Community Services Associates, Inc.

Report on Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

Contents

elliott davis

Independent Auditor's Report

To the Board of Directors
Community Services Associates, Inc.
Hilton Head Island, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Community Services Associates, Inc. (the "Association"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of revenues and expenses, changes in fund balances and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

As more fully described in Note 2 to the consolidated financial statements, the Association has elected not to consolidate two affiliates. Accounting principles generally accepted in the United States of America require that these two related parties be consolidated due to the level of control exercised over them and their overall economic dependency on the Association. The effect of this departure on the Association's consolidated financial position, results of operations and cash flows has not been determined.

Qualified Opinion

In our opinion, except for the effects of not consolidating two affiliates as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Services Associates, Inc. as of December 31, 2019 and 2018 and the changes in its fund balances and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 21 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic consolidated 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Elliott Davis, LLC

Charleston, South Carolina
June 16, 2020

Community Services Associates, Inc.

Consolidated Balance Sheets

As of December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and Cash Equivalents	$ 579,808	$ 675,575
Investments, at Fair Value	9,775,728	9,521,985
Due from Property Owners, Net of Allowance for Uncollectible Assessments of $48,169 in 2019 and $33,869 in 2018	73,753	51,626
Due from Related Parties	157,142	202,383
Other Receivables	-	11,434
Prepaid Expenses and Deposits	-	116,349
Total Current Assets	10,586,431	10,579,352
Property and Equipment, Net	9,015,232	8,572,542
Right of Use Asset	223,771	-
Total Assets	$ 19,825,434	$ 19,151,894
Liabilities and Fund Balances		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 598,031	$ 660,279
Retainage Payable	29,949	147,271
Accrued Payroll and Related Benefits	358,348	354,670
Due to Related Parties	-	122,748
Due to Property Owners	493,547	-
Operating Lease Liability	73,132	-
Deferred Revenue	189,372	339,726
Special Assessment Deferred Revenue	-	926,239
Total Current Liabilities	1,742,379	2,550,933
Non-Current Liabilities		
Operating Lease Liability	154,437	-
Total Liabilities	1,896,816	2,550,933
Fund Balances		
Undesignated	917,634	100,000
Designated		
Board Designated for Property and Equipment	9,015,232	8,572,542
Board Designated for Capital Replacement	5,114,517	5,114,517
Board Designated for Emergency	2,500,000	2,500,000
Board Designated for Specific Operational	381,235	313,902
Total Fund Balances	17,928,618	16,600,961
Total Liabilities and Fund Balances	$ 19,825,434	$ 19,151,894

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.

Consolidated Statements of Revenues and Expenses

For the Years Ended December 31, 2019 and 2018

	2019	2018
Revenues		
Assessments and Fees		
Residential Assessments	$ 6,316,709	$ 6,162,964
Special Assessments	432,692	520,503
Sea Pines Resort Assessments	268,234	248,012
Other Commercial Assessments	74,570	77,661
Gate Entry and Permit Fees	5,382,713	5,080,163
Other Operating Revenue	293,654	288,545
Total Assessments and Fees	12,768,572	12,377,848
Expenses		
Maintenance	3,319,656	3,409,043
Safety and Security	2,948,386	2,712,192
Sea Pines Trolley	353,081	330,303
General and Administrative	2,432,623	2,418,790
Facilities	448,353	450,586
Major Repair and Replacement Projects	1,511,205	2,330,511
Depreciation	734,834	645,434
Hurricane Matthew Expenses	232,415	520,503
Hurricane Dorian Expenses	60,212	-
Hurricane Irma Expenses	-	13,234
Hurricane Florence Expenses	-	32,586
Total Expenses	12,040,765	12,863,182
Revenues Over (Under) Expenses from Operations	727,807	(485,334)
Other Income, Net		
Investment Income	682,058	79,755
Other Income (Expense)	(82,208)	(54,667)
Total Other Income, Net	599,850	25,088
Revenues Over (Under) Expenses	$ 1,327,657	$ (460,246)

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.

