

Kiawah Island Community Association, Inc.

Financial Statements
For the Year Ended December 31, 2022



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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, 2022, and the related statements of revenues, expenses and changes in fund balances, comprehensive income (loss), 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, 2022, 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.

Report on Summarized Comparative Information

We have previously audited the Association's 2021 financial statements, and our report dated March 2, 2022, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 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 10, 2023

FINANCIAL STATEMENTS



Kiawah Island Community Association, Inc.
Balance Sheet
December 31, 2022
(with comparative totals for December 31, 2021)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2022</u>	<u>Total 2021</u>
Current Assets:				
Cash and cash equivalents	\$ 4,057,540	\$ 993,091	\$ 5,050,631	\$ 11,303,031
Investments	2,310,599	13,508,233	15,818,832	10,296,402
Accrued interest receivable	4,651	39,560	44,211	40,001
Accounts receivable	138,403	-	138,403	18,421
Member receivables	527,545	13,021	540,566	638,246
Royalty receivable	168,196	-	168,196	37,500
Prepaid expenses	280,418	57,690	338,108	180,725
	<u>7,487,352</u>	<u>14,611,595</u>	<u>22,098,947</u>	<u>22,514,326</u>
Noncurrent Assets:				
Member receivables, net of current portion	425,070	-	425,070	963,846
Property and equipment, net	2,741,985	-	2,741,985	2,889,842
	<u>3,167,055</u>	<u>-</u>	<u>3,167,055</u>	<u>3,853,688</u>
Total noncurrent assets	<u>3,167,055</u>	<u>-</u>	<u>3,167,055</u>	<u>3,853,688</u>
Total assets	<u>\$ 10,654,407</u>	<u>\$ 14,611,595</u>	<u>\$ 25,266,002</u>	<u>\$ 26,368,014</u>
Current Liabilities:				
Accounts payable	\$ 164,715	\$ 881,730	\$ 1,046,445	\$ 248,352
Accrued payroll liabilities	282,525	-	282,525	212,017
Accrued annual leave	362,441	-	362,441	346,273
Accrued expenses	56,817	-	56,817	106,488
Deferred revenue - prepaid assessments	234,253	-	234,253	182,328
Deferred revenue - royalty income	50,157	-	50,157	50,157
Deposits	30,600	-	30,600	25,325
	<u>1,181,508</u>	<u>881,730</u>	<u>2,063,238</u>	<u>1,170,940</u>
Total current liabilities	<u>1,181,508</u>	<u>881,730</u>	<u>2,063,238</u>	<u>1,170,940</u>
Noncurrent Liabilities:				
Deferred revenue - royalty income	150,470	-	150,470	200,626
Deferred revenue - special assessments	1,556,379	-	1,556,379	1,939,921
	<u>1,706,849</u>	<u>-</u>	<u>1,706,849</u>	<u>2,140,547</u>
Total noncurrent liabilities	<u>1,706,849</u>	<u>-</u>	<u>1,706,849</u>	<u>2,140,547</u>
Total liabilities	<u>2,888,357</u>	<u>881,730</u>	<u>3,770,087</u>	<u>3,311,487</u>
Fund Balances:				
Accumulated excess of revenues over expenses	7,776,383	14,293,401	22,069,784	23,042,216
Accumulated other comprehensive income (loss)	(10,333)	(563,536)	(573,869)	14,311
	<u>7,766,050</u>	<u>13,729,865</u>	<u>21,495,915</u>	<u>23,056,527</u>
Total fund balances	<u>7,766,050</u>	<u>13,729,865</u>	<u>21,495,915</u>	<u>23,056,527</u>
Total liabilities and fund balances	<u>\$ 10,654,407</u>	<u>\$ 14,611,595</u>	<u>\$ 25,266,002</u>	<u>\$ 26,368,014</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, 2022
(with comparative totals for December 31, 2021)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2022</u>	<u>Total 2021</u>
Revenues:				
Assessments	\$ 11,256,808	\$ 1,535,063	\$ 12,791,871	\$ 12,167,033
Late charges	1,489	-	1,489	24,018
Other income	1,434,400	-	1,434,400	698,286
Recreation initiation fees	72,154	-	72,154	94,177
Contributions to reserve	-	3,434,611	3,434,611	4,584,935
Vehicle access fees	474,677	1,340,714	1,815,391	1,861,976
	<u>13,239,528</u>	<u>6,310,388</u>	<u>19,549,916</u>	<u>19,430,425</u>
Expenses:				
General and administrative	4,038,104	515,192	4,553,296	3,792,976
Land management	2,163,299	-	2,163,299	2,117,683
Lakes management	294,145	-	294,145	312,130
General maintenance	754,257	-	754,257	885,092
Security - main gate	2,550,066	-	2,550,066	2,136,658
Mechanic's shop	218,121	-	218,121	197,913
Livability	342,976	-	342,976	307,327
Recreation operations	1,999,259	-	1,999,259	1,719,723
Security - second gate	220,706	-	220,706	187,430
Major repairs and replacements	-	6,253,038	6,253,038	3,652,217
Landscape - capital improvements	-	230,234	230,234	221,866
Landscape maintenance - Ocean Park neighborhood	171,059	-	171,059	221,217
Landscape maintenance - Preserve neighborhood	159,105	-	159,105	197,727
	<u>12,911,097</u>	<u>6,998,464</u>	<u>19,909,561</u>	<u>15,949,959</u>
Excess (deficit) of operating revenues over expenses	<u>328,431</u>	<u>(688,076)</u>	<u>(359,645)</u>	<u>3,480,466</u>
Non-operating Income (Expenses):				
Investment income (loss), net	(144,305)	(380,742)	(525,047)	679,288
Royalty income	317,506	-	317,506	287,529
Gain (loss) on disposition of property and equipment	(25,259)	-	(25,259)	-
Interest expense	-	-	-	(5,526)
Provision for depreciation	(379,987)	-	(379,987)	(374,242)
	<u>(232,045)</u>	<u>(380,742)</u>	<u>(612,787)</u>	<u>587,049</u>
Excess (deficit) of revenues over expenses	96,386	(1,068,818)	(972,432)	4,067,515
Beginning Fund Balances	8,036,420	15,005,796	23,042,216	18,974,701
Interfund transfers	(356,423)	356,423	-	-
Ending Fund Balances	<u>\$ 7,776,383</u>	<u>\$ 14,293,401</u>	<u>\$ 22,069,784</u>	<u>\$ 23,042,216</u>

