

**KIAWAH ISLAND  
COMMUNITY ASSOCIATION, INC.**

KIAWAH ISLAND, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

INDEPENDENT AUDITORS' REPORT

AND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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David Morley – Chair  
David DeStefano – Vice Chair  
Jerry McGee - Secretary  
Townsend Clarkson – Treasurer  
Sue Schaffer  
Diana Mezzanotte  
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# Robinson Grant & Co., P.A.

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## **Independent Auditors' Report**

February 22, 2021

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, 2020 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, 2020 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 2019 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 4, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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.

*Holmson Hunt & Co., P.A.*

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

BALANCE SHEETS

FOR THE YEAR ENDED DECEMBER 31, 2020 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2020</u>	<u>Total 2019</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 3,957,508	\$ 4,904,683	\$ 8,862,191	\$ 4,888,170
Investments	1,249,366	7,177,998	8,427,364	7,633,353
Accrued interest receivable	3,471	26,822	30,293	29,394
Accounts receivable - trade	29,392	-	29,392	22,820
Accounts receivable - assessments (net)	559,390	85,492	644,882	642,396
Royalty receivable	37,500	-	37,500	37,500
Prepaid expenses	<u>258,141</u>	<u>3,977</u>	<u>262,118</u>	<u>322,249</u>
<b>Total current assets</b>	6,094,768	12,198,972	18,293,740	13,575,882
<b>NON-CURRENT ASSETS</b>				
Accounts receivable - assessments (net)	1,622,704	-	1,622,704	-
Property and equipment, net of accumulated depreciation	<u>3,168,109</u>	<u>-</u>	<u>3,168,109</u>	<u>3,109,092</u>
<b>Total non-current assets</b>	<u>4,790,813</u>	<u>-</u>	<u>4,790,813</u>	<u>3,109,092</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,885,581</u>	<u>\$ 12,198,972</u>	<u>\$ 23,084,553</u>	<u>\$ 16,684,974</u>
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 57,324	\$ 474,112	\$ 531,436	\$ 287,117
Accrued payroll and payroll taxes/withholdings	178,491	-	178,491	140,744
Accrued annual leave	354,374	-	354,374	323,820
Deferred revenue - prepaid assessments	22,342	-	22,342	314,642
Accrued expenses	43,995	-	43,995	86,406
Deferred revenue - royalty income	56,156	-	56,156	50,156
Note payable - current portion	102,694	-	102,694	60,746
Deposits held	<u>29,425</u>	<u>-</u>	<u>29,425</u>	<u>175,370</u>
<b>Total current liabilities</b>	844,801	474,112	1,318,913	1,439,001
<b>NONCURRENT LIABILITIES</b>				
Deferred revenue - royalty income	244,783	-	244,783	300,939
Deferred revenue - special assessments	2,093,766	-	2,093,766	-
Note payable (net of current portion)	<u>289,059</u>	<u>-</u>	<u>289,059</u>	<u>1,336,694</u>
<b>Total noncurrent liabilities</b>	<u>2,627,608</u>	<u>-</u>	<u>2,627,608</u>	<u>1,637,633</u>
<b>Total liabilities</b>	3,472,409	474,112	3,946,521	3,076,634
<b>FUND BALANCES</b>				
Accumulated excess of revenues over expenses	7,396,839	11,577,862	18,974,701	13,560,430
Accumulated other comprehensive income (loss)	<u>16,333</u>	<u>146,998</u>	<u>163,331</u>	<u>47,910</u>
<b>Total fund balances</b>	<u>7,413,172</u>	<u>11,724,860</u>	<u>19,138,032</u>	<u>13,608,340</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 10,885,581</u>	<u>\$ 12,198,972</u>	<u>\$ 23,084,553</u>	<u>\$ 16,684,974</u>

