

Financial Statements with Supplementary
Information and Independent Auditors' Report

Daniel Island Community
Association, Inc.

As of December 31, 2020 and 2019

Daniel Island Community Association, Inc.

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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, 2020, 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, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2019 financial statements, and our report dated September 11, 2020 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, 2019, 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 Houkover & Dwyer PLLC

Charlotte, North Carolina
May 10, 2021

Balance Sheet

December 31, 2020 and Summarized 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total 2020</u>	<u>Summarized 2019</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,344,285	\$ 47,203	\$ 1,391,488	\$ 1,437,838
Cash escrow - construction deposits	143,688	-	143,688	193,769
Investments	-	730,952	730,952	557,104
Accounts receivable, net	3,857	-	3,857	2,052
Prepaid expenses	33,171	-	33,171	22,093
Due from related parties	179,450	-	179,450	-
Total current assets	<u>1,704,451</u>	<u>778,155</u>	<u>2,482,606</u>	<u>2,212,856</u>
Property and equipment, net	<u>43,818</u>	<u>-</u>	<u>43,818</u>	<u>19,584</u>
Total assets	<u>\$ 1,748,269</u>	<u>\$ 778,155</u>	<u>\$ 2,526,424</u>	<u>\$ 2,232,440</u>
Liabilities and fund balances				
Current liabilities:				
Accounts payable and accrued expenses	\$ 18,880	\$ -	\$ 18,880	\$ 21,223
Prepaid assessments	934,264	-	934,264	859,545
Construction deposits	143,750	-	143,750	193,000
Due to related parties	-	-	-	24,738
Taxes payable	-	-	-	25
Total current liabilities	<u>1,096,894</u>	<u>-</u>	<u>1,096,894</u>	<u>1,098,531</u>
Fund balances	<u>651,375</u>	<u>778,155</u>	<u>1,429,530</u>	<u>1,133,909</u>
Total liabilities and fund balances	<u>\$ 1,748,269</u>	<u>\$ 778,155</u>	<u>\$ 2,526,424</u>	<u>\$ 2,232,440</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, 2020 and Summarized 2019

	Operating Fund	Replacement Fund	Total 2020	Summarized 2019
Revenues:				
Property owner assessments	\$ 1,808,912	\$ 100,000	\$ 1,908,912	\$ 1,889,598
Capitalization assessments	4,266	-	4,266	8,339
Lot maintenance	4,816	-	4,816	6,013
Finance charges	10,388	-	10,388	8,316
Interest and dividend income	3,177	17,175	20,352	11,252
Realized gains (losses) on investments	-	4,175	4,175	12,224
Unrealized gains (losses) on investments	-	21,312	21,312	46,523
Other income	234,152	-	234,152	196,398
Total revenues	<u>2,065,711</u>	<u>142,662</u>	<u>2,208,373</u>	<u>2,178,663</u>
Expenses:				
Shared cost contribution	1,108,431	-	1,108,431	1,075,891
Landscape and grounds maintenance	138,656	-	138,656	166,128
Administrative	6,336	-	6,336	4,559
Amenity expenses	216,741	-	216,741	232,162
Bad debt expense	28,977	-	28,977	15,532
Contributions	769	-	769	-
Depreciation	11,221	-	11,221	6,107
Insurance	45,757	-	45,757	44,694
Interest expense	-	-	-	221
Lifeguard	149,246	-	149,246	122,358
Mailbox cost	127,510	-	127,510	29,955
Major repairs and replacements	-	52,514	52,514	26,286
Professional services	18,462	-	18,462	20,968
Taxes	3,547	-	3,547	3,328
Other expenses	-	4,585	4,585	3,517
Total expenses	<u>1,855,653</u>	<u>57,099</u>	<u>1,912,752</u>	<u>1,751,706</u>
Revenues over (under) expenses	210,058	85,563	295,621	426,957
Fund balances, beginning of year	477,001	656,908	1,133,909	706,952
Transfers between funds	(35,684)	35,684	-	-
Fund balances, end of year	<u>\$ 651,375</u>	<u>\$ 778,155</u>	<u>\$ 1,429,530</u>	<u>\$ 1,133,909</u>