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

Kiawah Island Community Association, Inc.
Statement of Comprehensive Income (Loss)
For the Year Ended December 31, 2022
(with comparative totals for December 31, 2021)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2022</u>	<u>Total 2021</u>
Excess (Deficit) of Revenues over Expenses	\$ 96,386	\$ (1,068,818)	\$ (972,432)	\$ 4,067,515
Other Comprehensive Income:				
Unrealized gain (loss) on investments	<u>(12,195)</u>	<u>(575,985)</u>	<u>(588,180)</u>	<u>(149,020)</u>
Comprehensive income (loss)	<u>\$ 84,191</u>	<u>\$ (1,644,803)</u>	<u>\$ (1,560,612)</u>	<u>\$ 3,918,495</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, 2022
(with comparative totals for December 31, 2021)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total 2022</u>	<u>Total 2021</u>
Cash Flows from Operating Activities:				
Excess (deficit) of revenues over expenses	\$ 96,386	\$ (1,068,818)	\$ (972,432)	\$ 4,067,515
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:				
Provision for depreciation	379,987	-	379,987	374,242
Net realized and unrealized (gains) losses on investments	144,305	380,742	525,047	(431,956)
(Gain) loss on disposition of property and equipment	25,259	-	25,259	-
(Increase) decrease in:				
Accrued interest receivable	(290)	(3,920)	(4,210)	(9,708)
Accounts receivable	(119,982)	-	(119,982)	10,971
Member assessments receivable	644,652	(8,196)	636,456	665,494
Royalty receivable	(130,696)	-	(130,696)	-
Prepaid expenses	(99,693)	(57,690)	(157,383)	81,393
Increase (decrease) in:				
Accounts payable	47,893	750,200	798,093	(283,084)
Accrued payroll liabilities	70,508	-	70,508	33,526
Accrued annual leave	16,168	-	16,168	(8,101)
Accrued expenses	(49,671)	-	(49,671)	62,493
Deferred revenue - prepaid assessments	51,925	-	51,925	159,986
Deferred revenue - royalty income	(50,156)	-	(50,156)	(50,156)
Deferred revenue - special assessments	(383,542)	-	(383,542)	(153,845)
Deposits	5,275	-	5,275	(4,100)
Net cash provided by (used in) operating activities	<u>648,328</u>	<u>(7,682)</u>	<u>640,646</u>	<u>4,514,670</u>
Cash Flows from Investing Activities:				
Purchases of property and equipment	(263,934)	-	(263,934)	(95,975)
Proceeds from sale of property and equipment	6,545	-	6,545	-
Purchases of investments	(8,924,116)	(10,188,031)	(19,112,147)	(6,166,047)
Proceeds from maturities and sales of securities	<u>7,750,000</u>	<u>4,726,490</u>	<u>12,476,490</u>	<u>4,579,945</u>
Net cash provided by (used in) investing activities	<u>(1,431,505)</u>	<u>(5,461,541)</u>	<u>(6,893,046)</u>	<u>(1,682,077)</u>
Cash Flows from Financing Activities:				
Principal payments note payable	-	-	-	(391,753)
Interfund transfers	<u>(356,423)</u>	<u>356,423</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(356,423)</u>	<u>356,423</u>	<u>-</u>	<u>(391,753)</u>
Net increase (decrease) in cash and cash equivalents	(1,139,600)	(5,112,800)	(6,252,400)	2,440,840
Cash and Cash Equivalents, Beginning of Year	<u>5,197,140</u>	<u>6,105,891</u>	<u>11,303,031</u>	<u>8,862,191</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,057,540</u>	<u>\$ 993,091</u>	<u>\$ 5,050,631</u>	<u>\$ 11,303,031</u>
Supplemental Information:				
Amount of interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,526</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, ponds, 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 ("U.S. 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, government securities, money market funds, certificates of deposit and other short-term credit investments.

