

Financial Statements with Supplementary  
Information and Independent Auditors' Report

**Daniel Island Community  
Association, Inc.**

As of December 31, 2017

**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 sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years 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 audits. We conducted our audits 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, 2017, 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, 2016 financial statements, and our report dated September 13, 2017 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, 2016, 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 Zouhouse of Hayes PLLC*

Charlotte, North Carolina  
August 14, 2018

**Balance Sheet**

December 31, 2017 and Summarized Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total 2017</u>	<u>Summarized 2016</u>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 666,304	\$ 28,247	\$ 694,551	\$ 862,000
Cash escrow - construction deposits	261,148	-	261,148	387,247
Investments	-	744,051	744,051	754,663
Accounts receivable, net	3,640	-	3,640	1,722
Prepaid expenses	20,647	-	20,647	22,887
Due from related parties	-	-	-	105
Interfund due from (due to)	76,267	(76,267)	-	-
Total current assets	<u>1,028,006</u>	<u>696,031</u>	<u>1,724,037</u>	<u>2,028,624</u>
<b>Property and equipment, net</b>	<u>24,173</u>	<u>-</u>	<u>24,173</u>	<u>27,035</u>
<b>Total assets</b>	<u>\$ 1,052,179</u>	<u>\$ 696,031</u>	<u>\$ 1,748,210</u>	<u>\$ 2,055,659</u>
<b>Liabilities and fund balances</b>				
<b>Current liabilities:</b>				
Accounts payable & accrued expenses	\$ 17,933	\$ -	\$ 17,933	\$ 66,548
Taxes payable	931	-	931	7,233
Construction deposits	260,720	-	260,720	386,100
Due to related parties	977	-	977	422
Prepaid assessments	613,308	-	613,308	536,063
Other deposits	600	-	600	600
Total current liabilities	<u>894,469</u>	<u>-</u>	<u>894,469</u>	<u>996,966</u>
<b>Fund balances</b>	<u>157,710</u>	<u>696,031</u>	<u>853,741</u>	<u>1,058,693</u>
<b>Total Liabilities and fund balances</b>	<u>\$ 1,052,179</u>	<u>\$ 696,031</u>	<u>\$ 1,748,210</u>	<u>\$ 2,055,659</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, 2017 and Summarized Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total 2017	Summarized 2016
<b>Revenues:</b>				
Property owner assessments	\$ 1,798,128	\$ 75,000	\$ 1,873,128	\$ 1,811,846
Capitalization assessments	6,675	-	6,675	5,750
Finance charges	10,459	-	10,459	9,417
Interest and dividend income	1,059	15,924	16,983	19,949
Realized gains (losses) on investments	-	18,778	18,778	(11,918)
Unrealized gains (losses) on investments	-	25,271	25,271	36,311
Other income	128,748	-	128,748	140,343
Total revenues	<u>1,945,069</u>	<u>134,973</u>	<u>2,080,042</u>	<u>2,011,698</u>
<b>Expenses:</b>				
Advertising	-	-	-	-
Bad debt expense	16,319	-	16,319	18,947
Contributions	-	-	-	547
Depreciation	17,611	-	17,611	17,292
Grounds maintenance	126,845	-	126,845	123,248
Insurance	42,569	-	42,569	37,282
Landscape maintenance	558,254	-	558,254	525,573
Lifeguard	113,494	-	113,494	68,616
Mailbox cost	22,104	-	22,104	18,964
Major repairs and replacements	-	351,266	351,266	86,136
Office expense	3,169	-	3,169	3,224
Pool and amenity expenses	159,057	-	159,057	269,707
Professional services	12,631	-	12,631	12,948
Shared cost contribution	717,449	-	717,449	648,842
Taxes	4,935	-	4,935	10,806
Utilities - common area	47,748	-	47,748	47,232
Other expenses	-	5,836	5,836	6,554
Total expenses	<u>1,842,185</u>	<u>357,102</u>	<u>2,199,287</u>	<u>1,895,918</u>
<b>Revenues over (under) expenses</b>	<b>102,884</b>	<b>(222,129)</b>	<b>(119,245)</b>	<b>115,780</b>
Fund balances, beginning of year	54,826	1,003,867	1,058,693	942,913
Transfer of assets to Town Association	-	(85,707)	(85,707)	-
<b>Fund balances, end of year</b>	<u><u>\$ 157,710</u></u>	<u><u>\$ 696,031</u></u>	<u><u>\$ 853,741</u></u>	<u><u>\$ 1,058,693</u></u>

