Financial Statements with Supplementary Information and Independent Auditors’ Report

Daniel Island Town Association, Inc.

As of December 31, 2017 and 2016

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VANCE FLOUHOUSE & GARGES, PLLC
Certified Public Accountants and Consultants

Independent Auditors' Report

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

We have audited the accompanying financial statements of Daniel Island Town 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 Town Association, Inc. as of December 31, 2017 and the results of its operations and its cash flows for the years 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 Flouhouse & Gerges PLLC

Charlotte, North Carolina
August 14, 2018

Balance Sheet

December 31, 2017 and Summarized 2016

	Operating Fund	Replacement Fund	Total 2017	Summarized 2016
Assets				
Current assets:				
Cash and cash equivalents	$ 168,896	$ 60,989	$ 229,885	$ 302,056
Cash escrow - construction deposits	699,577	-	699,577	597,197
Investments	-	704,344	704,344	451,019
Accounts receivable, net	30,847	-	30,847	31,341
Prepaid expenses	11,706	-	11,706	10,238
Due from related parties	1,451	-	1,451	1,840
Interfund due from (due to)	(145)	145	-	-
Total current assets	912,332	765,478	1,677,810	1,393,691
Property and equipment, net	413,321	-	413,321	436,278
Total assets	$ 1,325,653	$ 765,478	$ 2,091,131	1,829,969
Liabilities and fund balances				
Current liabilities:				
Accounts payable & accrued expenses	$ 51,012	$ -	$ 51,012	77,382
Taxes payble	7,213	-	7,213	-
Note Payable, current	32,675	-	32,675	31,241
Construction deposits	699,079	-	699,079	596,872
Prepaid assessments	126,424	-	126,424	69,178
Total current liabilities	916,403	-	916,403	774,673
Note payable, net	126,124	-	126,124	158,644
Total libilities	1,042,527	-	1,042,527	933,317
Fund balances	283,126	765,478	1,048,604	896,652
Total Liabilities and fund balances	$ 1,325,653	$ 765,478	$ 2,091,131	$ 1,829,969

Statement of Revenues, Expenses, and Changes in Fund Balance

Year Ended December 31, 2017 and Summarized 2016

	Operating Fund	Replacement Fund	Total 2017	Summarized 2016
Revenues:				
Property owner assessments	$ 348,607	$ 145,000	$ 493,607	$ 484,791
Capitalization assessments	1,480	-	1,480	3,179
Finance charges	3,552	-	3,552	1,319
Interest and dividend income	562	15,666	16,228	3,613
Realized gains (losses) on investments	-	2,720	2,720	(1,491)
Unrealized gains (losses) on investments	-	36,374	36,374	24,381
Project management income	148,473	-	148,473	80,400
Architectural review board fees	118,282	-	118,282	191,777
Other income	15,851	-	15,851	62,320
Shared costs contributions	1,070,794	-	1,070,794	915,505
Total revenues	1,707,601	199,760	1,907,361	1,765,794
Expenses:				
Salaries and wages	755,767	-	755,767	757,284
Employee benefits	75,778	-	75,778	63,759
Advertising	7,595	-	7,595	2,247
ARB consulting	24,149	-	24,149	43,267
Contributions	500	-	500	685
Depreciation	28,612	-	28,612	28,579
Grounds maintenance	172,341	-	172,341	158,734
Insurance	23,177	-	23,177	25,301
Interest expense	8,018	-	8,018	9,425
Landscape maintenance	246,461	-	246,461	248,563
Major repairs and replacements	-	155,380	155,380	40,174
Meals and entertainment	2,014	-	2,014	5,224
Office expense	103,918	-	103,918	139,658
Pool and amenity expenses	4,861	-	4,861	1,172
Professional services	58,205	-	58,205	11,409
Taxes	67,742	-	67,742	64,554
Travel	22,361	-	22,361	16,866
Utilities - common area	76,160	-	76,160	71,972
Other expenses	3,444	4,632	8,076	6,980
Total expenses	1,681,103	160,012	1,841,115	1,705,054
Revenues over (under) expenses	26,498	39,748	66,246	60,740
Fund balances, beginning of year	256,628	640,024	896,652	835,912
Transfer from related party HOA	-	85,706	85,706	-
Fund balances, end of year	$ 283,126	$ 765,478	$ 1,048,604	$ 896,652

