

# Kiawah Island Community Association, Inc.

Financial Statements  
For the Year Ended December 31, 2021



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Financial Statements  
For the Year Ended December 31, 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kiawah Island Community Association, Inc.

### Opinion

We have audited the accompanying financial statements of Kiawah Island Community Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses and changes in fund balances, comprehensive income, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Prior Period Financial Statements**

The financial statements of the Association as of December 31, 2020, were audited by other auditors whose report dated February 22, 2021, expressed an unmodified opinion on those statements.

#### **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 as identified in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 audit 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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
March 2, 2022

# FINANCIAL STATEMENTS



**Kiawah Island Community Association, Inc.**  
**Balance Sheet**  
**December 31, 2021**  
**(with comparative totals for December 31, 2020)**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2021</u>	<u>Total 2020</u>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 5,197,140	\$ 6,105,891	\$ 11,303,031	\$ 8,862,191
Investments	1,292,983	9,003,419	10,296,402	8,427,364
Accrued interest receivable	4,361	35,640	40,001	30,293
Accounts receivable	18,421	-	18,421	29,392
Member assessments receivable	633,421	4,825	638,246	644,882
Royalty receivable	37,500	-	37,500	37,500
Prepaid expenses	180,725	-	180,725	262,118
Total current assets	<u>7,364,551</u>	<u>15,149,775</u>	<u>22,514,326</u>	<u>18,293,740</u>
<b>Noncurrent Assets:</b>				
Member assessments receivable, net of current portion	963,846	-	963,846	1,622,704
Property and equipment, net	2,889,842	-	2,889,842	3,168,109
Total noncurrent assets	<u>3,853,688</u>	<u>-</u>	<u>3,853,688</u>	<u>4,790,813</u>
Total assets	<u>\$ 11,218,239</u>	<u>\$ 15,149,775</u>	<u>\$ 26,368,014</u>	<u>\$ 23,084,553</u>
<b>Current Liabilities:</b>				
Accounts payable	\$ 116,822	\$ 131,530	\$ 248,352	\$ 531,436
Accrued payroll liabilities	212,017	-	212,017	178,491
Accrued annual leave	346,273	-	346,273	354,374
Accrued expenses	106,488	-	106,488	43,995
Deferred revenue - prepaid assessments	182,328	-	182,328	22,342
Deferred revenue - royalty income	50,157	-	50,157	56,156
Note payable	-	-	-	102,694
Deposits	25,325	-	25,325	29,425
Total current liabilities	<u>1,039,410</u>	<u>131,530</u>	<u>1,170,940</u>	<u>1,318,913</u>
<b>Noncurrent Liabilities:</b>				
Deferred revenue - royalty income	200,626	-	200,626	244,783
Deferred revenue - special assessments	1,939,921	-	1,939,921	2,093,766
Note payable, net of current portion	-	-	-	289,059
Total noncurrent liabilities	<u>2,140,547</u>	<u>-</u>	<u>2,140,547</u>	<u>2,627,608</u>
Total liabilities	<u>3,179,957</u>	<u>131,530</u>	<u>3,311,487</u>	<u>3,946,521</u>
<b>Fund Balances:</b>				
Accumulated excess of revenues over expenses	8,036,420	15,005,796	23,042,216	18,974,701
Accumulated other comprehensive income	1,862	12,449	14,311	163,331
Total fund balances	<u>8,038,282</u>	<u>15,018,245</u>	<u>23,056,527</u>	<u>19,138,032</u>
Total liabilities and fund balances	<u>\$ 11,218,239</u>	<u>\$ 15,149,775</u>	<u>\$ 26,368,014</u>	<u>\$ 23,084,553</u>

The accompanying notes to financial statements are an integral part of these statements.

