

Financial Statements with Supplementary
Information and Independent Auditors' Report

**Daniel Island Community
Association, Inc.**

As of December 31, 2019

Daniel Island Community Association, Inc.

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Fund Balance	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information:	
Supplementary Information on Future Major Repair and Replacements	12



VANCE FLOUHOUSE & GARGES, PLLC
Certified Public Accountants and Consultants

Independent Auditors' Report

To the Board of Directors of
Daniel Island Community Association, Inc.:

We have audited the accompanying financial statements of Daniel Island Community Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Island Community Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2018 financial statements, and our report dated September 16, 2019 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, 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.

Vance Houhouse of Henges PLLC

Charlotte, North Carolina
September 11, 2020

Balance Sheet

December 31, 2019 and Summarized Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total 2019	Summarized 2018
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,395,565	\$ 42,273	\$ 1,437,838	\$ 1,161,809
Cash escrow - construction deposits	193,769	-	193,769	210,526
Investments	-	557,104	557,104	448,669
Accounts receivable, net	2,052	-	2,052	3,106
Prepaid expenses	22,093	-	22,093	20,831
Due from related parties	-	-	-	10,042
Interfund due from (due to)	(57,531)	57,531	-	-
Total current assets	<u>1,555,948</u>	<u>656,908</u>	<u>2,212,856</u>	1,854,983
Property and equipment, net	<u>19,584</u>	-	<u>19,584</u>	25,691
Total assets	<u>\$ 1,575,532</u>	<u>\$ 656,908</u>	<u>\$ 2,232,440</u>	<u>\$ 1,880,674</u>
Liabilities and fund balances				
Current liabilities:				
Accounts payable and accrued expenses	\$ 21,223	\$ -	\$ 21,223	\$ 53,138
Taxes payable	25	-	25	4,121
Construction deposits	193,000	-	193,000	209,950
Due to related parties	24,738	-	24,738	250
Prepaid assessments	859,545	-	859,545	905,663
Other deposits	-	-	-	600
Total current liabilities	<u>1,098,531</u>	-	<u>1,098,531</u>	1,173,722
Fund balances	<u>477,001</u>	<u>656,908</u>	<u>1,133,909</u>	706,952
Total Liabilities and fund balances	<u>\$ 1,575,532</u>	<u>\$ 656,908</u>	<u>\$ 2,232,440</u>	<u>\$ 1,880,674</u>

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

Statement of Revenues, Expenses, and Changes in Fund Balance

Year Ended December 31, 2019 and Summarized Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total 2019	Summarized 2018
Revenues:				
Property owner assessments	\$ 1,775,824	\$ 170,000	\$ 1,945,824	\$ 1,863,501
Capitalization assessments	8,339	-	8,339	7,737
Finance charges	8,316	-	8,316	10,490
Interest and dividend income	4,020	7,231	11,251	30,412
Realized gains (losses) on investments	-	12,224	12,224	889
Unrealized gains (losses) on investments	-	46,523	46,523	(56,333)
Other income	146,187	-	146,187	141,627
Total revenues	<u>1,942,686</u>	<u>235,978</u>	<u>2,178,664</u>	<u>1,998,323</u>
Expenses:				
Shared cost contribution	1,075,891	-	1,075,891	909,548
Landscape maintenance	83,729	-	83,729	301,476
Grounds maintenance	82,400	-	82,400	62,416
Amenity expenses	232,162	-	232,162	205,413
Bad debt expense	15,532	-	15,532	11,914
Clubhouse expense	1,318	-	1,318	1,741
Depreciation	6,107	-	6,107	6,798
Insurance	43,597	-	43,597	44,660
Lifeguard	122,358	-	122,358	111,678
Mailbox cost	29,955	-	29,955	15,654
Major repairs and replacements	-	26,286	26,286	131,452
Office expense	4,559	-	4,559	4,808
Professional services	20,968	-	20,968	15,155
Taxes	3,328	-	3,328	6,843
Utilities - common area	-	-	-	23,013
Other expenses	-	3,517	3,517	5,000
Total expenses	<u>1,721,904</u>	<u>29,803</u>	<u>1,751,707</u>	<u>1,857,569</u>
Revenues over (under) expenses	220,782	206,175	426,957	140,754
Fund balances, beginning of year	256,219	450,733	706,952	853,743
Transfer of assets to related POA	-	-	-	(287,545)
Fund balances, end of year	<u><u>\$ 477,001</u></u>	<u><u>\$ 656,908</u></u>	<u><u>\$ 1,133,909</u></u>	<u><u>\$ 706,952</u></u>