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

Statement of Cash Flows

Year Ended December 31, 2017 and Summarized 2016

	Operating Fund	Replacement Fund	Total 2017	Summarized 2016
Cash flows from operating activities:				
Revenues over (under) expenses	$ 26,498	$ 39,748	$ 66,246	$ 60,740
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:				
Depreciation	28,612	-	28,612	28,579
Gains on investments	-	(36,374)	(36,374)	(24,381)
Changes in operating assets and liabilities:				
Accounts receivable	494	-	494	(5,806)
Other receivable	-	-	-	14,907
Prepaid expenses	(1,468)	-	(1,468)	3,153
Due from related parties	389	-	389	18,029
Interfund due from / due to	(37,556)	37,556	-	-
Accounts payable	(26,370)	-	(26,370)	55,671
Taxes payable	7,213	-	7,213	-
Due to related parties	-	-	-	(165)
Prepaid assessments	57,246	-	57,246	(58,452)
Construction deposits	102,207	-	102,207	79,544
Net cash provided by (used in) operating activities	157,265	40,930	198,195	171,819
Cash flows from investing activities:				
Purchase of property and equipment	(5,655)	-	(5,655)	(25,919)
Sale of investments	-	25,000	25,000	68,980
Purchase of investments	-	(241,951)	(241,951)	(127,041)
Net cash used in investing activities	(5,655)	(216,951)	(222,606)	(83,980)
Cash flows from financing activities:				
Principal payments on note payable	(31,086)	-	(31,086)	(29,678)
Transfer from related party HOA	-	85,706	85,706	-
Transfers between funds	-		-	-
Net cash provided by (used in) financing activities	(31,086)	85,706	54,620	(29,678)
Increase in cash and cash equivalents	120,524	(90,315)	30,209	58,161
Cash and cash equivalents, beginning of year	747,949	151,304	899,253	841,092
Cash and cash equivalents, end of year	$ 868,473	$ 60,989	$ 929,462	$ 899,253
Supplemental disclosures of cash flow information:				
Interest paid	$ 8,018	$ -	$ 8,018	$ 9,425
Income taxes paid	25	-	25	-

Notes to Financial Statements

December 31, 2017

1. Organization

Daniel Island Town 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 530 acres located on Daniel Island in Charleston, South Carolina of which 355 acres have been developed. 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.

Before the beginning of each fiscal year, the Board prepares a budget for the estimated common expenses of the Association during the coming year, including capital contributions in accordance with reserve fund budgets prepared under the Declaration of Covenants, Conditions and Restrictions. Once approved, the total estimated expenses for the year are then assessed to each Unit based the following board approved formula:

Each Unit is assigned one point for each 10,000 square feet of land and one point for each 3,000 square feet of gross floor area within buildings. The total land points and building points for each Unit are then multiplied by a benefit factor as shown below resulting in Assessment Points for the Unit. The budgeted expenses are then allocated for assessment to each Unit ratably based on Unit Assessment Points.

Land Classification	**Benefit Factor**
Commerical Retail	2.0
Village Center Retail	1.5
Office/Campus/Civic	1.0
Multifamily	1.5

The Association's policy is to place liens on the properties with delinquent assessments over 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. There was no allowance at December 31, 2017 and 2016.

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.

Property and equipment are depreciated over their estimated useful lives ranging from 3 to 39 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.

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 $2,965 and $-, respectively. Income tax liability (receivable) for the year ended December 31, 2017 and 2016 was $7,213 and $-, respectively.

4. Investments

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

	Cost	Unrealized Gains	Fair Value
2017			
Mutual funds	$ 84,306	$ 33,076	$ 117,382
Corporate and government bonds	277,120	3,003	280,123
Corporate Stock and Electronic transfer funds	276,223	30,616	306,839
	$ 637,649	$ 66,695	$ 704,344
2016			
Mutual funds	$ 84,306	$ 24,232	$ 108,538
Corporate and government bonds	174,049	552	174,601
Electronic transfer funds	162,344	5,536	167,880
	$ 420,699	$ 30,320	$ 451,019

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, corporate stock, 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:

	Fair Value	Level 1	Level 2	Level 3
2017				
Mutual funds	**$ 117,382**	**$ 117,382**	**$ -**	**$ -**
Corporate and government bonds	**280,123**	**-**	**280,123**	**-**
Electronic transfer funds	**306,839**	**306,839**	**-**	**-**
	$ 704,344	**$ 424,221**	**$ 280,123**	**$ -**
2016				
Mutual funds	$ 108,538	$ 108,538	$ -	$ -
Corporate and government bonds	174,601	-	174,601	-
Electronic transfer funds	167,880	167,880	-	-
	$ 451,019	$ 276,418	$ 174,601	$ -

6. Property and Equipment

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

	2017	2016
Furniture and equipment	$ 176,856	$ 175,872
Computer software and equipment	103,737	106,781
Vehicles	62,396	62,396
Buildings and improvements	544,375	544,375
Land improvements	15,579	15,579
	902,943	905,003
Accumulated depreciation	(489,622)	(468,725)
Property and equipment, net	$ 413,321	$ 436,278

Depreciation expense was $28,612 and $28,579 for the years ended December 31, 2017 and 2016, respectively.

7. Common Property Leases

The Association has leased from the City of Charleston a 52.23 acre tract of land known as "South End Property." The lease is a 30 year term with consideration of $100 paid at the start of the term with two possible ten-year extensions. The Association has subsequently subleased the same tract of land at no charge to a non-profit foundation for use as practice fields for soccer teams. This sublease commenced on January 1, 2018 for a 5 year term and will automatically renew for up to four successive five-year terms.

8. Note Payable

In June of 2012, the Association obtained note which is collateralized by the real estate where the Association's offices are located. The note matures on June 12, 2022 and calls for monthly payments of $3,259 including interest at 4.5%. Loan costs are amortized and reported net with the loan on the balance sheet. Maturities over the next 5 years are as follows:

2018	$ 32,675
2019	34,177
2020	35,747
2021	37,390
2022	18,810
Total	$ 158,799

9. Employee Retirement Plan

The Association administers a defined contribution retirement plan for the benefit of all employee who meet the minimum ate (21) and length of service (1 year) requirements. The plan is a safe harbor plan with employer matching contributions of 100% of the first 3% and then 50% of the next 2%. For the year ending December 31, 2017 and 2016, the total employer match was $20,002 and $18,849, respectively.

10. Concentrations

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, 2017, the balance of funds in excess of FDIC insured limit of $250,000 was approximately $507,000.

One vendor provides all landscaping services for the Association. In the years 2017 and 2016, landscaping expenses were about 20% and 15% of total expenses paid by the association, respectively.

11. Commitments

The Association has various contracts with vendors that provide landscaping services with a majority of these contracts auto renewing on an annual basis. The contracted payments subsequent to December 31, 2017 are as follows.

2018	$ 275,214
2019	3,930
2020	3,930
Total	$ 279,144

12. Related Party Transactions

The Developer may, but has no obligation to make subsidies to the Association. For the years ended December 31, 2017 and 2016, the Association did not receive any subsidies from the Developer. At December 31, 2017 the Developer owned 224 acres 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 Community Association, Inc. (together, the "DI Associations"). The shared costs are paid by the Association. 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 and the other two associations reimburses the Association for their proportionate share of costs. For the years ended December 31, 2017 and 2016, the Association received shared cost revenue of $1,070,794 and $915,505.

The Association also provides project management services to other developments related to the Developer and Daniel Island Company. For the years ended December 31, 2017 and 2016, the income from these services was $148,473 and $80,400 and related Architectural Review fees was $- and $36,325, respectively.

The payables and receivables to/from related parties at December 31, 2017 and 2016 are as follows:

	2017	2016
Daniel Island Community Fund	$ -	$ 22
Daniel Island Park Association	473	176
Daniel Island Community Association	977	1,642

13. 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.

Supplementary 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 Town Association, Inc. in 2017 and presents significant information regarding the components of future repairs and replacements of common property. Estimated replacement 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.

Component/Area	Estimated Replacement Cost (Total)	Replacement Fund Balance	Estimated Remaining Useful Life (Years)
Simmons Park	$ 23,400		12-13
Guggenheim Park	21,450		12-16
Trail System	1,542,850		0-29
200 River Landing Drive	35,000		3-9
Commemorative Park	18,000		14-29
Miscellaneous	175,600		0-17
Total	$ 1,816,300	$ 765,478	