**Kiawah Island Community Association, Inc.**  
**Statement of Revenues, Expenses and Changes In Fund Balances**  
**For the Year Ended December 31, 2021**  
**(with comparative totals for December 31, 2020)**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2021</u>	<u>Total 2020</u>
<b>Revenues:</b>				
Assessments	\$ 10,632,248	\$ 1,534,785	\$ 12,167,033	\$ 12,825,304
Late charges	24,018	-	24,018	16,471
Other income	819,372	-	819,372	462,647
Recreation initiation fees	94,177	-	94,177	72,075
Contributions to reserve	-	4,584,935	4,584,935	3,837,084
Vehicle access fees	1,240,890	500,000	1,740,890	1,729,768
<b>Total revenues</b>	<u>12,810,705</u>	<u>6,619,720</u>	<u>19,430,425</u>	<u>18,943,349</u>
<b>Expenses:</b>				
General and administrative	3,792,976	-	3,792,976	3,089,710
Land management	2,117,683	-	2,117,683	1,862,444
Lakes management	312,130	-	312,130	329,639
General maintenance	885,092	-	885,092	708,791
Security - main gate	2,136,658	-	2,136,658	1,927,399
Mechanic's shop	197,913	-	197,913	213,350
Livability	307,327	-	307,327	315,804
Recreation operations	1,719,723	-	1,719,723	1,294,391
Security - second gate	187,430	-	187,430	183,605
Major repairs and replacements	-	3,652,217	3,652,217	3,551,921
Landscape - capital improvements	-	221,866	221,866	245,301
Landscape maintenance - Ocean Park neighborhood	221,217	-	221,217	224,936
Landscape maintenance - Preserve neighborhood	197,727	-	197,727	181,855
<b>Total expenses</b>	<u>12,075,876</u>	<u>3,874,083</u>	<u>15,949,959</u>	<u>14,129,146</u>
Excess (deficit) of operating revenues over expenses	<u>734,829</u>	<u>2,745,637</u>	<u>3,480,466</u>	<u>4,814,203</u>
<b>Non-operating Income (Expenses):</b>				
Investment income, net	175,773	503,515	679,288	644,170
Royalty income	287,529	-	287,529	276,894
Gain (loss) on disposition of property and equipment	-	-	-	31,020
Interest expense	(5,526)	-	(5,526)	(24,315)
Provision for depreciation	(374,242)	-	(374,242)	(327,701)
<b>Total non-operating income (expenses)</b>	<u>83,534</u>	<u>503,515</u>	<u>587,049</u>	<u>600,068</u>
Excess (deficit) of revenues over expenses	818,363	3,249,152	4,067,515	5,414,271
<b>Beginning Fund Balances</b>	7,396,839	11,577,862	18,974,701	13,560,430
Interfund transfers	(178,782)	178,782	-	-
<b>Ending Fund Balances</b>	<u>\$ 8,036,420</u>	<u>\$ 15,005,796</u>	<u>\$ 23,042,216</u>	<u>\$ 18,974,701</u>

The accompanying notes to financial statements are an integral part of these statements.

**Kiawah Island Community Association, Inc.**  
**Statement of Comprehensive Income**  
**For the Year Ended December 31, 2021**  
**(with comparative totals for December 31, 2020)**

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	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2021</u>	<u>Total 2020</u>
<b>Excess (Deficit) of Revenues over Expenses</b>	\$ 818,363	\$ 3,249,152	\$ 4,067,515	\$ 5,414,271
<b>Other Comprehensive Income:</b>				
Unrealized gain (loss) on investments	<u>(14,471)</u>	<u>(134,549)</u>	<u>(149,020)</u>	<u>115,421</u>
Comprehensive income (loss)	<u>\$ 803,892</u>	<u>\$ 3,114,603</u>	<u>\$ 3,918,495</u>	<u>\$ 5,529,692</u>

The accompanying notes to financial statements are an integral part of these statements.