Consolidated Statements of Changes in Fund Balances

For the Years Ended December 31, 2019 and 2018

	Undesignated	Designated For Property and Equipment	Designated For Capital Replacement	Designated For Emergency	Designated For Specific Operational	Total
Fund Balances, January 1, 2018	$ 787,399	$ 7,147,797	$ 6,264,681	$ 2,500,000	$ 361,330	$ 17,061,207
Revenues Over (Under) Expenses	(1,884,991)	(645,434)	2,070,179	-	-	(460,246)
Purchases of Property and Equipment, Net of Sales	-	2,070,179	(2,070,179)	-	-	-
Allocated to Specific Operational	47,428	-	-	-	(47,428)	-
Income Allocated to Designated Funds	1,150,164	-	(1,150,164)	-	-	-
Fund Balances, December 31, 2018	100,000	8,572,542	5,114,517	2,500,000	313,902	16,600,961
Revenues Over (Under) Expenses	884,967	(734,834)	1,177,524	-	-	1,327,657
Purchases of Property and Equipment, Net of Sales	-	1,177,524	(1,177,524)	-	-	-
Allocated to Specific Operational	(67,333)	-	-	-	67,333	-
Income Allocated to Designated Funds	-	-	-	-	-	-
Fund Balances, December 31, 2019	$ 917,634	$ 9,015,232	$ 5,114,517	$ 2,500,000	$ 381,235	$ 17,928,618

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating activities		
Revenues Over (Under) Expenses	$ 1,327,657	$ (460,246)
Adjustments to Reconcile Revenues Over (Under) Expenses to Net Cash Provided (Used) By Operating Activities:		
Depreciation	734,834	645,434
Gain on Disposal of Property and Equipment	(58,939)	(69,600)
Unrealized (Gain) Loss on Investments	(283,009)	350,932
Non Cash Rental Expense	3,798	-
(Increase) Decrease in:		
Special Assessment Receivable, Net	-	26,832
Due from Property Owners, Net	(22,127)	(37,640)
Due from Related Parties	45,241	101,460
Other Receivables	11,434	41,944
Prepaid Expenses and Deposits	4,717	339,075
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(58,570)	46,709
Retainage Payable	(117,322)	147,271
Due to Related Parties	(122,748)	122,748
Due to Property Owners	493,547	-
Deferred Revenue	(150,354)	(211,008)
Special Assessments Deferred Revenue	(926,239)	(520,503)
Net Cash Provided By Operating Activities	881,920	523,408
Investing Activities		
Purchases of Investments	(5,493,901)	(5,941,315)
Proceeds from Sale of Investments	5,523,167	6,285,426
Proceeds from Disposal of Property and Equipment	-	40,610
Purchases of Property and Equipment	(1,006,953)	(2,041,189)
Net Cash Used For Investing Activities	(977,687)	(1,656,468)
Net Decrease in Cash and Cash Equivalents	(95,767)	(1,133,060)
Cash and Cash Equivalents, Beginning of Year	675,575	1,808,635
Cash and Cash Equivalents, End of Year	$ 579,808	$ 675,575

See Notes to Consolidated Financial Statements.

Note 1. Nature and Governance of Association

Nature of Association

Community Services Associates, Inc. ("CSA" or "Association") was established in September 1987 as a non-profit membership corporation for the Sea Pines Plantation planned community. CSA accepted title to the community properties and assumed the non-delegable duties and declarant rights pursuant to the Declaration of the Covenants and Agreements of the Sea Pines Plantation Property Owners dated September 7, 1974. CSA commenced operations effective January 1, 1989.

Sea Pines Plantation is a planned community development that began as an integrated resort, residential, and recreational community which consists of Sea Pines Resort ("SPR"), commercial businesses, residential single and multi-family dwelling units (maximum 5,890 units), and community properties that are located within the Town of Hilton Head Island, South Carolina.