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

Statement of Cash Flows

Year Ended December 31, 2020 and Summarized 2019

	Operating Fund	Replacement Fund	Total 2020	Summarized 2019
Cash flows from operating activities:				
Revenues over (under) expenses	\$ 210,058	\$ 85,563	\$ 295,621	\$ 426,957
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	11,221	-	11,221	6,107
Unrealized (gains) losses on investments	-	(21,312)	(21,312)	(46,523)
Changes in operating assets and liabilities:				
Accounts receivable	(1,805)	-	(1,805)	1,054
Prepaid expenses	(11,078)	-	(11,078)	(1,262)
Due from related parties	(179,450)	-	(179,450)	10,042
Accounts payable	(2,343)	-	(2,343)	(31,915)
Prepaid assessments	74,719	-	74,719	(46,118)
Construction deposits	(49,250)	-	(49,250)	(16,950)
Interfund Due to / from	(57,531)	57,531	-	-
Due to related parties	(24,738)	-	(24,738)	24,488
Taxes payable	(25)	-	(25)	(4,096)
Other deposits	-	-	-	(600)
Net cash provided by (used in) operating activities	<u>(30,222)</u>	<u>121,782</u>	<u>91,560</u>	<u>321,184</u>
Cash flows from investing activities:				
Purchase of property and equipment	(35,455)	-	(35,455)	-
Sales of investments	-	99,237	99,237	45,000
Purchase of investments	-	(251,773)	(251,773)	(106,912)
Net cash provided by (used in) investing activities	<u>(35,455)</u>	<u>(152,536)</u>	<u>(187,991)</u>	<u>(61,912)</u>
Cash flows from financing activities:				
Transfers between funds	(35,684)	35,684	-	-
Net cash used in financing activities	<u>(35,684)</u>	<u>35,684</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(101,361)	4,930	(96,431)	259,272
Cash and cash equivalents, beginning of year	<u>1,589,334</u>	<u>42,273</u>	<u>1,631,607</u>	<u>1,372,335</u>
Cash and cash equivalents, end of year	<u>\$ 1,487,973</u>	<u>\$ 47,203</u>	<u>\$ 1,535,176</u>	<u>\$ 1,631,607</u>
Supplemental disclosure of cash flow information:				
Income taxes paid	\$ 25	\$ -	\$ 25	\$ 4,186

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

Notes to Financial Statements

December 31, 2020

1. Organization

Daniel Island Community Association, Inc. (the Association) was formed as a property owners' association to maintain and preserve the common property of the development. The development consists of 2,088 developed units and lots located on Daniel Island in Charleston, South Carolina of which 2,044 have been sold. At completion, the development is expected to encompass approximately 2,098 homes. The common property consists of land, playgrounds, parks, bridges, bike trails, 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 delinquent assessments of 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 \$87,000 and \$63,263 as of December 31, 2020 and 2019, 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.

Property 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.

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.

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.

Subsequent Events

The Association has evaluated subsequent events through May 10, 2021, the date the financial statements were available to be issued.

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, 2020 and 2019 was \$- and \$-, respectively.

4. Investments

Investments at December 31, 2020 and 2019 are summarized as follows:

	Cost	Unrealized Gains (losses)	Fair Value
<u>2020</u>			
Mutual funds and exchange traded funds	\$ 372,812	\$ 80,734	\$ 453,546
Corporate and government bonds	208,670	14,377	223,047
Preferred stocks	51,055	3,304	54,359
	<u>\$ 632,537</u>	<u>\$ 98,415</u>	<u>\$ 730,952</u>
<u>2019</u>			
Mutual funds and exchange traded funds	\$ 274,084	\$ 69,408	\$ 343,492
Corporate and government bonds	150,353	4,951	155,304
Preferred stocks	40,564	2,701	43,265
Long term CDs	15,000	43	15,043
	<u>\$ 480,001</u>	<u>\$ 77,103</u>	<u>\$ 557,104</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, 2020 and 2019.