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

Statement of Cash Flows

Year Ended December 31, 2019 and Summarized Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total 2019	Summarized 2018
Cash flows from operating activities:				
Revenues over (under) expenses	\$ 220,782	\$ 206,175	\$ 426,957	\$ 140,754
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	6,107	-	6,107	6,798
Unrealized (gains) losses on investments	-	(46,523)	(46,523)	56,333
Changes in operating assets and liabilities:				
Accounts receivable	1,054	-	1,054	534
Prepaid expenses	(1,262)	-	(1,262)	(184)
Accounts payable	(31,915)	-	(31,915)	35,205
Taxes payable	(4,096)	-	(4,096)	3,190
Interfund Due to / from	60,250	(60,250)	-	-
Due to / from related parties	34,530	-	34,530	(10,769)
Prepaid assessments	(46,118)	-	(46,118)	292,355
Construction deposits	(16,950)	-	(16,950)	(50,770)
Other deposits	(600)	-	(600)	-
Net cash provided by (used in) operating activities	<u>221,782</u>	<u>99,402</u>	<u>321,184</u>	<u>473,446</u>
Cash flows from investing activities:				
Purchase of property and equipment	-	-	-	(8,314)
Sales of investments	-	45,000	45,000	42,713
Purchase of investments	-	(106,912)	(106,912)	(52,328)
Net cash provided by (used in) investing activities	<u>-</u>	<u>(61,912)</u>	<u>(61,912)</u>	<u>(17,929)</u>
Cash flows from financing activities:				
Transfer to Daniel Island Town Association	-	-	-	(38,881)
Net cash used in financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,881)</u>
Increase (decrease) in cash and cash equivalents	221,782	37,490	259,272	416,636
Cash and cash equivalents, beginning of year	<u>1,367,552</u>	<u>4,783</u>	<u>1,372,335</u>	<u>955,699</u>
Cash and cash equivalents, end of year	<u>\$ 1,589,334</u>	<u>\$ 42,273</u>	<u>\$ 1,631,607</u>	<u>\$ 1,372,335</u>
Supplemental disclosure of cash flow information:				
Income taxes paid	\$ 4,096	\$ -	\$ 4,096	\$ -
Non-cash investing and financing transactions:				
Transfer of cash and investments to related POA	-	(287,545)	(287,545)	-

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

Notes to Financial Statements

December 31, 2019

1. Organization

Daniel Island Community Association, Inc. (the Association) was formed to maintain and preserve the common property of the development. The development consists of 2,059 developed units and lots located on Daniel Island in Charleston, South Carolina of which 1,993 have been sold. At completion, the development is expected to encompass approximately 2,150 homes. The common property consists of land, playgrounds, parks, bridges, bike trails, pools, ponds, sea walls, docks, sidewalks, access roads, green belts and other infrastructure improvements.

2. Summary of Significant Accounting Policies

Fund Accounting

The Association uses fund accounting which reports activity within the operating and replacement funds separately for accounting and financial reporting purposes. Fund accounting is helpful in segregating amounts which have been designated for special use. The Associations funds are as follows:

Operating Fund - This fund is used to account for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of three months or less when purchased.

Member Assessments

Association members are subject to annual assessments to provide funds for operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and member assessments are determined and approved by the board of directors. Any excess operating funds remaining at the end of the operating year are retained for use in future operating periods.