CSA's mission is to protect, maintain, and enhance the resources of Sea Pines Plantation for the benefit of the Sea Pines community. CSA provides community security and maintenance services within Sea Pines Plantation and also performs the duties, exercises the rights and manages the community properties and interests of Sea Pines Plantation property owners so as to enhance and protect their mutual interests on a basis that does not discriminate among owners.

Sea Pines Plantation's community properties that CSA manages include conservancy and open space, paved roads, leisure trails, beach walkways and boardwalks over sand dunes, drainage network (lagoons, canals, pipes, culverts, inlets, ditches, ponds, greenbelts, some wetland and marsh areas), bridges and other community services land, buildings, parks, breezeways, recreation areas, and other common real and personal property.

Governance

The CSA Board of Directors (the "Board") is comprised of nine Class A directors (elected by Class A members) and eight Class B directors, four of which are designated by SPR and four of which are elected by other Class B non-residential property owners.

> ***Class A*** members are owners of single-family lots, single-family dwelling units and multi-family dwelling units with one vote for each lot and/or unit, essentially residential property owners.
>
> ***Class B*** members include SPR and owners other than Class A members, including owners of business land, commercial properties and parcels held for development, are each entitled to one Class B vote. Class B members shall have one additional vote for each $500 of assessments over and above the first $500 in assessments paid in the prior year for the purpose of electing Class B Directors.

Voting privileges of both Class A and Class B members are subject to suspension for nonpayment of assessments.

Note 2. Summary of Significant Accounting Policies

Financial statement presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and are presented in accordance with industry standards for a common interest realty association ("CIRA"), as set forth by accounting principles generally accepted in the United States of America ("GAAP").

The accompanying consolidated financial statements include the accounts of CSA and its wholly owned subsidiary, Sea Pines Plantation Trolley Company, LLC. All significant intercompany transactions and balances have been eliminated.

CSA's officers serve on and have appointment authority, with approval of the CSA Board, over the respective boards of Sea Pines Forest Preserve Foundation, Inc. ("SPFPF") and Six Oaks Cemetery, Inc. ("SOC"). Accordingly, the financial statements of SPFPF and SOC should be consolidated with CSA due to this level of control and their overall economic dependency on the Association. However, the Association believes that the financial results for these entities are not material. Therefore the Association has elected not to consolidate these two entities and to present only the financial position and results of operation of CSA and its wholly owned subsidiary. Transactions with these related parties are further described in Note 12. Unaudited financial information of SPFPF and SOC are presented in the accompanying Supplementary Information.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect CSA's financial position, results of operations and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Accordingly, actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, depository accounts and money market accounts and certificates of deposit with an original maturity date of 90 days or less. Certificates of deposit with original maturities of more than 90 days, U.S. Treasury Bills, and debt securities are treated as investments.

Investments
Investments are reported at fair value.

Due from property owners

CSA members are subject to annual assessments to provide funds for CSA's operating expenses, capital acquisitions and major repairs and replacements. Due from property owners represents assessments and fees due from Sea Pines property owners at the balance sheet dates.

CSA's policy is to retain legal counsel and place a magistrate's judgement on the properties and respective property owners whose assessments are delinquent for ninety days or more. Management's policy is to write off a receivable only after all collection efforts have been exhausted.

Note 2. Summary of Significant Accounting Policies, continued

Due from property owners, continued

An allowance for uncollectible assessments on outstanding balances has been established based on estimated by management in review of specific accounts as well as historical experience. Bad debt expense for the years ended December 31, 2019 and 2018 was $19,537 and $0, respectively.

Property, equipment and depreciation

Property includes purchased land, community services buildings, furniture, fixtures, and equipment of $2,500 or greater that are capitalized at cost. Depreciation is provided for capitalized buildings, furniture, fixtures, and equipment using the straight-line method over the estimated useful lives of the respective assets. Estimated lives of the depreciable property and equipment range from 3 to 40 years.

In accordance with common industry practices, the community real property assets transferred to CSA in September of 1987 are not recorded as assets in these consolidated financial statements because CSA lacks incidence of ownership in that it cannot dispose of the property and retain the proceeds without 100% approval of all property owners. Property owned and maintained but not capitalized by CSA includes roadways, several tracts of open space and parks, walkways, drainage systems, and other real and personal property.