Corporate and municipal bonds, government securities, 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, exchange traded funds, and government securities are carried at fair value as quoted on major stock exchanges and other active markets. 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 (loss), net, 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, 2022, 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 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.

Leases: The Association determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the balance sheet. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Association does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less) and leases deemed to be below certain thresholds. Instead, the lease payments of those leases are generally reported as lease expense on a straight-line basis over the lease term.

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 (loss). Other items are comprised of the net change in unrealized gains/losses on available for sale fixed income securities.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 U.S. 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 U.S. GAAP. This information should be read in conjunction with the Association's audited financial statements for the year ended December 31, 2021, from which the comparative information was derived. Certain accounts in the prior year statements and notes information have been reclassified to conform to the presentation in the current year consolidated financial statements.

Subsequent events: Subsequent events were evaluated by management through March 10, 2023, 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, 2022 and 2021 are as follows:

Assessment Type	2022		2021	
	Improved	Unimproved	Improved	Unimproved
Annual:				
General	\$1,980	\$990	\$1,922	\$961
Amenity	\$199	\$100	\$189	\$95
Segments	\$100 - \$1,436	\$50 - \$718	\$100 - \$1,302	\$50 - \$651
Supplemental:				
Reserve	\$325	\$163	\$325	\$163

Assessments charged for segments are only applicable to properties located within the related geographical location.

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.

Kiawah Island Community Association, Inc.
Notes to Financial Statements
December 31, 2022

Note 4 - Investments (continued)

Fair values of investments held by the Association at December 31, 2022 and 2021 are classified as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
At December 31, 2022:				
Corporate bonds	\$ 2,570,209	\$ -	\$ 2,570,209	\$ -
Mutual funds	3,074,677	3,074,677	-	-
Municipal bonds	3,883,227	-	3,883,227	-
Certificates of deposit	522,561	522,561	-	-
Government securities	5,768,158	5,768,158	-	-
	<u>\$ 15,818,832</u>	<u>\$ 9,365,396</u>	<u>\$ 6,453,436</u>	<u>\$ -</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>

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, 2022 and 2021 are as follows:

	<u>Cost</u>	<u>Unrealized Gains/ (Losses)</u>	<u>Fair Value</u>
At December 31, 2022:			
Certificates of deposit	\$ 550,000	\$ (27,439)	\$ 522,561
Corporate bonds	2,773,329	(203,120)	2,570,209
Municipal bonds	4,272,222	(388,995)	3,883,227
Government securities	5,722,473	45,685	5,768,158
Total fixed income investments	<u>\$ 13,318,024</u>	<u>\$ (573,869)</u>	<u>\$ 12,744,155</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>

Note 4 - Investments (continued)

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

	<u>Cost</u>	<u>Fair Value</u>
At December 31, 2022:		
Due before one year	\$ 6,617,855	\$ 6,660,532
Due one through five years	4,279,808	3,894,411
Due after five years	<u>2,420,361</u>	<u>2,189,212</u>
Totals	<u>\$ 13,318,024</u>	<u>\$ 12,744,155</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, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 2,640,553	\$ 2,696,786
Furniture and equipment	2,130,163	2,021,587
Vehicles and trailers	<u>822,293</u>	<u>819,629</u>
	5,593,009	5,538,002
Less: accumulated depreciation	<u>(3,259,472)</u>	<u>(3,088,413)</u>
	2,333,537	2,449,589
Land	<u>408,448</u>	<u>440,253</u>
Total property and equipment	<u>\$ 2,741,985</u>	<u>\$ 2,889,842</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, 2022 and 2021, the remaining balance of the deferred revenue totaled \$ 200,627 and \$ 250,783, respectively, and the related royalty revenue was \$ 50,156 for the year ended December 31, 2022.