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 YEAR ENDED DECEMBER 31, 2020 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2020</u>	<u>Total 2019</u>
<b><u>Revenues</u></b>				
Assessments	\$ 11,303,737	\$ 1,521,567	\$ 12,825,304	11,829,991
Late charges	16,471	-	16,471	14,813
Other income	462,647	-	462,647	828,869
Recreation initiation fees	72,075	-	72,075	51,240
Contributions to reserve	-	3,837,084	3,837,084	1,300,505
Vehicle access fees	1,229,768	500,000	1,729,768	1,735,090
<b>Total revenues</b>	<b>13,084,698</b>	<b>5,858,651</b>	<b>18,943,349</b>	<b>15,760,508</b>
<b><u>Expenses</u></b>				
General and administrative	3,089,710	-	3,089,710	2,708,050
Land management	1,862,444	-	1,862,444	2,498,024
Lakes management	329,639	-	329,639	297,372
General maintenance	708,791	-	708,791	715,139
Security - main gate	1,927,399	-	1,927,399	1,949,648
Mechanic's shop	213,350	-	213,350	231,816
Livability	315,804	-	315,804	287,134
Recreation operations	1,294,391	-	1,294,391	1,663,119
Security - second gate	183,605	-	183,605	187,349
Major repairs and replacements	-	3,551,921	3,551,921	2,495,998
Landscape - capital improvements	-	245,301	245,301	244,837
Landscape maintenance - Ocean Park neighborhood	224,936	-	224,936	133,198
Landscape maintenance - Preserve neighborhood	181,855	-	181,855	202,334
<b>Total expenses</b>	<b>10,331,924</b>	<b>3,797,222</b>	<b>14,129,146</b>	<b>13,614,018</b>
<b>Excess (deficit) of operating revenues over expenses</b>	<b>2,752,774</b>	<b>2,061,429</b>	<b>4,814,203</b>	<b>2,146,490</b>
<b><u>Non-operating revenues (expenses)</u></b>				
Investment income	176,452	467,718	644,170	509,599
Interest expense	(24,315)	-	(24,315)	(52,896)
Depreciation expense	(327,701)	-	(327,701)	(355,434)
Royalty income	276,894	-	276,894	264,017
Gain (loss) on disposition of property and equipment	31,020	-	31,020	13,288
<b>Total non-operating revenues (expenses)</b>	<b>132,350</b>	<b>467,718</b>	<b>600,068</b>	<b>378,574</b>
<b>Excess (deficit) of revenues over expenses</b>	<b>2,885,124</b>	<b>2,529,147</b>	<b>5,414,271</b>	<b>2,525,064</b>
<b>ACCUMULATED EXCESS - January 1, 2020</b>	<b>5,467,462</b>	<b>8,092,968</b>	<b>13,560,430</b>	<b>11,035,366</b>
Transfer to/from other funds	(955,747)	955,747	-	-
<b>ACCUMULATED EXCESS - December 31, 2020</b>	<b>\$ 7,396,839</b>	<b>\$ 11,577,862</b>	<b>\$ 18,974,701</b>	<b>13,560,430</b>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECMEBER 31, 2020 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2020</u>	<u>Total 2019</u>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES</b>	\$ 2,885,124	\$ 2,529,147	5,414,270	2,525,064
<b><u>OTHER COMPREHENSIVE INCOME</u></b>				
Unrealized gain (loss) on investments	<u>11,542</u>	<u>103,879</u>	<u>115,421</u>	<u>387,185</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 2,896,666</u>	<u>\$ 2,633,026</u>	<u>5,529,691</u>	<u>2,912,249</u>

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

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficit) of revenues over expenses	\$ 5,414,271	\$ 2,525,064
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash flow provided by (used in) operating activities:		
Depreciation	327,701	355,434
Unrealized (gain) loss on investments	(441,802)	(196,854)
Loss (gain) on sale of property and equipment	(31,020)	(13,288)
Amortization of bond premiums and discounts	45,000	27,600
(Increase) decrease in:		
Accrued interest receivable	(900)	3,320
Accounts receivable - trade	(6,572)	(1,318)
Accounts receivable - assessments	(1,625,092)	(563,419)
Royalty receivable	-	3,700
Prepaid expenses	60,133	(123,402)
Increase (decrease) in:		
Accounts payable	244,319	84,352
Accrued payroll and payroll taxes/withholdings	37,747	4,111
Accrued annual leave	30,554	12,457
Deferred revenue - prepaid assessments	(292,300)	11,501
Accrued expenses	(42,411)	(429,285)
Deferred revenue - royalty income	(50,156)	(50,156)
Deferred revenue - special assessments	2,093,766	-
Deposits held	(145,945)	134,751
<b>NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 5,617,293</u>	<u>\$ 1,784,568</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(391,698)	(271,567)
Proceeds from sale of property and equipment	36,000	14,134
Purchase of investments	(2,673,810)	(1,874,018)
Proceeds from maturities and sales of securities	2,391,923	1,778,034
<b>NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(637,585)</u>	<u>(353,417)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage and note payable	(1,430,687)	-
Proceeds from note payable	425,000	(58,682)
<b>NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(1,005,687)</u>	<u>(58,682)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	3,974,021	1,372,469
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>4,888,170</u>	<u>3,515,701</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 8,862,191</u>	<u>\$ 4,888,170</u>
<b><u>CASH PER BALANCE SHEET</u></b>		
Operating fund	\$ 3,957,508	3,209,251
Reserve fund	4,904,683	1,678,919
Total cash per balance sheet	<u>\$ 8,862,191</u>	<u>4,888,170</u>
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Amount of Interest Paid	<u>\$ 24,315</u>	<u>\$ 52,896</u>