Designated funds

Property and Equipment: The Property and Equipment Fund represents CSA's investment in property and equipment recorded at cost, net of accumulated depreciation. As of December 31, 2019 and 2018, the balance was $9,015,232 and $8,572,542, respectively.

Capital Replacement: The Capital Replacement Fund is used to accumulate financial resources designated for future major repairs and replacement of common property. As of December 31, 2019 and 2018, the amount available was $5,114,517.

Management of CSA received a related reserve study in June 2016. Funds for future major repairs and replacements are being accumulated as deemed necessary by management and the Board of Directors to meet estimated future capital replacement obligations. Actual future expenditures may vary materially from those estimates. Therefore, amounts accumulated in the Capital Replacement Fund may not be adequate to meet future needs.

Emergency: The Emergency Fund is used to accumulate financial resources designated in the event of a disaster or other emergency. As of December 31, 2019 and 2018, the balance in the Emergency Fund was $2,500,000.

Specific Operational: The Specific Operational Fund is used to accumulate financial resources for other operational activities, including $330,078 and $316,849 for marketing and trolley lot improvements and $51,157 and ($2,947) for dredging permit, mobilization and water quality testing as of December 31, 2019 and 2018, respectively.

Note 2. Summary of Significant Accounting Policies, continued

Revenue recognition

CSA's primary sources of revenue are derived from residential and commercial property owner assessments and gate entry fees and permits. Virtually all of CSA's revenues relate to performance obligations that are satisfied over time (typically all or a portion of the calendar year), except for gate entry fees, special assessments and other operating revenue aggregating $4,952,724 and $3,754,419 for the years ended December 31, 2019 and 2018, respectively, which performance obligation is satisfied at a point in time.

Annual assessments are recognized as revenue in the year for which they are assessed. Gate fees and permit revenue are recognized as earned, typically at the time of the associated transaction. Gate entry fees consist of gate pass revenues collected from non-guest visitors to the community. Annual gate entry permits consist of revenue from the sale of vehicle decals to vendors and other non-residents who want frequent access to the community.

Major repair and replacement projects

Major repair and replacement project expense includes the cost to develop conceptual plans based on physical and aesthetic standards as well as project supervision, labor and materials costs. The projects include roads, bridges, storm water drainage, trails, beach walkways, boardwalks, curbs, fences, landscaping, historic site preservation, and any other projects for the benefit of the Sea Pines Community.

Income tax status

CSA self-declared exempt status effective 2014 and subsequently obtained formal IRS recognition of exempt status under Section 501(c)(4) of the IRC. CSA files IRS Form 990 as a tax-exempt organization.

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance is also provided on de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, and disclosure. Management has evaluated the tax positions of CSA and does not believe that any uncertain tax positions or unrecognized tax benefits exist as of and for the years ended December 31, 2019 or 2018.

Reclassifications

CSA previously separately presented other comprehensive income (loss) in its Consolidated Financial Statements. Other comprehensive income (loss) solely reflected the change in unrealized investment gains and losses. Such change is included in investment income in the Consolidated Statements of Revenue and Expenses for the year ended December 31, 2019. Accordingly, other comprehensive income (loss) and accumulated comprehensive income (loss) for 2018 have been reclassified to conform to the 2019 presentation in these Consolidated Financial Statements.

Note 2. Summary of Significant Accounting Policies, continued

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through June 16, 2020, which is the date these consolidated financial statements were available to be issued.

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue upon the transfer of goods and services to customers in an amount equal to the consideration the entity expects to receive. This guidance also includes expanded disclosure requirements. CSA adopted this guidance as of January 1, 2019 using the modified retrospective method. Adoption of this new guidance had no impact on CSA's consolidated financial statements.

