



Kiawah Island Community Association, Inc.

Independent Auditor's Report, Financial Statements, and Required Supplementary Information

December 31, 2023



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Independent Auditor's Report

Board of Directors
Kiawah Island Community Association, Inc.
Kiawah Island, South Carolina

Opinion

We have audited the financial statements of Kiawah Island Community Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2023, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2023, and the changes in its fund balance 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 (GAAS). 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.

Responsibility of Management 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, 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 these 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 GAAS 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 GAAS, 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Report on Summarized Comparative Information

The December 31, 2022 financial statements, before they were restated for the matter discussed in Note 15, were previously audited by other auditors which expressed an unmodified opinion on those financial statements with a report dated March 10, 2023. The summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent in all material respects, with the audited financial statements from which it has been derived.

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.

FORVIS, LLP

**Greenville, South Carolina
March 19, 2024**

Kiawah Island Community Association, Inc.
Balance Sheets
December 31, 2023
(with summarized financial information for December 31, 2022)

	Operating Fund	Reserve Fund	Total 2023	As Restated Total 2022
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,005,350	\$ 3,747,531	\$ 4,752,881	\$ 5,050,631
Investments	5,770,204	13,528,448	19,298,652	15,818,832
Accrued interest receivable	40,738	47,403	88,141	44,211
Accounts receivable	85,910	22,033	107,943	207,235
Royalty receivable	85,500	-	85,500	168,196
Prepaid expenses	388,289	-	388,289	338,108
Total current assets	<u>7,375,991</u>	<u>17,345,415</u>	<u>24,721,406</u>	<u>21,627,213</u>
Noncurrent assets:				
Property and equipment, net	<u>2,606,505</u>	-	<u>2,606,505</u>	<u>2,741,985</u>
Total noncurrent assets	<u>2,606,505</u>	-	<u>2,606,505</u>	<u>2,741,985</u>
Total assets	<u>\$ 9,982,496</u>	<u>\$ 17,345,415</u>	<u>\$ 27,327,911</u>	<u>\$ 24,369,198</u>
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	\$ 284,570	\$ 489,729	\$ 774,299	\$ 1,046,445
Accrued payroll liabilities	318,951	-	318,951	282,525
Accrued annual leave	389,204	-	389,204	362,441
Accrued expenses	81,508	-	81,508	56,817
Deferred revenue - prepaid assessments	887,925	-	887,925	234,253
Deferred revenue - royalty income	50,157	-	50,157	50,157
Deposits	20,600	-	20,600	30,600
Total current liabilities	<u>2,032,915</u>	<u>489,729</u>	<u>2,522,644</u>	<u>2,063,238</u>
Noncurrent liabilities:				
Deferred revenue - royalty income	100,314	-	100,314	150,470
Deferred revenue - special assessments	-	-	-	659,575
Total noncurrent liabilities	<u>100,314</u>	-	<u>100,314</u>	<u>810,045</u>
Total liabilities	<u>2,133,229</u>	<u>489,729</u>	<u>2,622,958</u>	<u>2,873,283</u>
Fund balances	<u>7,849,267</u>	<u>16,855,686</u>	<u>24,704,953</u>	<u>21,495,915</u>
Total liabilities and fund balances	<u>\$ 9,982,496</u>	<u>\$ 17,345,415</u>	<u>\$ 27,327,911</u>	<u>\$ 24,369,198</u>

Kiawah Island Community Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended December 31, 2023
(with summarized financial information for the Year Ended December 31, 2022)