**Kiawah Island Community Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2021**  
**(with comparative totals for December 31, 2020)**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2021</u>	<u>Total 2020</u>
<b>Cash Flows from Operating Activities:</b>				
Excess (deficit) of revenues over expenses	\$ 818,363	\$ 3,249,152	\$ 4,067,515	\$ 5,414,271
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:				
Provision for depreciation	374,242	-	374,242	327,701
Net realized and unrealized (gains) losses on investments	(144,714)	(287,242)	(431,956)	(441,802)
(Gain) loss on disposition of property and equipment	-	-	-	(31,020)
Amortization of bond premiums and discounts	-	-	-	45,000
(Increase) decrease in:				
Accrued interest receivable	(890)	(8,818)	(9,708)	(900)
Accounts receivable	10,971	-	10,971	(6,572)
Member assessments receivable	584,827	80,667	665,494	(1,625,092)
Prepaid expenses	77,416	3,977	81,393	60,133
Increase (decrease) in:				
Accounts payable	59,498	(342,582)	(283,084)	244,319
Accrued payroll liabilities	33,526	-	33,526	37,747
Accrued annual leave	(8,101)	-	(8,101)	30,554
Accrued expenses	62,493	-	62,493	(42,411)
Deferred revenue - prepaid assessments	159,986	-	159,986	(292,300)
Deferred revenue - royalty income	(50,156)	-	(50,156)	(50,156)
Deferred revenue - special assessments	(153,845)	-	(153,845)	2,093,766
Deposits	(4,100)	-	(4,100)	(145,945)
Net cash provided by (used in) operating activities	<u>1,819,516</u>	<u>2,695,154</u>	<u>4,514,670</u>	<u>5,617,293</u>
<b>Cash Flows from Investing Activities:</b>				
Purchases of property and equipment	(95,975)	-	(95,975)	(391,698)
Proceeds from sale of property and equipment	-	-	-	36,000
Purchases of investments	(4,088,319)	(2,077,728)	(6,166,047)	(2,673,810)
Proceeds from maturities and sales of securities	4,174,945	405,000	4,579,945	2,391,923
Net cash provided by (used in) investing activities	<u>(9,349)</u>	<u>(1,672,728)</u>	<u>(1,682,077)</u>	<u>(637,585)</u>
<b>Cash Flows from Financing Activities:</b>				
Principal payments note payable	(391,753)	-	(391,753)	(1,430,687)
Proceeds from notes payable	-	-	-	425,000
Interfund transfers	(178,782)	178,782	-	-
Net cash provided by (used in) financing activities	<u>(570,535)</u>	<u>178,782</u>	<u>(391,753)</u>	<u>(1,005,687)</u>
Net increase (decrease) in cash and cash equivalents	1,239,632	1,201,208	2,440,840	3,974,021
Cash and Cash Equivalents, Beginning of Year	3,957,508	4,904,683	8,862,191	4,888,170
Cash and Cash Equivalents, End of Year	<u>\$ 5,197,140</u>	<u>\$ 6,105,891</u>	<u>\$ 11,303,031</u>	<u>\$ 8,862,191</u>
<b>Supplemental Information:</b>				
Amount of interest paid	<u>\$ 5,526</u>	<u>\$ -</u>	<u>\$ 5,526</u>	<u>\$ 24,315</u>

The accompanying notes to financial statements are an integral part of these statements.

## Note 1 - Organization and Operations

Kiawah Island Community Association, Inc. (the "Association") is a non-stock corporate property owners' association whose Declaration of Covenants and Restrictions were originally adopted on December 21, 1977, and as subsequently amended. 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 4,400 residential properties, of which 90% are improved, 70 commercial properties and various common areas including roads, lakes and lagoons, recreational facilities, pathways, nature trails and various other forms of infrastructure. The Association is a gated community and is the master association for Kiawah Island, including both residential and commercial properties.

## Note 2 - Summary of Significant Accounting Policies

**Basis of accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Using this method, revenues are recognized when earned and expenses are recognized when incurred.

**Basis of presentation:** 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's 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 in accordance to their nature and purpose:

- **Operating Fund** - This fund is used to account for financial resources available for the general daily operations of the Association, including administration, security and livability, routine maintenance, recreation and amenity operations.
- **Reserve Fund** - This fund is used to accumulate and account for funds designated for major repairs and replacements of existing facilities and equipment, board-approved capital projects, major landscape repairs and replacements, and ongoing landscape capital projects.

**Cash and cash equivalents:** The Association considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Investments:** Investments consist of mutual funds which hold corporate equity stocks, and other securities, exchange traded funds, corporate and municipal bonds, certificates of deposit and other short-term credit investments.

Corporate and municipal bonds, and Certificates of Deposit, 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 (loss). Investments in corporate and municipal bonds are carried at quoted prices in active markets based on interest rates and yield curves.