In February 2017, the Financial Accounting Standards Board issued new guidance to change the accounting for leases effective for reporting periods originally beginning after December 15, 2019 that require right-of-use leases with terms greater than one year to be recognized on the statement of financial position. CSA has elected to adopt this new guidance on January 1, 2019, using the modified retrospective approach, wherein prior period amounts are not adjusted and continue to be reported under prior historical accounting. Upon adoption CSA elected to use the risk-free discount rate and recognized a right-of-use asset of and operating lease liability of $297,970. The adoption of this guidance did not have a material impact on CSA's Consolidated Statements of Revenues and Expenses.

Note 3. Cash and Cash Equivalents

CSA's cash and cash equivalents had book balances totaling $579,808 and $675,575 and bank balances totaling $597,528 and $728,383 at December 31, 2019 and 2018, respectively.

CSA maintains its cash, cash equivalents and certificates of deposit with several financial institutions. The balances in these accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution at December 31, 2019 and 2018. CSA also maintains cash, cash equivalents and certificates of deposits in brokerage accounts. The brokerage accounts are insured by the Securities Investor Protection Corporation up to $500,000. Amounts in excess of $500,000 are secured by additional coverage paid for by the brokerage company.

Note 3. Cash and Cash Equivalents (continued)

Coverage for these balances at December 31 was as follows:

	2019	2018
Insured		
Insured by the Federal Deposit Insurance Corporation	$ 250,000	$ 251,520
Insured by Securities Investor Protection Corporation	127,001	128,889
	377,001	380,409
Uninsured and Uncollateralized	220,527	347,974
Total Bank Balances	$ 597,528	$ 728,383

Note 4. Assessments and Fees

Annual property owner assessments

For 2019 and 2018, residential property assessments of $1,076 and $1,050, respectively, were billed for each developed property and $641 and $626, respectively, for each undeveloped property. If construction begins on an undeveloped property during the year, an additional assessment is made for the prorated difference between the assessments for the developed and undeveloped properties. Once a property is developed, it is considered to always be developed. Annual operating assessments may be greater or less than, or the same as, the assessment for the previous year, provided that no such increase exceeds the increase in the Consumer Price Index ("CPI") for the most recent 12 month period to such determination. If the Board fails to determine the annual assessment for any year, the annual assessment for such year shall be the same as the previous year.

SPR contributes annually toward the funding of community services at one-half of one percent (0.5%) of the adjusted gross resort revenue that they earned during the immediately preceding fiscal year. This amounted to $268,234 and $248,012 for the years ended December 31, 2019 and 2018, respectively. All other business landowners whose properties are not owned, managed or controlled by SPR, contribute one percent (1%) of adjusted gross resort revenue.

"Resort revenue" is defined as all revenues and receipts derived from the operation of resort facilities in Sea Pines Plantation, including golf courses, tennis courts, rental boats and slips, restaurants and bars, hotels, motels, inns, rental homes and condominiums, retail shops and commercial facilities of all kinds.

"Adjusted gross resort revenue" is resort revenue, as defined above, less taxes and licenses as they apply to the resort revenue multiplied by a fraction, the numerator of which shall be one (1), and the denominator of which shall be one (1) plus the percentage increase of the Consumer Price Index ("CPI") for the year of calculation over the index for the preceding year.

SPR's and third party commercial land owners' assessments are also increased by the CPI % factor that is applied to residential property assessments relative to the year that the assessment is due.

Note 4. Assessments and Fees (continued)

Special assessments

The Board, by a vote of two-thirds (2/3) of its members, may levy a special assessment for emergency funding following an extraordinary disaster as declared by an appropriate government agency for damage to common properties. The Board may levy such special assessments for an amount not to exceed the total amount of the annual assessment in effect for the current year. Special assessments in excess of that amount must be approved by a referendum. Special Assessments are recognized in revenue when related expenses have been incurred.

In November of 2016, CSA's Board approved a special assessment to provide funding for both immediate and projected storm cleanup, repairs, and restoration related to Hurricane Matthew, which struck Hilton Head Island in October of 2016. Special assessments receipts in excess of amounts expended as of December 31, 2018 amounted to $926,239. During 2019, CSA incurred $232,415 of additional remediation expenditures.