Mutual funds, exchange traded funds and preferred stocks: 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.

Long Term CDS: Valued based on a discount rate from the face value of the CD.

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, 2020 and 2019:

	Fair Value	Level 1	Level 2	Level 3
<u>2020</u>				
Mutual funds and exchange traded funds	\$ 453,546	\$ 453,546	\$ -	\$ -
Corporate and government bonds	223,047	-	223,047	-
Preferred stocks	54,359	54,359	-	-
	<u>\$ 730,952</u>	<u>\$ 507,905</u>	<u>\$ 223,047</u>	<u>\$ -</u>
<u>2019</u>				
Mutual funds and exchange traded funds	\$ 343,492	\$ 343,492	\$ -	\$ -
Corporate and government bonds	155,304	-	155,304	-
Preferred stocks	43,265	43,265	-	-
Long term CDs	15,043	15,043	-	-
	<u>\$ 557,104</u>	<u>\$ 401,800</u>	<u>\$ 155,304</u>	<u>\$ -</u>

6. Property and Equipment

Property and equipment consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 232,919	\$ 199,096
Land improvements	50,441	50,441
	<u>283,360</u>	<u>249,537</u>
Accumulated depreciation	<u>(239,542)</u>	<u>(229,953)</u>
Property and equipment, net	<u>\$ 43,818</u>	<u>\$ 19,584</u>

7. 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 Association has cash 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. At December 31, 2020, the balance of funds in excess of FDIC insured limit of \$250,000 was approximately \$10,000.

One vendor currently provides all the landscaping for each of the three Daniel Island Associations. As stated in Note 9, certain common maintenance expenses are shared by the DI Associations. These expenses are charged to Daniel Island Town Association, Inc (DITA) and allocated to the other Associations via the Shared Cost process. Consequently, a major portion of the actual maintenance expenses for Daniel Island Community Association, Inc and Daniel Island Park Association, Inc are included in their shared cost contribution. In the aggregate, the fees involved for all the DI Associations are approximately \$1,400,000 or 43% of the total DI Association Operating Expenses for 2020 and \$1,200,000 or 31% of the total DI Association Operating Expenses for 2019.

8. Commitments

The Association has various contracts with vendors that provide landscaping services; these contracts auto renew on an annual basis. The contracted payments subsequent to December 31, 2020 are as follows:

2021	\$	271,911
2022		256,711
2023		103,162

9. Related Party Transactions

The Developer may but has no obligation to make subsidies to the Association. For the years ended December 31, 2020 and 2019 the Association did not receive any subsidies from the Developer. At December 31, 2020 the Developer owned 44 lots in the Association.

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"). The shared costs are paid by Daniel Island Town Association, Inc (DITA). Each association is a related party located on Daniel Island. The boards of directors of the DI Associations establish the method for sharing the costs which are reimbursed to DITA, by the other two associations for their proportionate share of the costs. For the year ended December 31, 2020 and 2019, the Association incurred shared cost expenses of \$1,108,431 and \$1,075,891, respectively.

The due from and due to related parties on the balance sheet are with the other two DI Associations.

For its primary legal counsel, the DI Associations use a law firm at which a board member is a partner. For the year ended December 31, 2020, total legal fees paid to this law firm across all three DI Associations were \$49,000.

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.

Supplementary Information

Supplementary Information on Future Major Repair and Replacements (Unaudited)

December 31, 2020

The following table is derived from a reserve study conducted for Daniel Island Community Association, Inc. in 2020 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. The current rate of inflation is 3%.

<u>Component/Area</u>	<u>Estimated Replacement Cost (Total)</u>	<u>Replacement Fund Balance</u>	<u>Estimated Remaining Useful Life (Years)</u>
Scott Park	\$ 265,610		0-24
Pierce Park Pool & Picnic	731,270		0-29
Bellinger Island	580,840		3-26
Edgefield Park Pool & Crow's Nest	471,485		0-26
Miscellaneous	25,400		0-1
Total	<u>\$ 2,074,605</u>	<u>\$ 778,155</u>	

See independent auditors' report.