	Operating Fund	Reserve Fund	2023 Total	As Restated 2022 Total
Operating revenues:				
Assessments	\$ 11,984,876	\$ 1,799,262	\$ 13,784,138	\$ 12,791,871
Late charges	88,965	-	88,965	1,489
Other income	744,424	-	744,424	919,208
Recreation initiation fees	51,150	-	51,150	72,154
Contributions to reserve	484,772	2,747,044	3,231,816	3,434,611
Access fees	348,722	1,976,089	2,324,811	1,815,391
	<u>13,702,909</u>	<u>6,522,395</u>	<u>20,225,304</u>	<u>19,034,724</u>
Total operating revenues				
Operating expenses:				
General and administrative	4,313,938	-	4,313,938	4,038,104
Land management	2,519,793	-	2,519,793	2,163,299
Lakes management	403,338	-	403,338	294,145
General maintenance	825,587	-	825,587	754,257
Security - main gate	2,739,415	-	2,739,415	2,550,066
Mechanic's shop	217,370	-	217,370	218,121
Livability	251,053	-	251,053	342,976
Recreation operations	2,328,281	-	2,328,281	1,999,259
Security - second gate	205,655	-	205,655	220,706
Major repairs and replacements	-	3,926,673	3,926,673	6,253,038
Landscape - capital improvements	-	414,275	414,275	230,234
Landscape maintenance - Ocean Park neighborhood	229,877	-	229,877	171,059
Landscape maintenance - Preserve neighborhood	310,080	-	310,080	159,105
	<u>14,344,387</u>	<u>4,340,948</u>	<u>18,685,335</u>	<u>19,394,369</u>
Total operating expenses				
Operating income (loss)	<u>(641,478)</u>	<u>2,181,447</u>	<u>1,539,969</u>	<u>(359,645)</u>
Non-operating income (expenses):				
Investment income, net	471,659	503,003	974,662	(525,047)
Royalty income	336,092	-	336,092	317,506
Gain on disposition of property and equipment	40,324	-	40,324	(25,259)
Unrealized gain on investments	147,706	533,420	681,126	(588,180)
Provision for depreciation	(363,135)	-	(363,135)	(379,987)
	<u>632,646</u>	<u>1,036,423</u>	<u>1,669,069</u>	<u>(1,200,967)</u>
Total non-operating income				
Excess (deficit) of revenues over expenses	<u>(8,832)</u>	<u>3,217,870</u>	<u>3,209,038</u>	<u>(1,560,612)</u>
Fund balance, beginning of year, as restated	8,108,729	13,387,186	21,495,915	23,056,527
Interfund transfers	(250,630)	250,630	-	-
Fund balance, end of year	<u>\$ 7,849,267</u>	<u>\$ 16,855,686</u>	<u>\$ 24,704,953</u>	<u>\$ 21,495,915</u>

Kiawah Island Community Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2023
(with summarized financial information for the Year Ended December 31, 2022)

	Operating Fund	Reserve Fund	Total 2023	As Restated Total 2022
Cash flows from operating activities:				
Excess (deficit) of revenues over expenses	\$ (8,832)	\$ 3,217,870	\$ 3,209,038	\$ (1,560,612)
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:				
Provision for depreciation	363,135	-	363,135	379,987
(Gain) loss on disposition of property and equipment	(40,324)	-	(40,324)	25,259
Net unrealized gains on investments	(147,706)	(533,420)	(681,126)	588,180
Change in operating assets and liabilities:				
Accrued interest receivable	(33,762)	(10,168)	(43,930)	(4,210)
Accounts receivable	108,732	(9,440)	99,292	(32,491)
Royalty receivable	82,696	-	82,696	(130,696)
Prepaid expenses	(107,871)	57,690	(50,181)	(157,383)
Accounts payable	119,855	(392,001)	(272,146)	798,093
Accrued payroll liabilities	36,426	-	36,426	70,508
Accrued annual leave	26,763	-	26,763	16,168
Accrued expenses	24,691	-	24,691	(49,671)
Deferred revenue - prepaid assessments	653,672	-	653,672	51,925
Deferred revenue - royalty income	(50,156)	-	(50,156)	(50,156)
Deferred revenue - special assessments	(659,575)	-	(659,575)	165,423
Deposits	(10,000)	-	(10,000)	5,275
Net cash provided by operating activities	<u>357,744</u>	<u>2,330,531</u>	<u>2,688,275</u>	<u>115,599</u>
Cash flows from investing activities:				
Purchase of property and equipment	(237,894)	-	(237,894)	(263,934)
Proceeds from sale of property and equipment	50,563	-	50,563	6,545
(Purchases) sales of investments, net	(2,971,973)	173,279	(2,798,694)	(6,110,610)
Net cash provided (used) by investing activities	<u>(3,159,304)</u>	<u>173,279</u>	<u>(2,986,025)</u>	<u>(6,367,999)</u>
Cash flows from financing activities:				
Interfund transfers	(250,630)	250,630	-	-
Net cash provided (used) by financing activities	<u>(250,630)</u>	<u>250,630</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(3,052,190)	2,754,440	(297,750)	(6,252,400)
Cash and cash equivalents, beginning of year	<u>4,057,540</u>	<u>993,091</u>	<u>5,050,631</u>	<u>11,303,031</u>
Cash and cash equivalents, end of year	<u>\$ 1,005,350</u>	<u>\$ 3,747,531</u>	<u>\$ 4,752,881</u>	<u>\$ 5,050,631</u>

