welfare organization. In July 2010 the application was approved and as a result, with exception of income derived from unrelated business activities, the Association is exempt from federal and state income taxes.

Management has determined the Association does not have any uncertain tax positions that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance the Association's tax returns will not be challenged by taxing authorities and that the Organization will not be subject to tax, penalties and interest as result of those challenges. The Organization's tax returns remain open for examination by government authorities for three years subsequent their original filing.

**Note 4 – Retirement Plan**

The Association maintains a defined contribution retirement plan pursuant to Section 401(k) of the Internal Revenue Code. This plan allows eligible employees meeting minimum age and service requirements to contribute to the plan. Total deferrals in the plan year may not exceed the dollar limit determined by law. As a fringe benefit, the Association matches the employee's contribution as follows: 100% of the first 3% of deferred compensation plus a 50% match of the next 2% of deferred compensation. Both the Association's match and employee's contributions are 100% vested immediately. For the years ended December 31, 2019 and 2018, the Association's cost for this benefit was \$113,816 and \$106,031, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
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**Note 5 – Related Party Transactions**

The property developer, Kiawah Resort Associates (KRA), held one seat on the Association’s board of directors for the year covered in these financial statements. Additionally, during 2019, KRA owned a total of 99 properties of which 79 are lots in inventory, 13 are un-subdivided and seven are zoned for commercial use. Assessments paid by KRA, including storm supplemental special assessments, for this inventory totaled \$276,571 in 2019 and \$257,732 in 2018. As of December 31, 2019 and 2018, \$-0- was owed to the Association by the developer.

**Note 6 – Property and Equipment**

Major classifications of property and equipment and their respective useful lives as of December 31, 2019 and 2018 are as follows:

Description	Estimated Lives	2019	2018
Land	non-depreciable	\$ 440,253	\$ 440,253
Buildings and improvements	5-40 yrs.	2,696,786	2,530,342
Furniture and equipment	3-15 yrs.	1,710,325	1,864,846
Vehicles and trailers	5-10 yrs.	812,684	822,108
		5,660,048	5,657,549
Less: accumulated depreciation		(2,550,956)	(2,462,723)
Total property and equipment, net		<u>\$ 3,109,092</u>	<u>\$ 3,194,826</u>

**Note 7 – Future Major Repairs and Replacements**

The Association's governing documents provide for the levying of an annual assessment which, in addition to providing funds for general operations of the Association, may also provide for the repair and maintenance of the common areas and infrastructure components. Accumulated funds, which aggregate \$8,319,723 and \$6,824,370 as of December 31, 2019 and 2018, respectively, are maintained in separate accounts and are not intended for use for general operating purposes.

An examination of future expected infrastructure repair and replacement costs was conducted by an independent third-party consultant and their findings were compiled in a reserve study document issued on December 19, 2019. The actual expenditures eventually incurred may vary from the costs estimated in the reserve study and the variations may be material. It is possible that amounts accumulated in the major repair and replacement funds and annual sources of revenue may not be adequate to meet all future needs for major repairs and replacements. This, in turn, may require the Association to consider alternate sources of revenue to ensure continued funding of necessary repair and replacement projects. In order to accomplish this, the Association has the right to (1) increase annual assessments by an amount that is not in excess of amounts allowed by the covenants; (2) levy special assessments, subject to member approval; (3) transfer funds from operations; or (4) delay repairs and replacements until funds are available. See page 18 for a summary of study results.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 7 – Future Major Repairs and Replacements (continued)**

From 2015 - 2019 the annual average of expenditures for major repairs and maintenance is \$5,728,152. In effort to aid with funding for these costs, the Association's board of directors generally allocates a portion of assessment revenues to the reserve fund and over the last five-year period those amounts have averaged \$1,525,141 annually. In addition, in 2019 and 2018, the board approved a supplemental annual assessment totaling \$1,501,490 and \$1,364,176, respectively, and designated \$500,000 of vehicle access fee revenues to the reserve fund as well.