Note 6 - Cable Agreement (Royalties) (continued)

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, 2022 and 2021 was approximately \$ 267,000 and \$ 241,000, respectively.

Note 7 - Line of Credit

The Association has access to a \$ 2,500,000 line of credit with a financial institution expiring in November 2024. 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, 2022 and 2021, the Association had no outstanding balance due on the line of credit.

Note 8 - 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. The financial controls manual stipulates that "any surplus at year end for the V-gate fund shall be held in major repairs and replacements. Any surplus for either the Preserve or Ocean Park is held as an operating surplus." These financial statements classify the V-gate fund balance of \$ 337,960 within the Reserve fund and the Preserve fund balance is listed as a designated fund balance within the Operating fund below.

Operating fund balance consist of the following as of December 31, 2022:

Operating fund balance, total	\$	7,766,050
Property and equipment, net		(2,741,985)
Funded depreciation		(2,329,532)
Storm reserve		(1,000,000)
Commitment to 2023 operating budget		(840,770)
Preserve fund		<u>(78,222)</u>
Undesignated operating fund balances	\$	<u><u>775,541</u></u>

Note 9 - Comprehensive Income (Loss)

The accumulated balances of other comprehensive income (loss) for 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive income, beginning balance	\$ 14,311	\$ 163,331
Unrealized gains (losses) on available-for-sale, fixed income securities	<u>(588,180)</u>	<u>(149,020)</u>
Accumulated other comprehensive income, ending balance	\$ <u><u>(573,869)</u></u>	\$ <u><u>14,311</u></u>

Note 10 - Related Party Transactions

During 2022 and 2021, the property developer, Kiawah Resort Associates (“KRA”), held a seat on the Association’s Board of Directors. During 2022, KRA owned a total of 45 properties, including 23 lots in inventory, 14 un-subdivided lots, 7 commercial use lots, among others. Amounts assessed to KRA in the years ending December 31, 2022 and 2021, including supplemental special assessments, totaled approximately \$ 324,000 and \$ 308,000, respectively.

Note 11 - 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 June 7, 2022. At December 31, 2022 and 2021, the Association had \$ 13,729,865 and \$ 15,018,245, respectively, 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 12 - 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 \$ 134,000 and \$ 126,000 for the years ended December 31, 2022 and 2021, respectively.

Note 13 - 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 14 - Commitments and Contingencies

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, 2022, the remaining commitments on these contracts totaled approximately \$ 1,082,500. The projects are anticipated to be completed in 2023.

REQUIRED SUPPLEMENTARY INFORMATION

Kiawah Island Community Association, Inc.
Required Supplementary Information on Future Major Repairs and Replacements (Unaudited)
For the Year Ended December 31, 2022

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 2022 and an updated no-site-visit report was issued on June 7, 2022 covering the period from January 1, 2022 to December 31, 2022. 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 2022. Assumptions used included current net interest earnings accruing to reserves of 2.50% and a rate of inflation of 5.00%.

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

<u>Component</u>	<u>Estimated Replacement Lives</u>	<u>Estimated Replacement Costs</u>	<u>Reserve Fund Balance as of December 31, 2022</u>
Sites and grounds	0-39 years	\$ 5,003,445	
Asphalt roadways	0-19 years	16,272,525	
Drainage system components	0-39 years	2,553,750	
Timber bridges (vehicle)	0-94 years	13,887,000	
Main gate house	7-19 years	164,230	
Vanderhorst gate house	7-19 years	91,835	
Guardrails	11-27 years	242,345	
Eagle Point common areas	2-29 years	229,100	
Viewing towers (VT)	0-20 years	270,380	
Cinder Creek common areas	1-22 years	427,230	
Rhett's Bluff common areas	0-39 years	898,255	
Beachwalker center	0-40 years	1,324,370	
Maintenance area components	0-41 years	926,541	
Sandcastle (exteriors and interiors)	0-35 years	1,221,270	
Family pool area	0-28 years	1,420,415	
Adult pool area	4-45 years	1,096,715	
Bar area components	15-25 years	112,650	
Sandcastle grounds	15-30 years	901,425	
Castle grill area	0-24 years	247,050	
Community docks	2-23 years	469,200	
Boardwalks	0-25 years	3,008,900	
Walking bridges	0-39 years	<u>3,900,305</u>	
Totals		\$ <u>54,668,936</u>	\$ <u>13,729,865</u>

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

See accompanying independent auditors' report.