Notes to the Financial Statements

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 of approximately 4,400 residential properties, of which approximately 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.

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.

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.

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

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 and cash equivalents in financial institutions that are 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. 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 members' properties. All other receivables are deemed unsecured.

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.

Investments are carried at fair value as quoted on major stock exchanges and other active markets or based on interest rates and yield curves. Certificates of deposit and time deposits, including money market funds, are valued at amortized cost, which approximates fair value.

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.

Accounts receivable

Association members are subject to annual assessments to provide for the Association's operating expenses and future repairs and improvements. The composition of accounts receivable varies depending upon the time of year. Annual assessments in excess of \$13,000,000 occur at the first of each year with approximately 90% paid within the first three months. Outside of those activities, accounts receivable consist primarily of ancillary charges to members, contractors and vendors.

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 whose 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, 2023 and 2022, the Association's management believes that all material receivable balances are collectible, and no allowance for doubtful account is considered necessary.

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

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	3-10 years

Maintenance and repair costs are charged to expense as incurred.

Deferred revenue

Deferred revenue represents amounts collected in advance of the contract period or amounts billed in excess of revenue recognized.

Revenue recognition

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, and equipment and facility rental fees, among others. Customers are billed at the time of service or consumption of products.

General, Amenity, Segments, and Supplemental Reserve Assessment revenues are recognized when they are earned. The assessments are billed to residents in accordance with the governing documents. Revenue is reported at the amount of consideration the Association expects to be entitled in exchange for providing these services. The Association determines the transaction price based on the Board of Directors approved standard assessment charges for each type of property.

Special assessments are assessed for specified purposes by vote of the membership. Revenues associated with special assessments are recognized as the funds are expended for their designated purpose.

As prescribed by the Association’s covenants, contributions to reserve revenues result from a .5% transfer fee charged when ownership of a property changes and are recognized at closing. Revenue is recognized at the time of transfer due to the Association fulfilling its performance obligation.

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

Income tax status

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.

Subsequent events

Subsequent events were evaluated by management through March 19, 2024, which is the date the financial statements were available to be issued.

Reclassification

Certain amounts associated with the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year. These reclassifications did not impact excess (deficit) of revenues over expenses and certain reclassifications were associated with presentation between the operating fund and the reserve fund.

Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by fund balance. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

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, 2023 and 2022 are as follows:

Assessment Type	2023		2022	
	Improved	Unimproved	Improved	Unimproved
Annual:				
General	\$2,220	\$1,110	\$1,980	\$990
Amenity	\$209	\$105	\$199	\$100
Segments	\$50-\$1,436	\$25-\$718	\$100-\$1,436	\$50-\$718
Supplemental:				
Reserve	\$325	\$163	\$325	\$163

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

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

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 had 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. The year ended December 31, 2024 is the last year of the five-year period related to the 2020 flood special assessment.