In November of 2019, CSA's Board approved to (i) refund to property owners unspent Hurricane Matthew special assessments funds of $693,824 and (ii) levy special assessment charges aggregating $200,277 for clean up and restoration expenditures related to Hurricanes Dorian (in the amount of $60,212) and Irma (in the amount of $140,065) which struck Hilton Head Island in 2019 and 2017, respectively. The net balance due to property owners as a result of these Board decisions of $493,547 at December 31, 2019 is shown as a similarly captioned liability in the accompanying Consolidated Balance Sheet. Each property owner's 2020 annual assessment was adjusted for their respective share of such net refund.

Access fees

For the years ended December 31, 2019 and 2018, Grande Ocean Resort access fees of $1,076 and $1,050, respectively, were billed for each time share unit for a non-exclusive easement to access Sea Pines Plantation. These amounts totaled $313,067 and $305,490 for the years ended December 31, 2019 and 2018, respectively, and are included in Gate Entry and Permit Fees on the Consolidated Statements of Revenue and Expenses.

Agreement with the Town of Hilton Head Island

CSA has an agreement with the Town of Hilton Head Island, South Carolina (the "Town") to receive reimbursement for repairs and replacements of the storm water infrastructure incurred by CSA. At December 31, 2019, CSA had submitted approximately $540,000 in requests for reimbursement which are currently outstanding. The agreement limits the Town's liability to the extent of available funding it receives from Beaufort County, South Carolina. Because of uncertainty of collection, CSA has not recorded a receivable under this agreement. Such reimbursements will be recorded as Other Income when received.

Note 5. Investments

CSA's Board of Directors (the "Board") approved the following investment policy in 2017:

> "CSA shall hold designated and non-designated funds in non-equity investments, which may include deposits at acceptable financial institutions, federal government or agency securities, or investment grade corporate or municipal securities. The Board shall review and approve the investment policy annually. CSA's finance committee shall monitor investment performance and adherence to this policy on a quarterly basis."

CSA's investments as of December 31, 2019 and 2018 were comprised of non-equity marketable securities and certificates of deposit with original maturity dates greater than 90 days:

At December 31,	Earlier date either callable or due	Cost	Unrealized holding gain (loss) on securities	Accrued Interest	Fair Market Value
2019	January 2020 - September 2028	$ 9,553,544	$ 141,234	$ 80,950	$ 9,775,728
2018	January 2019 - September 2028	$ 9,660,235	$ (235,400)	$ 97,150	$ 9,521,985

Investment income for the years ended December 31, 2019 and 2018 is comprised as follows:

	2019	2018
Interest Income	$ 384,902	$ 403,088
Appreciation (depreciation) of investments	283,009	(315,390)
Realized gain (loss) on sale of investments	14,147	(7,943)
	$ 682,058	$ 79,755

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Note 5. Investments (continued)

Investments in bonds and fixed income securities are valued using broker inputs derived from secondary and over-the-counter markets, and are classified as Level 2 because they are not traded in an active market via public exchanges.

Fair values of assets and liabilities measured on a recurring basis at December 31 are as follows:

	2019			
	Level 1	Level 2	Level 3	Fair Value
Investments				
Municipal Bonds	$ -	$ 77,283	$ -	$ 77,283
Fixed Income Securities	-	8,107,261	-	8,107,261
Mutual Bond Funds	744,368	-	-	744,368
Certificates of Deposit	846,816	-	-	846,816
	$ 1,591,184	$ 8,184,544	$ -	$ 9,775,728

	2018			
	Level 1	Level 2	Level 3	Fair Value
Investments				
Municipal Bonds	$ -	$ 89,015	$ -	$ 89,015
Fixed Income Securities		7,653,272	-	7,653,272
Mutual Bond Funds	763,132	-	-	763,132
Certificates of Deposit	1,016,566	-	-	1,016,566
	$ 1,779,698	$ 7,742,287	$ -	$ 9,521,985

Note 6. Property and Equipment

Major classifications of property and equipment and their respective depreciable lives are summarized below:

Description	Estimated Life Range (Years)	2018	Additions	Disposals	2019
Land		$ 4,621,486	$ -	$ -	$ 4,621,486
Building and Improvement	5 - 40	2,943,692	-	-	2,943,692
Equipment and Vehicles	3 - 10	5,815,805	1,202,034	(172,013)	6,845,826
		13,380,983	1,202,034	(172,013)	14,411,004
Accumulated Depreciation		(4,808,441)	(734,834)	147,503	(5,395,772)
		$ 8,572,542	$ 467,200	$ (24,510)	$ 9,015,232

Depreciation expense for the years ended December 31, 2019 and 2018 was $734,834 and $645,434 respectively.

Note 7. Employee Benefits

Employees may accumulate Paid Time Off ("PTO") up to a maximum of 261 hours for carry forward purposes. Upon termination, accumulated PTO is paid. Accrued compensated absences were $208,292 and $207,924 at December 31, 2019 and 2018, respectively, and are included in Accrued Payroll and Related Benefits on the Consolidated Balance Sheets.

CSA maintains a 401(k) retirement savings plan for all eligible employees. Employees are eligible to participate in the plan upon attaining the age of 21 years and completing 6 months of active service. Employees may enter the plan in any month after these two requirements have been met. Employees may invest up to the maximum amounts allowed by law. CSA matches contributions of 100% up to 3% of pay and 50% on the next 2% of pay. Vesting begins immediately for matching contributions. Contribution expense, including administration expense for the plan, was $159,393 and $152,046 for the years ended December 31, 2019 and 2018, respectively. CSA's 401k retirement plan is administered by a financial institution.

Note 8. Deferred Revenue

Deferred revenue is comprised primarily of annual assessments paid in advance. Assessments for the years 2020 and 2019 were billed in December of the preceding year, which prompted some property owners to pay them early. This early payment resulted in revenue that was deferred until the following year, which is the year to which the assessment applies (and the performance obligation is completed).

Deferred revenue consists of the following as of December 31:

	2019	2018
Property Assessments Received in Advance for the Subsequent Year	$ 138,687	$ 299,281
Short-Term Rental Vouchers	23,520	14,325
Cell Tower Revenue	27,165	26,120
	$ 189,372	$ 339,726

Note 9. Income Taxes

The majority of CSA's activities are recognized as exempt activities for income tax purposes; however, certain activities are treated as unrelated business activities that are subject to taxation. CSA did not have any unrelated business taxable income for the years ended December 31, 2019 and 2018.

Note 10. Lines of Credit

CSA entered into a line of credit agreement in June 2011 with Morgan Stanley which holds assets as a custodian for CSA. The available borrowing amount is based on a formula which includes a release percentage based on fair market value, type, rating, and maturity of each security, and is secured by assets held at the financial institution. The line bears interest at the Open Fed Funds Rate plus 100 basis points. The Open Fed Funds Rate was 1.4% and 2.4% at December 31, 2019 and 2018, respectively. The available line of credit as of December 31, 2019 and 2018 was approximately $8.05 and $6.15 million, respectively. There was no outstanding balance on this line of credit as of December 31, 2019 and 2018.

Note 10. Lines of Credit (continued)

CSA maintains another line of credit with BB&T that has a maximum borrowing limit of $5,000,000. These funds can only be used for recovery from an unplanned catastrophic event. This line bears interest at the bank prime rate, less 0.50%. The bank's prime rates were 4.75% and 5.50% as of December 31, 2019 and 2018, respectively. The current line of credit expires in July of 2021 and is secured by all income and assessments of CSA. There were no borrowings on this line of credit during 2019 or 2018 and no balance outstanding as of December 31, 2019.

Note 11. Commitments and Contingencies

In 2018, CSA entered into a lease for meeting space for certain community activities which extends through 2022. With the adoption of the new lease accounting guidance on January 1, 2019, a right-of-use asset and operating lease liability was recognized using the risk free discount rate of 2.52%. Operating lease expense was $107,173 and $101,166 for the years ended December 31, 2019 and 2018, respectively.