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



**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

**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. Kiawah Island is approximately 10,000 acres and is located within a coastal region 21 miles south of Charleston, South Carolina. The Association consists approximately of 4,314 residential properties, of which 88.5% 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, South Carolina 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, 2020 AND 2019

**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, 2020 and 2019, the Association's allowance for doubtful accounts was \$10,873 and \$6,415 and bad debt expense for the years ended December 31, 2020 and 2019 totaled \$4,670 and \$3,600, 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; significant 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, 2020 AND 2019

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

**Investment Securities**

As of December 31, 2020 and 2019, investments held by the Association consist of both debt and equity-type securities.

In accordance with Accounting Standards Codification (ASC) 320-10, *Investments - Debt Securities*, debt-type securities are classified into one of the following three 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, 2020 and 2019, debt-type investment securities owned by the Association are classified as *available-for-sale*. Accordingly, investment asset balances are accounted for 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.

In accordance with Accounting Standards Codification (ASC) 321-10, *Investments – Equity Securities*, equity-type securities are accounted for at fair value with any related unrealized gains or losses included in investment earnings.

All realized gains and losses resulting from the actual sale of securities are included in investment earnings within the statement of revenues, expenses and changes in fund balances

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, 2020 and 2019 are not considered to be *other-than-temporarily* impaired. There were no impairments recognized by the Association during the years ended December 31, 2020 or 2019.

**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.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**Vehicle Access Fee Revenue**

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 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 2020 and 2019 were \$1,729,768 and \$1,735,090, respectively, of which \$500,000 was specifically designated by the board for future major capital repairs and replacements.

**Uninsured Cash Balances**

The Association maintains its cash balances at several financial institutions, all of which are insured by the Federal Deposit Insurance Corporation (FDIC) for a maximum of \$250,000 per bank. As of December 31, 2020, the Association’s uninsured balances totaled \$7,782,044. The Association manages this risk by depositing its cash with reputable financial institutions. 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 are determined annually within restrictions imposed by the governing documents. Excess funds remaining at the end of the year are retained by the Association for use in future periods. In addition to its annual operating assessments, the following special assessments are currently being collected:

Water management infrastructure project - during the year ended December 31, 2020, the board of directors approved a special assessment to fund projects associated with the Association’s water management infrastructure. Members have the option to pay the amounts due over a five-year period ending on July 1, 2024. The total amount assessed was \$3,041,951.

Repair and replacement of infrastructure components - during the year ended December 31, 2019, the board of directors approved a special assessment to fund needed repairs and replacements of certain infrastructure components, along with costs associated with the repair and clean-up from natural disasters. This was a one-time assessment with the amount due at the time of billing. The total amount assessed was \$606,632.

A summary of amounts assessed, for both improved and unimproved lots, for the years ending December 31, 2020 and 2019 are as follows:

<u>Assessment Type</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Annual	\$1,056 - \$3,513	\$1,005 - \$2,106
Supplemental - Reserves	\$163 - \$325	\$163 - \$325
Supplemental - Natural Disasters	-	\$65 - \$130
Supplemental - Flood Mitigation	\$325 - \$650	-

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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

**Deferred Revenue – Prepaid Assessments**

Deferred revenue - prepaid assessments consist of assessment amounts received from members prior to December 31, 2020 but applicable for the 2021 operating cycle. In the year in which it is received, deferred revenue is recorded as a liability and then subsequently, in the year in which it is earned, amounts are reclassified to revenue on the Statement of Revenues, Expenses and Changes in Fund Balance. As of December 31, 2020 and 2019, the balances of deferred revenue – prepaid assessments totaled \$22,342 and \$314,642, respectively.

**Revenue Recognition**

Effective for the year ended December 31, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Code 606 (ASC 606) which requires the deferral of revenue associated with certain customer contracts until such time in which the corresponding services are rendered. Association management has reviewed the applicability of ASC 606 to property owner associations and has concluded, as have other associations, that the relationship of its owner-members to the Association is unlike that of a typical customer relationship, as defined by the code, because its owner-members both fund and direct the operations of the community. The Association will await further guidance from FASB and/or other sources before reconsidering its position on this matter.