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, 2023 and 2022 are classified as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
At December 31, 2023:				
Corporate bonds	\$ 1,607,221	\$ -	\$ 1,607,221	\$ -
Mutual funds	4,558,816	4,558,816	-	-
Municipal bonds	3,719,943	-	3,719,943	-
Certificates of deposit	334,187	-	334,187	-
Government securities	<u>9,078,485</u>	<u>-</u>	<u>9,078,485</u>	<u>-</u>
	<u>\$ 19,298,652</u>	<u>\$ 4,558,816</u>	<u>\$ 14,739,836</u>	<u>\$ -</u>
	<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	<u>5,768,158</u>	<u>-</u>	<u>5,768,158</u>	<u>-</u>
	<u>\$15,818,832</u>	<u>\$ 3,074,677</u>	<u>\$ 12,744,155</u>	<u>\$ -</u>

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

5. Property and Equipment

Property and equipment at December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 2,640,553	\$ 2,640,553
Land	408,448	408,448
Furniture and equipment	2,230,621	2,130,163
Vehicles and trailers	<u>778,941</u>	<u>822,293</u>
	6,058,563	6,001,457
Less: accumulated depreciation	<u>(3,452,058)</u>	<u>(3,259,472)</u>
Total property and equipment	<u>\$ 2,606,505</u>	<u>\$ 2,741,985</u>

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, 2023 and 2022, the remaining balance of the deferred revenue totaled \$150,471 and \$200,627, respectively. The related royalty revenue was \$50,156 for the years ended December 31, 2023 and 2022.

Concurrent with the Comcast Agreement, the Association entered into a twelve-year agreement in which the Association receives a percentage (ranging from 4% to 7% based on service) 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, 2023 and 2022 was approximately \$286,000 and \$267,000, respectively.

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%. The line of credit arrangement has a right-of-offset against deposit accounts the Association maintains with the lender. As of December 31, 2023 and 2022, the Association had no outstanding balance due on the line of credit. The line of credit was not borrowed on during 2023 or 2022.

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

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 and the Preserve fund balance is listed as a designated fund balance within the Operating fund below.

Operating fund balance consists of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Operating fund balance, total	\$ 7,849,267	\$ 8,108,729
Property and equipment, net	(2,606,505)	(2,741,985)
Funded depreciation	(2,704,534)	(2,329,532)
Storm reserve	(1,000,000)	(1,000,000)
Commitment to future year budget	(608,437)	(840,770)
Preserve fund	<u>(96,464)</u>	<u>(78,222)</u>
Undesignated operating fund balances	<u>\$ 833,327</u>	<u>\$ 1,118,220</u>

9. Related Party Transactions

During the year ended December 31, 2023 and 2022, the property developer, Kiawah Resort Associates ("KRA"), held a seat on the Association's Board of Directors. During 2023, KRA owned a total of 39 properties, including 12 lots in inventory, 12 un-subdivided lots, and 7 commercial use lots, among others. Amounts assessed to KRA in the years ending December 31, 2023 and 2022, including supplemental special assessments, totaled approximately \$243,000 and \$324,000, respectively.

10. 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 March 28, 2023. At December 31, 2023 and 2022, the Association had \$16,855,686 and \$13,387,186, 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.

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

11. 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 \$158,000 and \$134,000 for the years ended December 31, 2023 and 2022, respectively.

12. Commitments and Contingencies

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.