Investments in mutual funds and exchange traded funds are carried at fair value as quoted on major stock exchanges. Certificates of deposit and time deposits, including money market funds, are valued at amortized cost, which approximates fair value.

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

Realized gains and losses resulting from the sale of securities are included in investment income within the statement of revenues, expenses and changes in fund balances.

**Receivables and allowance for doubtful accounts:** Association members are subject to annual assessments to provide for the Association's operating expenses and future repairs and improvements. Receivables consist primarily of ancillary charges, delinquent assessments owed to the Association by members, and those special assessments levied to provide resources for new infrastructure projects.

The Association's policies provide that assessments are due thirty (30) days from the date of mailing in the calendar year they are levied. Finance charges of 1.5% per month are added to all accounts unpaid after 30 days. The Association seeks legal counsel and places liens on properties owned by members who dues are delinquent 120 days or more. An allowance for doubtful accounts is determined based on historical experience and management's assessment of the current state of each receivable. As of December 31, 2021, the Association's management believes that all material receivable balances are collectible, and no allowance for doubtful account is considered necessary.

**Property and equipment:** The Association owns significant amounts of common property and improvements, including common areas and rights of way, roadways, leisure trails and lakes. In accordance with industry standards and because they cannot typically be sold, common property acquired from the developer is not recognized on the Association's financial statements. Replacements and improvements to common property are the responsibility of the Association and such costs are the are expensed as incurred.

Property and equipment purchases that exceed \$ 2,500 with useful lives over one year acquired by the Association are capitalized and recorded at cost. The Association provides for depreciation using the straight-line method over the estimated useful life of each type of asset which is as follows:

Buildings and improvements	5-40 years
Furniture and equipment	3-15 years
Vehicles and trailers	5-10 years

Maintenance and repair costs are charged to expense as incurred.

**Contract assets and liabilities:** Contract assets represent revenue recognized in excess of amounts billed. The Association does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the balance sheet as deferred revenue.

**Comprehensive income (loss):** Comprehensive income (loss) includes net income (loss) and other items of comprehensive income. Other items are comprised of the net change in unrealized gains/losses on available for sale fixed income securities.

**Revenue recognition:** In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers ("Topic 606"). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The Association recognizes revenue when performance obligations under the terms of the contracts with customers are satisfied at transaction amounts expected to be received. The Association's revenue from contracts with customers is generated primarily from the sale of consumable products or services including vehicle access fees, food and beverage sales, event fees, equipment rental fees, among others. Customers are billed at the time of service or consumption of products.

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

**Ownership transactions:** The Association has determined that operating assessments, reserve assessments, contributions to reserve and special assessments are transactions with owners and are not subject to Topic 606. These types of fees and assessments are deemed owner transactions because members are subject to operating and/or capital assessments as approved by the Board of Directors or membership, and members have the ability to vote on Association related matters. Operating assessments are generally used for the maintenance and management of the common area property and the revenue is earned on a periodic basis throughout the fiscal year. Replacement reserves and contributions to reserve are used for major repairs and replacements of infrastructure and the owners benefit from the assessment when it is imposed. Special assessments are used for specified purposes and the owners benefit from the assessment when the funds are expended for their designated purpose.

**Concentration of credit risk:** Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents held at financial institutions, investments, and receivables.

The Association has cash in financial institutions that is insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times throughout the year, the Association may have cash balances at financial institutions that exceed the insured amount. Investments are held in brokerage accounts protected by the Securities Investor Protection Corporation ("SIPC") in the event of broker-dealer failure, subject to applicable limits. The SIPC insurance does not protect against market losses on investments. Deposit and investment accounts are maintained with what management believes to be quality institutions.

Concentrations of credit risk with respect to receivables are limited due to the large number of members comprising the Association's member base and the Association's ability to place liens on member's properties. All other receivables are deemed unsecured.

**Use of estimates:** The preparation of financial statements in conformity with GAAP 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.

**Comparative financial information:** The accompanying financial statements include summarized comparative information from the prior year, which does not include sufficient detail to conform with GAAP. This information should be read in conjunction with the Association's audited financial statements for the year ended December 31, 2020, from which the comparative information was derived.

**Subsequent events:** Subsequent events were evaluated by management through March 2, 2022, which is the date the financial statements were available to be issued.