**Note 8 – Investments**

For the years ended December 31, 2019 and 2018, proceeds from maturities of debt securities and the sale of securities were \$300,000 and \$1,594,901, respectively; gross realized gains were \$-0-. As of December 31, 2019, maturities of debt securities were as follows:

<u>Available for sale:</u>	<u>Cost</u>	<u>Fair Value</u>
Due before one year	\$ 606,879	\$ 1,105,536
Due one through five years	4,179,722	3,728,975
Totals	<u>\$ 4,786,601</u>	<u>\$ 4,834,511</u>

As of December 31, 2019 and 2018, investment securities consisted of the following:

<u>Description</u>	<u>Cost</u>	<u>Unrealized Gains/(Losses)</u>	<u>Fair value</u>
		<b><u>December 31, 2019</u></b>	
Certificates of deposit	\$ 1,250,000	\$ 17,665	\$ 1,267,665
Corporate & municipal bonds	3,536,601	30,245	3,566,846
Total debt-type investments	<u>4,786,601</u>	<u>47,910</u>	<u>4,834,511</u>
Mutual funds	164,826	3,499	168,325
Exchange-traded funds	2,145,000	135,431	2,280,431
Money market funds	350,086	-	350,086
Total investments	<u>\$ 7,446,513</u>	<u>\$ 186,840</u>	<u>\$ 7,633,353</u>
		<b><u>December 31, 2018</u></b>	
Certificates of deposit	\$ 1,250,000	\$ (15,290)	\$ 1,234,710
Corporate bonds	3,242,945	(92,885)	3,150,060
US Treasury Investments	566,331	21,552	587,883
Mutual funds	<u>2,259,907</u>	<u>(252,649)</u>	<u>2,007,258</u>
Total investments	<u>\$ 7,319,183</u>	<u>\$ (339,272)</u>	<u>\$ 6,979,911</u>

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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**Note 9 – Comprehensive Income**

The Association complies with the provisions of ASC 220, *Comprehensive Income*, which establishes rules for the reporting and presentation of comprehensive income and its components. Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. However, certain changes in assets and liabilities, including unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet and, along with net income, are components of comprehensive income. The components and changes of other comprehensive income for 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Unrealized gains (losses) on available-for-sale securities	\$ 387,185	\$ (297,848)
Total other comprehensive income (loss)	\$ 387,185	\$ (297,848)
Accumulated other comprehensive income (loss), beginning balance	\$ (339,275)	\$ (41,424)
Change during the year	387,185	(297,848)
Accumulated other comprehensive income (loss), ending balance	\$ 47,910	\$ (339,272)

**Note 10 – 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 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, 2019:

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**Note 10 – Fair Value Measurements (continued):**

Fair Value Measurements at Reporting Date Using:

Total as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 7,633,353	\$ 7,633,353	\$ -	\$ -

Fair Value Measurements at Reporting Date Using:

Total as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 6,979,911	\$ 6,979,911	\$ -	\$ -

**Note 11 – Deferred Royalty Revenues**

In December 2014, the Association committed to an agreement with Comcast of Georgia/South Carolina II, LLC (Comcast), to allow access to and use of easements within the association for installation and maintenance of broadband and telecommunication 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.

To assist with negotiations and the securing of the Comcast agreement described above, the Association engaged a consulting firm of which the terms of the contract agreement specify the Association will pay a commission equal to 25% of all monies received from Comcast throughout the life of the contract.

During the year ended December 31, 2014, Comcast paid the Association a royalty fee of \$802,500 which was based on the number of residential units within the Association at that time. This amount was accounted for on the statement of financial position as both a deferred revenue and royalty receivable in the amount of \$601,875, the total amount received net of the 25% consulting commission paid. The deferred revenue is being amortized annually over the twelve-year term of the contract. As of December 31, 2019 and 2018, the balance of the deferred revenue totaled \$351,095 and \$401,251, respectively and the related royalty revenue was \$64,656 for 2019 and \$67,656 for 2018.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 and 2018

**Note 11 – Deferred Royalty Revenues**

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 and telecommunication service revenue that Comcast receives from the Association’s members. The amount received is calculated and paid on a quarterly basis, net of the 25% consulting commission. The net amount of royalty revenues received for the year ended December 31, 2019 and 2018 was \$199,361 and \$190,760, respectively.

**Note 12 – Mortgage Payable**

In October 2016, the Association committed to a mortgage in the amount of \$1,575,000 of which the proceeds were used to finance the purchase of the building in which its administrative offices are located.