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

In July 2010, the Association was approved as a social welfare organization under Internal Revenue Code section 501(c)(4). With exception of profit derived from unrelated business activities, the Association is exempt from federal and state income taxes. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Association's tax returns will not be challenged by authorities and that the Organization will not be subject to tax, penalties and interest as result of those challenges. Management has determined that the Association does not have any uncertain tax positions which materially impact the financial statements or related disclosures. The Organization's tax returns remain available for examination by government authorities for three years subsequent to 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 allowing eligible employees meeting minimum age and service requirements to contribute. Total deferrals may not exceed the dollar limit determined by law. As a fringe benefit, the Association matches the employees' 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, 2020 and 2019, the Association's cost for this benefit was \$120,205 and \$113,816, respectively.

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

The property developer, Kiawah Resort Associates (KRA), held a seat on the Association’s board of directors for the years covered in these financial statements. During 2020, KRA owned a total of 73 properties of which 60 are lots in inventory, 13 are un-subdivided and seven are zoned for commercial use. Amounts assessed to KRA in the years ending December 31, 2020 and 2019, including supplemental special assessments, totaled \$339,966 and \$276,571, respectfully. As of December 31, 2020 and 2019, \$0- was owed by the developer to the Association.

**Note 6 – Property and Equipment**

Classifications of property and equipment as of December 31, 2020 and 2019 are as follows:

Description	Estimated Lives	2020	2019
Land	non-depreciable	\$ 440,253	\$ 440,253
Buildings and improvements	5-40 years	2,696,786	2,696,786
Furniture and equipment	3-15 years	1,925,614	1,710,325
Vehicles and trailers	5-10 years	819,628	812,684
		5,882,281	5,660,048
Less: accumulated depreciation		(2,714,172)	(2,550,956)
Total property and equipment, net		<u>\$ 3,168,109</u>	<u>\$ 3,109,092</u>

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

The Association's governing documents provide for the levying of annual assessments which, in addition to providing funds for general operations, may also provide for the repair, maintenance and replacement of common areas and infrastructure components. Accumulated funds, which aggregate \$12,198,973 and \$8,319,723 as of December 31, 2020 and 2019, respectively, are maintained in separate bank accounts and are not intended 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 17, 2020. 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.**  
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**Note 7 – Future Major Repairs and Replacements (continued)**

The annual average expenditures from 2016 to 2020 for major repairs and maintenance is calculated to be \$5,346,975. To fund these costs, the Association’s board of directors generally allocates a portion of assessment revenues to the reserve fund. The average amount of transfers over the last five-year period is calculated to be \$1,497,542. In addition, in 2019 the board approved a supplemental assessment totaling \$1,501,490 and also designated \$500,000 of vehicle access fee revenue to the reserve fund for the two years ending December 31, 2020 and 2019.

**Note 8 – Investments**

As of December 31, 2020, maturities of debt securities are as follows:

<u>Available for sale:</u>	<u>Cost</u>	<u>Fair Value</u>
Due before one year	\$ 552,420	\$ 557,138
Due one through five years	4,703,011	4,860,740
Totals	<u>\$ 5,255,431</u>	<u>\$ 5,417,878</u>

As of December 31, 2020 and 2019, investment securities consisted of the following:

<u>Description</u>	<u>Cost</u>	Unrealized	<u>Fair value</u>
		<u>Gains/(Losses)</u>	
		<u>December 31, 2020</u>	
Certificates of deposit	\$ 1,100,000	\$ 32,000	\$ 1,132,000
Corporate & municipal bonds	4,155,431	130,447	4,285,878
Total debt-type investments	5,255,431	162,447	5,417,878
Mutual funds	2,010,719	503,342	2,514,061
Exchange-traded funds	158,534	28,891	187,425
Money market funds	308,000	-	308,000
Total investments	<u>\$ 7,732,684</u>	<u>\$ 694,680</u>	<u>\$ 8,427,364</u>
		<u>December 31, 2019</u>	
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	4,786,601	47,910	4,834,511
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>

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
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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 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Unrealized gains (losses) on available-for-sale securities	\$ 115,421	\$ 387,185
Total other comprehensive income (loss)	<u>\$ 115,421</u>	<u>\$ 387,185</u>
Accumulated other comprehensive income (loss), beginning balance	\$ 47,910	\$ (339,275)
Change during the year	<u>115,421</u>	<u>387,185</u>
Accumulated other comprehensive income (loss), ending balance	<u>\$ 163,331</u>	<u>\$ 47,910</u>

**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 as of December 31, 2020 and 2019:



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

Fair Value Measurements at Reporting Date Using:

Total as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
\$ 8,427,364	\$ 8,427,364	\$ -	\$ -

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	\$ -	\$ -

**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 for 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, 2020 and 2019, the balance of the deferred revenue totaled \$300,939 and \$351,095, respectively and the related royalty revenue was \$62,718 for 2020 and \$64,656 for 2019.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 11 – Deferred Royalty Revenues (continued)**

In addition to the per unit fee described above, the Association also entered into a concurrent twelve-year agreement with Comcast whereby they 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, 2020 and 2019 was \$214,176 and \$199,361, respectively.