**Note 3 - Owner's Assessments**

The Finance Committee recommends an annual budget of revenues and expenditures along with related assessment amounts, which is approved by the Board of Directors. A summary of amounts assessed, for both improved and unimproved lots, for the years ended December 31, 2021 and 2020 are as follows:

<u>Assessment Type</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Annual - General, Amenity and Segments	\$ 1,757 - \$ 3,513	\$ 1,757 - \$ 3,513
Supplemental - Reserve	\$ 163 - \$ 325	\$ 163 - \$ 325
Supplemental - Flood Mitigation	\$ -	\$ 325 - \$ 650

**Note 3 - Owners' Assessments (continued)**

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 July 1, 2024. The total amount assessed was approximately \$ 3,040,000.

**Note 4 - Investments**

In accordance with the Financial Accounting Standards in its Accounting Standards Codification (ASC) No. 820, Fair Value Measurements and Disclosure, the Association has defined and established 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 (e.g. quoted prices in active markets for similar securities valuations based on commonly quoted benchmarks, interest rates and yield curves, and/or securities indices).
- Level 3 inputs are unobservable inputs for the asset or liability (e.g. information about assumptions, including risk, market participants would use in pricing a security).

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Fair values of investments held by the Association at December 31, 2021 and 2020 are classified as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
At December 31, 2021:				
Corporate bonds	\$ 3,813,215	\$ -	\$ 3,813,215	\$ -
Mutual funds	2,786,372	2,786,372	-	-
Municipal bonds	2,445,232	-	2,445,232	-
Certificates of deposit	760,206	760,206	-	-
Money market funds	308,000	308,000	-	-
Exchange-traded funds	183,377	183,377	-	-
	<u>\$ 10,296,402</u>	<u>\$ 4,037,955</u>	<u>\$ 6,258,447</u>	<u>\$ -</u>

**Kiawah Island Community Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2021**

**Note 4 - Investments (continued)**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
At December 31, 2020:				
Corporate bonds	\$ 3,322,262	\$ -	\$ 3,322,262	\$ -
Mutual funds	2,514,061	2,514,061	-	-
Municipal bonds	963,616	-	963,616	-
Certificates of deposit	1,132,000	1,132,000	-	-
Money market funds	308,000	308,000	-	-
Exchange-traded funds	187,425	187,425	-	-
	<u>\$ 8,427,364</u>	<u>\$ 4,141,486</u>	<u>\$ 4,285,878</u>	<u>\$ -</u>

Available for sale, fixed income investments, are reported at fair value. Aggregate unrealized gains and losses are reported as a separate component of accumulated other comprehensive income (loss). The cost of fixed income investments and their approximate fair values as of December 31, 2021 and 2020 are as follows:

	<u>Cost</u>	<u>Unrealized Gains/ (Losses)</u>	<u>Fair Value</u>
At December 31, 2021:			
Certificates of deposit	\$ 750,091	\$ 10,115	\$ 760,206
Corporate bonds	3,801,340	11,875	3,813,215
Municipal bonds	2,452,911	(7,679)	2,445,232
Total fixed income investments	<u>\$ 7,004,342</u>	<u>\$ 14,311</u>	<u>\$ 7,018,653</u>

	<u>Cost</u>	<u>Unrealized Gains/ (Losses)</u>	<u>Fair Value</u>
At December 31, 2020:			
Certificates of deposit	\$ 1,099,116	\$ 32,884	\$ 1,132,000
Corporate bonds	3,208,672	113,590	3,322,262
Municipal bonds	946,759	16,857	963,616
Total fixed income investments	<u>\$ 5,254,547</u>	<u>\$ 163,331</u>	<u>\$ 5,417,878</u>

The following is a summary of maturities of investments classified as fixed income securities:

	<u>Cost</u>	<u>Fair Value</u>
At December 31, 2021:		
Due before one year	\$ 1,201,694	\$ 1,216,621
Due one through five years	3,944,602	3,937,587
Due after five years	1,858,046	1,864,445
Totals	<u>\$ 7,004,342</u>	<u>\$ 7,018,653</u>

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Note 5 - Property and Equipment**