The Association's policy is to place liens on the properties of homeowners whose assessments are delinquent more than 105 days. The Association performs ongoing evaluations of its accounts receivable and establishes an allowance for doubtful accounts based upon factors surrounding the collection of specific receivables. Accounts are charged against the allowance account as management deems them uncollectible. The allowance for doubtful accounts was approximately \$63,000 and \$48,109 as of December 31, 2019 and 2018, respectively.

Investments

Investments consist of mutual funds that hold corporate equity stocks and bonds, exchange traded funds and corporate and government bonds. The Association has adopted *ASC 958-320 Not-for-Profit Entities: Investments-Debt and Equity Securities*. Under *ASC 958-320*, investments in marketable securities with readily determinable fair values are reported at their fair values in the balance sheets. Unrealized gains and losses are included in the change in net assets.

Fair Value Measurements

The Association has estimated the fair value of its financial instruments using available market information and other valuation methodologies in accordance with *ASC 820 Fair Value Measurements and Disclosures*. Accordingly, the estimates presented are not necessarily indicative of the amount that the organization could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments, collections, and the amount to be realized. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts.

Property and Equipment

In accordance with industry standards and because its disposition by the Association's board is unlikely, common real property acquired from or donated by the developer is not recognized on the Association's financial statements. Property and equipment acquired by the Association are capitalized and recorded at cost. Replacements and improvements to common property are expensed as incurred.

Furniture and equipment are depreciated over their estimated useful lives ranging from 5 to 15 years using the straight line and accelerated depreciation methods.

Advertising

The Association expenses all advertising and promotion costs in the period the expense is incurred.

Taxes

The Association presents all tax expense and any related interest and penalties as one line on the financial statements. The Association is required to evaluate each of its tax positions to determine if they are more likely than not to be sustained if the taxing authority examines the respective position. The Association has evaluated each of its tax positions and has determined that no additional provision or liability for income taxes is necessary.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Association has evaluated subsequent events through September 11, 2020, the date the financial statements were available to be issued. During the first quarter of 2020, a coronavirus pandemic (COVID-19) emerged globally. As a result, mandates from federal, state and local authorities have led to a significant decline in economic activity and significant volatility in the investment markets. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

3. Federal and State Taxes

The Association has elected to file its income tax returns as a homeowners' association in accordance with the Internal Revenue Service Code §528 under which the Association may exclude from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment and other nonexempt income are subject to tax. Income tax expense for the year ended December 31, 2019 and 2018 was \$- and \$3,100, respectively. Income tax liability (payable) at December 31, 2019 and 2018 was \$25 and \$4,121 respectively.

4. Investments

Investments at December 31, 2019 and 2018 are summarized as follows:

	Cost	Unrealized Gains	Fair Value
<u>2019</u>			
Mutual funds	\$ 92,085	\$ 23,189	\$ 115,274
Corporate and government bonds	190,916	7,653	198,569
Long term CDs	15,000	43	15,043
Stock and exchange traded funds	181,999	46,219	228,218
	<u>\$ 480,000</u>	<u>\$ 77,104</u>	<u>\$ 557,104</u>
<u>2018</u>			
Mutual funds	\$ 44,900	\$ 19,301	\$ 64,201
Corporate and government bonds	191,178	(1,446)	189,732
Exchange traded funds	182,010	12,726	194,736
	<u>\$ 418,088</u>	<u>\$ 30,581</u>	<u>\$ 448,669</u>

5. Fair Value Measures

FASB Accounting Standards Codification ("ASC") 820 provides the framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Quoted market prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs and information other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Mutual funds and exchange traded funds: Valued at the quoted net asset value of shares held by the Association at year end.