**Note 12 – Loans 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. The mortgage is secured by the building, the Association’s personal property and any associated rental/lease revenues. The mortgage requires the Association to maintain a cash account with the mortgage holder and, in the event of default, provides them a right of offset against such account. Terms of the loan require a monthly payment of principal and interest, at a rate of 3.65%, totaling \$9,298. The loan was paid in full in August 2020. Interest on the loan paid during the 2020 year totaled \$18,831.

In August 2020 the Association committed to a note payable of \$425,000 of which the proceeds were used towards repayment of the building mortgage noted in the previous paragraph. Terms of the loan specify the following: 1) monthly payments through August 2024, consisting of both principal and interest, totaling \$9,403 each and 2) a fixed interest rate of 2.90%. The loan is secured by the Association’s personal property and any associated rental/lease revenues. As of December 31, 2020, the total amount due was \$391,753 and interest paid during 2020 totaled \$4,365. Debt service requirements are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 102,694	\$ 10,139	\$ 112,833
2022	105,755	7,078	112,833
2023	108,907	3,926	112,833
2024	74,397	824	75,221
Total	<u>\$ 391,753</u>	<u>\$ 21,967</u>	<u>\$ 413,720</u>

**Note 13 – Line of Credit**

The Association has access to a line of credit which provides for a variable interest rate equal to LIBOR plus 2.5% 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 October 5, 2021. As of December 31, 2020 and 2019, the Association had no outstanding balance due on the line of credit.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

**Note 14 – Commitments**

As of December 31, 2020, the Association was committed to various contracts which had already commenced but were not yet completed as of December 31, 2020. The remaining outstanding amount of these contracts totaled \$756,909 and are anticipated to be completed in 2021.

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

The Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2021, the date that the financial statements were available to be issued.

**Note 16 – Operating Leases**

The Association is committed to various operating lease agreements as of December 31, 2020. The amounts paid in 2020 and 2019 for leases totaled \$104,545 and \$133,142, respectively. Future payments required by these operating lease agreements are as follows:

<u>For year ending December 31,</u>	
2021	\$ 55,757
2022	43,700
2023	12,009
2024	9,473
2025	<u>1,877</u>
Total	<u>\$ 122,816</u>

**Note 17 – Concentrations**

Kiawah Island is geographically located in the coastal region of South Carolina and is a popular vacation and recreational destination. 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 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.

During the first quarter of the 2020 year, the global pandemic of Covid-19, an infectious and contagious virus, globally commenced resulting in significant human medical complications and stemmed effects within financial sectors and business markets as well. The outbreak of this virus has directly or indirectly impacted most industries in some capacity. Shortly after the initiation of the virus and in reply to the uncertainty of the ensuing months, the Association was proactive towards reducing costs within its operating budget. As of December 31, 2020 the Association does not perceive it has experienced any long-term adverse effects from the pandemic, however the reader is cautioned not to interpret 2020 as a typical year for the Association.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**  
**FOR THE YEAR ENDING DECEMBER 31, 2020**

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 17, 2020. 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, 2020</b>
Sites and grounds	0-39 years	\$ 4,004,020	
Ashphalt roadways	0-38 years	16,218,325	
Drainage system components	0-39 years	2,950,810	
Timber bridges (vehicle)	0-97 years	12,592,500	
Main gate house	10-22 years	148,895	
Vanderhorst gate house	10-22 years	83,295	
Guardrails	14-30 years	219,870	
Eagle Point common areas	5-27 years	122,550	
Viewing towers (VT)	0-23 years	245,165	
Cinder Creek common areas	4-25 years	387,545	
Rhett's Bluff common areas	0-27 years	724,035	
Beachwaler center	0-43 years	1,201,300	
Maintenance area components	0-44 years	840,427	
Sandcastle (exteriors and interiors)	0-38 years	1,107,785	
Family pool area	0-31 years	1,220,830	
Adult pool area	7-48 years	985,945	
Bar area components	18-28 years	102,100	
Sandcastle grounds	18-33 years	817,150	
Castle grill area	2-27 years	224,050	
Community docks	5-26 years	425,605	
Boardwalks	1-28 years	2,729,500	
Walking bridges	1-38 years	3,561,155	
Totals		<b><u>\$ 50,912,857</u></b>	<b><u>\$ 11,724,860</u></b>

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

See accompanying independent auditors' report.