Property and equipment at December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 2,696,786	\$ 2,696,786
Furniture and equipment	2,021,587	1,925,614
Vehicles and trailers	819,629	819,628
	<u>5,538,002</u>	<u>5,442,028</u>
Less: accumulated depreciation	<u>(3,088,413)</u>	<u>(2,714,172)</u>
	2,449,589	2,727,856
Land	440,253	440,253
	<u>440,253</u>	<u>440,253</u>
Total property and equipment	\$ <u>2,889,842</u>	\$ <u>3,168,109</u>

**Note 6 - Cable Agreement (Royalties)**

In December 2014, the Association entered into an agreement with Comcast of Georgia/South Carolina II, LLC (the "Comcast Agreement"), 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 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. The deferred revenue is being amortized annually over the twelve-year term of the contract. At December 31, 2021 and 2020, the remaining balance of the deferred revenue totaled \$ 250,783 and \$ 300,939, respectively, and the related royalty revenue was \$ 50,156 for the year ended December 31, 2021.

Concurrent with the Comcast Agreement, the Association entered into a twelve-year agreement in which the Association receives a percentage, varying from 0% to 9%, of the broadband and telecommunication service revenue received from the Association's members. The amount received is calculated and paid on a quarterly basis, net of a 25% consulting commission. The net amount of royalty revenues received for the year ended December 31, 2021 and 2020 was approximately \$ 241,000 and \$ 214,000, respectively.

**Note 7 - Notes 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 real estate in which its administrative offices are located. The mortgage was secured by the real property, the Association's personal property and any associated rental/lease revenues. The loan required monthly payments of principal and interest, at a rate of 3.65%, totaling \$ 9,298. The loan was paid in full in August 2020.

**Note 7 - Notes Payable (continued)**

In August 2020, the Association committed to a note payable of \$ 425,000 of which the proceeds were used towards repayment of the mortgage noted in the previous paragraph. Monthly payments of \$ 9,403 consisting of principal and interest were due through August 2024. Interest was at a fixed interest rate of 2.90%. The loan was 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. The loan was paid in full during 2021.

**Note 8 - Line of Credit**

The Association has access to a \$ 2,500,000 line of credit with a financial institution expiring in October 2022. Interest is charged at a variable rate based on SOFR plus 2.60% (2.65% at December 31, 2021). The line of credit arrangement has a right-of-offset against deposit accounts the Association maintains with the lender. As of December 31, 2021 and 2020, the Association had no outstanding balance due on the line of credit.

**Note 9 - Designated Fund Balance**

The Board of Directors has designated identified amounts of fund balance to be used by the Association for specific future projects or activities. These designations may be modified or removed by the Board of Directors at any time.

Operating fund balance consist of the following as of December 31, 2021:

Operating fund balance, total	\$	8,038,282
Property and equipment, net		(2,889,842)
Funded depreciation		(2,391,844)
Storm reserve		(1,000,000)
Commitment to 2022 operating budget		<u>(798,368)</u>
Undesignated operating fund balances	\$	<u><u>958,228</u></u>

**Note 10 - Comprehensive Income**

The accumulated balances of other comprehensive income for 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive income, beginning balance	\$ 163,331	\$ 47,910
Unrealized gains (losses) on available-for-sale, fixed income securities	<u>(149,020)</u>	<u>115,421</u>
Accumulated other comprehensive income, ending balance	\$ <u><u>14,311</u></u>	\$ <u><u>163,331</u></u>



**Note 11 - Related Party Transactions**

During 2021 and 2020, the property developer, Kiawah Resort Associates (“KRA”), held a seat on the Association’s Board of Directors. During 2021, KRA owned a total of 52 properties, including 27 lots in inventory, 12 un-subdivided lots, 7 commercial use lots, among others. Amounts assessed to KRA in the years ending December 31, 2021 and 2020, including supplemental special assessments, totaled approximately \$ 308,000 and \$ 340,000, respectively.

**Note 12 - 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. 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 September 9, 2021. At December 31, 2021 and 2020, the Association had \$ 15,018,245 and \$ 11,724,860 in fund balance designated for such future major repairs and replacements.

Actual expenditures 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. In the event that amounts budgeted may not be adequate to meet all future needs for major repairs and replacements, 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 16 for a summary of study results.