Corporate and government bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2019 and 2018:

	Fair Value	Level 1	Level 2	Level 3
<u>2019</u>				
Mutual funds	\$ 115,274	\$ 115,274	\$ -	\$ -
Corporate and government bonds	198,569	-	198,569	-
Long term CDs	15,043	15,043	-	-
Exchange traded funds	228,218	228,218	-	-
	\$ 557,104	\$ 358,535	\$ 198,569	\$ -
<u>2018</u>				
Mutual funds	\$ 64,201	\$ 64,201	\$ -	\$ -
Corporate and government bonds	189,732	-	189,732	-
Exchange traded funds	194,736	194,736	-	-
	\$ 448,669	\$ 258,937	\$ 189,732	\$ -

6. Concentrations

Daniel Island is located in the coastal region of South Carolina, a popular vacation destination area. The members of the Association include those purchasing property for personal residential use as well as for investment or commercial/rental purposes. The Association is exposed to risks associated with conditions affecting the weather, economy, and real estate and tourism industries for the geographic region. Severe fluctuations in the above variables could have a negative effect on revenues and expenses.

From time to time, the Company has balances in excess of FDIC insured limits. The Company has not experienced any losses as a result of the balances in excess of FDIC insured limits.

One vendor provides all landscaping services for the Association. In the years 2019 and 2018 respectively, landscaping expenses were about 7% and 17% of total expenses paid by the association.

7. Property and Equipment

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 199,096	\$ 199,096
Land improvements	<u>50,441</u>	<u>50,441</u>
	249,537	249,537
Accumulated depreciation	<u>(229,953)</u>	<u>(223,846)</u>
Property and equipment, net	<u>\$ 19,584</u>	<u>\$ 25,691</u>

Depreciation expense was \$6,107 and \$6,798 for the year ended December 31, 2019 and 2018, respectively.

8. Commitments

The Association has various contracts with vendors that provide landscaping services; these contracts auto renew on an annual basis. The contracted payments are \$248,916 for 2020.

9. Related Party Transactions

The Developer may but has no obligation to make subsidies to the Association. For the year ended December 31, 2019 the Association did not receive any subsidies from the Developer. At December 31, 2019 the Developer owned 66 lots in the Association. Daniel Island Company, an entity related to the developer, provides certain administrative and accounting functions to the Association at no charge.

Certain common property maintenance expenses and costs of community-wide services beneficial to the area are shared between the Association, Daniel Island Park Association, Inc. and Daniel Island Town Association, Inc. (together, the "DI Associations"), each a related party located at Daniel Island. The boards of directors of the DI Associations establish the method for sharing the costs. For the year ended December 31, 2019 and 2018, the Association incurred shared cost expenses of \$1,075,891 and \$909,548, respectively. The Association had payables to Daniel Island Town Association, Inc. of \$24,738 and \$250 at December 31, 2019 and 2018, respectively.

10. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components and estimates of when the repairs and replacements will be needed. Accumulated replacement funds are retained in investment accounts separate from operating amounts and are generally not available for operating expenditures.

The estimates of both anticipated costs and timing of expenditures are subject to review and revision based on circumstances as they occur. Actual expenditures and investment income may vary from the estimated amounts, the variations may be material and amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments or delay replacements until funds are available.

Supplemental Information

Supplementary Information on Future Major Repair and Replacements (Unaudited)

December 31, 2019

The following table is derived from a reserve study conducted for Daniel Island Community Association, Inc. in 2019 and presents significant information regarding the components of future repairs and replacements of common property. Estimated replacements costs are based on the component's original cost, where available and do not take into account the effects of inflation between the date of the study and the date that the components will require replacement.

<u>Component/Area</u>	<u>Estimated Replacement Cost (Total)</u>	<u>Replacement Fund Balance</u>	<u>Estimated Remaining Useful Life (Years)</u>
Scott Park	\$ 255,995		1-20
Pierce Park Pool & Picnic	675,525		0-16
Bellinger Island	557,070		2-27
Edgefield Park Pool & Crow's Nest	420,970		1-22
Miscellaneous	24,000		0-1
Total	<u>\$ 1,933,560</u>	<u>\$ 656,908</u>	

See independent auditors' report.