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

## Statement of Cash Flows

Year Ended December 31, 2017 and Summarized Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total 2017	Summarized 2016
<b>Cash flows from operating activities:</b>				
Revenues over (under) expenses	\$ 102,884	\$ (222,129)	\$ (119,245)	\$ 115,780
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	17,611	-	17,611	17,292
Unrealized losses on investments	-	(25,271)	(25,271)	(36,311)
Changes in operating assets and liabilities:				
Accounts receivable	(1,918)	-	(1,918)	1,340
Prepaid expenses	2,240	-	2,240	(5,634)
Taxes receivable	-	-	-	8,248
Accounts payable	(48,615)	-	(48,615)	49,549
Taxes payable	(6,302)	-	(6,302)	7,233
Interfund due from / due to	(175,131)	175,131	-	-
Due to / from related parties	660	-	660	(21,002)
Prepaid assessments	77,245	-	77,245	(135,177)
Construction deposits	(125,380)	-	(125,380)	4,100
Other deposits	-	-	-	(1,500)
Net cash provided by (used in) operating activities	<u>(156,706)</u>	<u>(72,269)</u>	<u>(228,975)</u>	<u>3,918</u>
<b>Cash flows from investing activities:</b>				
Purchase of property and equipment	(14,749)	-	(14,749)	(16,521)
Sales of investments	-	112,177	112,177	123,159
Purchase of investments	-	(76,294)	(76,294)	(150,903)
Net cash used in investing activities	<u>(14,749)</u>	<u>35,883</u>	<u>21,134</u>	<u>(44,265)</u>
<b>Cash flows from financing activities:</b>				
Transfer to Daniel Island Town Association	-	(85,707)	(85,707)	-
Net cash used in financing activities	<u>-</u>	<u>(85,707)</u>	<u>(85,707)</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(171,455)</b>	<b>(122,093)</b>	<b>(293,548)</b>	<b>(40,347)</b>
Cash and cash equivalents, beginning of year	<u>1,098,907</u>	<u>150,340</u>	<u>1,249,247</u>	<u>1,289,594</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 927,452</u></b>	<b><u>\$ 28,247</u></b>	<b><u>\$ 955,699</u></b>	<b><u>\$ 1,249,247</u></b>
Supplemental disclosure of cash flow information:				
Income taxes paid	<u>\$ 7,262</u>	<u>\$ -</u>	<u>\$ 7,262</u>	<u>\$ 25</u>

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

**Notes to Financial Statements**

December 31, 2017

**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 1,992 developed units and lots located on Daniel Island in Charleston, South Carolina of which 1,949 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 \$51,000 and \$50,254 as of December 31, 2017 and 2016, respectively.

Investments

Investments consist of mutual funds that hold corporate equity stocks and bonds, electronic transfer 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.

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 August 14, 2018, 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, 2017 and 2016 was \$670 and \$670, respectively. Income tax liability (receivable) at December 31, 2017 and 2016 was \$931 and \$7,233 respectively.

#### 4. Investments

Investments at December 31, 2017 and 2016 are summarized as follows:

	Cost	Unrealized Gains	Fair Value
	<u>          </u>	<u>          </u>	<u>          </u>
<u>2017</u>			
Mutual funds	\$ 149,906	\$ 59,814	\$ 209,720
Corporate and government bonds	265,917	4,173	270,090
Stock and electronic transfer funds	<u>241,315</u>	<u>22,926</u>	<u>264,241</u>
	<u>\$ 657,138</u>	<u>\$ 86,913</u>	<u>\$ 744,051</u>
<u>2016</u>			
Mutual funds	\$ 150,841	\$ 44,561	\$ 195,402
Corporate and government bonds	316,067	851	316,918
Electronic transfer funds	<u>242,554</u>	<u>(211)</u>	<u>242,343</u>
	<u>\$ 709,462</u>	<u>\$ 45,201</u>	<u>\$ 754,663</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, 2017 and 2016.

*Mutual funds and electronic transfer 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, 2017 and 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2017</u>				
Mutual funds	\$ 209,720	\$ 209,720	\$ -	\$ -
Corporate and government bonds	270,090	-	270,090	-
Electronic transfer funds	<u>264,241</u>	<u>264,241</u>	-	-
	<u>\$ 744,051</u>	<u>\$ 473,961</u>	<u>\$ 270,090</u>	<u>\$ -</u>
<u>2016</u>				
Mutual funds	\$ 195,403	\$ 195,403	\$ -	\$ -
Corporate and government bonds	316,918	-	316,918	-
Electronic transfer funds	<u>242,343</u>	<u>242,343</u>	-	-
	<u>\$ 754,664</u>	<u>\$ 437,746</u>	<u>\$ 316,918</u>	<u>\$ -</u>

## 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 2017 and 2016 respectively, landscaping expenses were about 27% and 28% of total expenses paid by the association.

## 7. Property and Equipment

Property and equipment consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 204,063	\$ 198,438
Computer software	-	-
Land improvements	<u>42,125</u>	<u>33,001</u>
	<b>246,188</b>	231,439
Accumulated depreciation	<u>(222,015)</u>	<u>(204,404)</u>
Property and equipment, net	<u><u>\$ 24,173</u></u>	<u><u>\$ 27,035</u></u>

Depreciation expense was \$17,611 and \$17,292 for the year ended December 31, 2017 and 2016, 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 due during 2018 are \$569,674.

## 9. Related Party Transactions

The Developer may, but has no obligation to make subsidies to the Association. For the year ended December 31, 2017 the Association did not receive any subsidies from the Developer. At December 31, 2017 the Developer owned 43 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, 2017 and 2016, the Association incurred shared cost expenses of \$717,449 and \$717,449, respectively. The Association had payables to Daniel Island Town Association, Inc. of \$977 and \$422 at December 31, 2017 and 2016 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 bank 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, 2017

The following table is derived from a reserve study conducted for Daniel Island Community Association, Inc. in 2017 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>
Gibbon Streek Park	\$ 22,000		0
Scott Park	229,000		0-22
Pierce Pool	496,050		0-16
Pierce Picnic	142,600		1-16
Central Park	76,000		7-17
Codners Park	35,900		1-14
Smythe Park	257,000		9-29
Bellinger Island	64,350		0-29
Barfield Park	18,850		4-14
Willtown Park	28,900		2-16
Mitchell Pier Treehouse	60,000		7
Village Crossing Trail	15,000		19
Edgefield Park Pool	173,000		4-24
Edgefield Crow's Nest	96,500		6-29
Miscellaneous	22,550		0-1
Total	<u>\$ 1,737,700</u>	<u>\$ 696,031</u>	

See independent auditors' report.