**Note 13 - Retirement Plan**

The Association has a 401(k) profit sharing plan (the “Plan”). Employees who meet certain age and length of service requirements are eligible and can contribute a portion of their annual compensation, subject to IRS limits. The Plan provides a safe harbor match of participant contributions of 100% of the first 3% of compensation plus a 50% match of the next 2% of compensation. The Plan also provides for profit sharing contributions. The Association contributed approximately \$ 125,500 and \$ 120,200 for the years ended December 31, 2021 and 2020, respectively.

**Note 14 - 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 Association 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 Association’s tax returns remain available for examination by government authorities for three years subsequent to their original filing.

#### Note 15 - Commitments and Contingencies

**Operating leases:** The Association has entered into various operating lease agreements for equipment with varying rental terms. The leases terminate at various dates through 2025. Total rent expense under these agreements was approximately \$ 68,000 for the year ended December 31, 2021.

The following are approximate future base payments in connection with the leases in effect at December 31, 2021:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 59,200
2023	20,900
2024	10,800
2025	<u>3,700</u>
	<u>\$ 94,600</u>

**Litigation, claims, and assessments:** The Association is generally involved in various legal matters, administrative proceedings and claims arising in the ordinary course of business. Although it is not possible to predict the outcome of such matters or the range of possible loss or recovery, if any, management believes that the results will not have a material effect on the Association's financial position or results of operations.

**Construction commitments:** The Association has construction contracts for various security and major repairs and replacement projects. At December 31, 2021, the remaining commitments on these contracts totaled approximately \$ 548,800. The projects are anticipated to be completed in 2022.

**Risks and uncertainties:** The coronavirus (COVID-19) outbreak has caused disruption in international and U.S. economies and markets. The coronavirus and fear of further spread has caused quarantines, cancellation of events, and overall reduction in business and economic activity. On March 11, 2020, the World Health Organization designated the coronavirus outbreak as a pandemic. Management and the Board of Directors continue to evaluate and monitor the potential adverse effect that this event may have on the Association's financial position, operations and cash flows. The full impact of COVID-19 is unknown at this time and cannot be reasonably estimated as these events are still developing.

# REQUIRED SUPPLEMENTAL INFORMATION

**Kiawah Island Community Association, Inc.**  
**Required Supplementary Information on Future Major Repairs and Replacements (Unaudited)**  
**For the Year Ended December 31, 2021**

The Association engaged Association Reserves to estimate the remaining useful lives and replacement costs of the components of common property. The latest reserve study was completed in 2020 and an updated no-site-visit report was issued on September 9, 2021. 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 through 2021. Assumptions used included current net interest earnings accruing to reserves of 2.50% and a rate of inflation of 4.00%.

The following information is based on the study and presents significant information about the components of common property.

Component	Estimated Replacement Lives	Estimated Replacement Costs	Reserve Fund Balance as of December 31, 2021
Sites and grounds	0-39 years	\$ 4,004,020	
Asphalt roadways	0-21 years	15,178,325	
Drainage system components	0-38 years	2,950,810	
Timber bridges (vehicle)	0-96 years	12,592,500	
Main gate house	9-21 years	148,895	
Vanderhorst gate house	9-21 years	83,295	
Guardrails	13-29 years	219,870	
Eagle Point common areas	4-26 years	122,550	
Viewing towers (VT)	0-22 years	245,165	
Cinder Creek common areas	3-24 years	387,545	
Rhett's Bluff common areas	0-26 years	724,035	
Beachwalker center	0-42 years	1,201,300	
Maintenance area components	0-43 years	840,427	
Sandcastle (exteriors and interiors)	0-37 years	1,107,785	
Family pool area	0-30 years	1,220,830	
Adult pool area	6-47 years	985,945	
Bar area components	17-27 years	102,100	
Sandcastle grounds	17-32 years	817,150	
Castle grill area	1-26 years	224,050	
Community docks	4-25 years	425,605	
Boardwalks	0-27 years	2,729,500	
Walking bridges	0-37 years	3,561,155	
Totals		\$ 49,872,857	\$ 15,018,245

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

See accompanying independent auditors' report.