Terms of the original mortgage incurred in 2016 required 119 monthly payments of principal and interest, at a rate of 3.8%, each in the amount of \$9,424 with a final payment of \$946,597 due on October 19, 2026. In January 2018, the interest rate of the loan was reduced to 3.65% which thereby reduced both the amount due monthly to \$9,298 and the amount due in October 2026 to \$942,390.

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 a bank account 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.

As of December 31, 2019 and 2018, the balance of the mortgage was \$1,397,440 and \$1,456,122, respectively with annual interest expense totaling \$52,896 in 2019 and \$55,106 in 2018. Mortgage debt service requirements to maturity are as follows:

Year Ending				
<u>December 31,</u>	<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2020	\$ 60,746	\$	50,831	\$ 111,577
2021	63,177		48,400	111,577
2022	65,555		46,022	111,577
2023	68,023		43,555	111,578
2024	70,465		41,112	111,577
2025-2026	<u>1,069,474</u>		<u>68,175</u>	<u>1,137,649</u>
Total	<u>\$ 1,397,440</u>	\$	<u>298,095</u>	<u>\$ 1,695,535</u>

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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**Note 13 – Line of Credit**

The Association has a line of credit that carries a variable interest rate equal to LIBOR plus 1.75% and which is secured by a right-of-offset against bank and investment accounts the Association maintains with the lender. The total amount of credit available to the Association is \$2,500,000 and the maturity date is August 5, 2020. During the years ended December 31, 2019 and 2018, the Association took no draws against the line and accordingly had no balance due.

**Note 14 – Commitments**

As of December 31, 2019, the Association had committed to several contracts that commenced in 2019 but were not completed as of year-end. As of December 31, 2019, the remaining outstanding amount on these contracts totaled \$474,045 of which \$114,045 and \$360,000 are expected to be completed and expensed in 2020 and 2021, respectively.

**Note 15 - Date of Management's Review**

The Association has evaluated events and transactions for potential recognition or disclosure through March 4, 2020, the date that the financial statements were available to be issued.

**Note 16 – Operating Leases**

The Association is committed to various operating lease agreements. Future payments required by these operating lease agreements are as follows:

<u>For year ending December 31,</u>	
2020	\$ 103,987
2021	52,567
2022	40,466
2023	8,775
2024	6,239
Total	<u>\$ 212,034</u>

Amounts paid in 2019 and 2018 for leases totaled \$133,142 and \$166,724, respectively.

**Note 17 – Concentrations**

Kiawah Island is geographically located in the coastal region of South Carolina and is a popular vacation and recreational destination. The members of the Association include those both purchasing a home for personal residential use as well as for investment and commercial/rental purposes. Although the Association's members are not all necessarily from a concentrated geographical area, the Association and its members are exposed to risks associated with conditions affecting the economy, real estate, tourism and weather for its geographical area.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**  
**FOR THE YEAR ENDING DECEMBER 31, 2019**

The Association engaged Design Management Associates to estimate the remaining useful lives and replacement costs of the components of common property. The latest reserve study was issued on December 19, 2019. 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 were revised in December 2019 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>Reserve Fund Balance as of December 31, 2019</b>
Sites and grounds	0-39 years	\$ 3,822,699	
Ashphalt roadways	0-38 years	15,616,621	
Drainage system components	0-39 years	2,667,390	
Timber bridges (vehicle)	0-97 years	11,878,653	
Main gate house	10-22 years	144,550	
Vanderhorst gate house	10-22 years	80,895	
Guardrails	14-30 years	213,545	
Eagle Point common areas	5-27 years	118,950	
Viewing towers (VT)	0-23 years	238,000	
Cinder Creek common areas	4-25 years	376,432	
Rhett's Bluff common areas	0-27 years	699,540	
Beachwaler center	0-43 years	1,165,610	
Maintenance area components	0-44 years	815,975	
Sandcastle (exteriors and interiors)	0-38 years	1,075,827	
Family pool area	0-31 years	1,065,400	
Adult pool area	7-48 years	920,925	
Bar area components	18-28 years	99,100	
Sandcastle grounds	18-33 years	793,100	
Castle grill area	2-27 years	217,486	
Community docks	5-26 years	412,999	
Boardwalks	1-28 years	2,650,708	
Walking bridges	1-38 years	3,336,230	
Totals		<b>\$ 48,410,635</b>	<b>\$ 8,136,087</b>

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

See accompanying independent accountants' audit report.