13. Liquidity and Availability

The Association’s financial assets available from the Operating Fund within one year of the balance sheet date for general expenditures is as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,005,350	\$ 4,079,407
Investments	5,770,204	2,628,658
Accrued interest receivable	40,738	6,976
Accounts receivable	85,910	194,642
Royalty receivable	<u>85,500</u>	<u>168,196</u>
	<u>\$ 6,987,702</u>	<u>\$ 7,077,879</u>

Kiawah Island Community Association, Inc.**Notes to the Financial Statements****December 31, 2023****(With Summarized Financial Information as of and for the Year Ended December 31, 2022)****14. Functional Expense**

The cost of providing various programs and activities have been summarized on a functional basis below. The Association uses a direct method for recording expenses by function.

	2023		
	Program	Support	Total
General and administrative	\$ 1,667,788	\$ 2,646,150	\$ 4,313,938
Land management	2,519,793	-	2,519,793
Lakes management	403,338	-	403,338
General maintenance	825,587	-	825,587
Security – main gate	2,739,415	-	2,739,415
Mechanic's shop	217,370	-	217,370
Livability	251,053	-	251,053
Recreation operations	2,328,281	-	2,328,281
Security – second gate	72,000	133,655	205,655
Major repairs and replacements	3,926,673	-	3,926,673
Landscape – capital improvements	414,275	-	414,275
Landscape maintenance – Ocean Park neighborhood	229,877	-	229,877
Landscape maintenance – Preserve neighborhood	310,080	-	310,080
	<u>\$ 15,905,530</u>	<u>\$ 2,779,805</u>	<u>\$ 18,685,335</u>

	2022		
	Program	Support	Total
General and administrative	\$ 1,399,126	\$ 2,638,978	\$ 4,038,104
Land management	2,163,299	-	2,163,299
Lakes management	294,145	-	294,145
General maintenance	754,257	-	754,257
Security – main gate	2,550,066	-	2,550,066
Mechanic's shop	218,121	-	218,121
Livability	342,976	-	342,976
Recreation operations	1,999,259	-	1,999,259
Security – second gate	81,598	139,108	220,706
Major repairs and replacements	6,253,038	-	6,253,038
Landscape – capital improvements	230,234	-	230,234
Landscape maintenance – Ocean Park neighborhood	171,059	-	171,059
Landscape maintenance – Preserve neighborhood	159,105	-	159,105
	<u>\$ 16,616,283</u>	<u>\$ 2,778,086</u>	<u>\$ 19,394,369</u>

Kiawah Island Community Association, Inc.
Notes to the Financial Statements
December 31, 2023
(With Summarized Financial Information as of and for the Year Ended December 31, 2022)

15. Restatement of Prior Year Summarized Financial Statements

The 2022 financial statements have been restated for errors related to a) accounts receivable and deferred revenue for a special assessment where amounts were recorded upon assessment rather than as the amounts were earned and paid, b) reclassifications within fund balance based on consideration around treatment and presentation of unrealized gains (losses) on investments and, c) interfund transfers overstating total revenues and expenses between the Operating and Reserve fund presented on the statement of revenues, expenses and changes in fund balances. As a result of the error corrections above, the statement of comprehensive income has been removed as the unrealized gains (losses) on investments are now appropriately being included on the statement of revenues, expenses and changes in fund balances.

The impacts on the 2022 financial statements that were affected by the correction are as follows:

	<u>As Restated</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
Balance Sheet			
Accounts receivable	\$ 207,235	\$ 138,403	\$ 68,832
Member receivables, current	\$ -	\$ 540,566	\$ (540,566)
Total current assets	\$ 21,627,213	\$ 22,098,947	\$ (471,734)
Member receivables, net of current portion	\$ -	\$ 425,070	\$ (425,070)
Total noncurrent assets	\$ 2,741,985	\$ 3,167,055	\$ (425,070)
Total assets	\$ 24,369,198	\$ 25,266,002	\$ (896,804)
Deferred revenue, special assessments	\$ 659,575	\$ 1,556,379	\$ (896,804)
Total noncurrent liabilities	\$ 810,045	\$ 1,706,849	\$ (896,804)
Total liabilities	\$ 2,873,283	\$ 3,770,087	\$ (896,804)
Accumulated excess of revenues over expenses - Fund balance	\$ 21,495,915	\$ 22,069,784	\$ (573,869)
Accumulated other comprehensive loss	\$ -	\$ (573,869)	\$ 573,869
Total liabilities and fund balances	\$ 24,369,198	\$ 25,266,002	\$ (896,804)
Statement of Revenues, Expenses and Changes in Fund Balances			
Other income	\$ 919,208	\$ 1,434,400	\$ (515,192)
Total operating revenues	\$ 19,034,724	\$ 19,549,916	\$ (515,192)
General and administrative expenses	\$ 4,038,104	\$ 4,553,296	\$ (515,192)
Total operating expenses	\$ 19,394,369	\$ 19,909,561	\$ (515,192)
Unrealized losses on investments	\$ (588,180)	\$ -	\$ (588,180)
Total non-operating expenses	\$ (1,200,967)	\$ (612,787)	\$ (588,180)
Excess (deficit) of revenues over expenses	\$ (1,560,612)	\$ (972,432)	\$ (588,180)
Fund balance, beginning of year	\$ 23,056,527	\$ 23,042,216	\$ 14,311
Fund balance, end of year	\$ 21,495,915	\$ 22,069,784	\$ (573,869)
Statement of Cash Flows			
Excess (deficit) of revenues over expenses	\$ (1,560,612)	\$ (972,432)	\$ (588,180)
Unrealized losses on investments	\$ 588,180	\$ 525,047	\$ 63,133
Accounts receivable	\$ (32,491)	\$ (119,982)	\$ 87,491
Member assessments receivables	\$ -	\$ 636,456	\$ (636,456)
Deferred revenue – special assessments	\$ 165,423	\$ (383,542)	\$ 548,965
Net cash provided by operating activities	\$ 115,599	\$ 640,646	\$ (525,047)
Purchases of investments, net of sales	\$ (6,110,610)	\$ (19,112,147)	\$ 13,001,537
Proceeds from maturities and sales of securities	\$ -	\$ 12,476,490	\$ (12,476,490)
Net cash used by investing activities	\$ (6,367,999)	\$ (6,893,046)	\$ 525,047

Required Supplementary Information

Kiawah Island Community Association, Inc.
Required Supplementary Information on Future Major Repairs and Replacements (Unaudited)
Year Ended December 31, 2023

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 2023 and an updated with-site-visit report was issued on March 28, 2023 covering the period from January 1, 2024 to December 31, 2024. 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 2024. 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>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>Replacement Reserve Balance</u>
Site and grounds	0 to 38	\$ 5,235,590	
Asphalt roadways	0 to 14	16,433,570	
Drainage system components	0 to 38	2,639,815	
Timber bridges (vehicle)	0 to 93	13,801,200	
Main gate house	6 to 18	169,085	
Vanderhoorst Gate house	6 to 18	94,590	
Guardrails	10 to 26	249,665	
Eagle Point common areas	1 to 29	325,950	
Viewing towers	0 to 19	278,635	
Cinder Creek common areas	0 to 29	456,525	
Rhett's Bluff common areas	0 to 38	925,515	
Beachwalker center	0 to 39	1,343,920	
Maintenance area components	0 to 40	954,326	
The Sandcastle	0 to 34	1,227,090	
Family pool area	0 to 27	1,463,270	
Adult pool area	3 to 44	1,158,235	
Bar area components	14 to 24	116,000	
Sandcastle grounds	14 to 29	927,895	
Castle grill area	0 to 23	254,560	
Community docks	1 to 22	483,310	
Boardwalks	0 to 24	3,100,350	
Walking bridges	0 to 39	<u>4,249,980</u>	
		<u>\$ 55,889,076</u>	
Reserve balance as of December 31, 2023 (Cash and investments)			<u>\$ 17,275,979</u>
Amount over (under) funded			<u>\$ (38,613,097)</u>