Future payments under CSA's operating lease as of December 31, 2019 are as follows:

2020	$ 81,024
2021	83,556
2022	86,088
Interest	(23,099)
	$ 227,569

The Association is involved in claims, lawsuits, and proceedings and is the defendant in lawsuits that arise out of, and are incidental to, the conduct of business. It is the Association's policy to accrue amounts related to legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. The Association maintains general liability insurance to cover potential damages. Management has not recorded any liability for legal claims as of December 31, 2019 and 2018.

Note 12. Transactions with Related Parties

Following is a list of related parties and their relationship to CSA:

Entity	Relationship
Association of Sea Pines Plantation Property Owners ("ASPPPO")	A voluntary association acting in the interest of residential property owners.
Sea Pines Forest Preserve Foundation, Inc. ("SPFPF")	Trustees of SPFPF are the officers of CSA plus one additional trustee selected by the Board of CSA.
Six Oaks Cemetery, Inc. ("SOC")	Trustees of SOC are the officers of CSA plus one additional trustee selected by the Board of CSA. SOC is also the sole trustee of the Care and Maintenance Trust Fund of Six Oaks Cemetery.
Sea Pines Architectural Review Corporation Inc. ("SPARC")	Directors of SPARC are the Board Chair of CSA, the President of ASPPPO, two representatives of Sea Pines Resort, the Chairman of the Architectural Review Board, and the President of CSA.
Sea Pines Commercial Architectural Review Corporation ("SPCARC")	Directors of SPCARC are the officers of CSA, the President of ASPPPO, the President of CSA plus an additional member selected by the Board of CSA.

During the years ended December 31, 2019 and 2018, CSA incurred reimbursable expenses on behalf of ASPPPO, SPFPF, SOC, SPARC and SPCARC. In addition, most of the related entities pay a monthly administrative service fee to CSA.

Note 12. Transactions with Related Parties (continued)

Rollforwards of amounts due from the related parties described above (including costs incurred and payments received) during the years ended December 31, 2019 and 2018 as follows:

	2018	Costs Incurred	Less payments Received	2019
ASPPPO	$ 34,465	$ 126,658	$ (108,285)	$ 52,838
SPFPF	-	184,395	(172,803)	11,592
SOC	49,015	292,095	(294,170)	46,940
SPARC	114,908	304,517	(378,203)	41,222
SPCARC	3,995	555	-	4,550
Total Due from Related Parties	$ 202,383	$ 908,220	$ (953,461)	$ 157,142

	2017	Costs Incurred	Less payments Received	2018
ASPPPO	$ 111,405	$ 129,627	$ (206,567)	$ 34,465
SPFPF	87,892	261,610	(349,502)	-
SOC	30,261	335,444	(316,690)	49,015
SPARC	70,840	337,814	(293,746)	114,908
SPCARC	3,445	550	-	3,995
Total Due from Related Parties	$ 303,843	$ 1,065,045	$ (1,166,505)	$ 202,383

The amounts due to related parties of $122,748 at December 31, 2018 was related to reimbursement of Sea Pines Forest Preserve for Hurricane Matthew cleanup expenditures.

Note 13. Uncertainties

The 2019 Novel Coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Association's revenues, costs or demand for services. The extent of the adverse impact of the COVID-19 outbreak on the Association's financial condition and results of operations cannot be predicted at this time.

Supplementary Information

Community Services Associates, Inc.

Schedule of Future Major Repairs and Replacements (Unaudited)

December 31, 2019

Management of Community Services Associates, Inc. obtained a reserve study from a capital reserve consultant in June 2016 to estimate the remaining useful lives and the current replacement costs of the components of common property that have limited and predictable useful lives. The study included updating a complete inventory of components, the visual inspection of the various components to determine their condition, and deriving quantities from field measurements and/or quantity takeoffs from to-scale engineering drawings during a site visit by the capital reserve consultant. Life expectancy due to normal wear and tear, as well as estimated replacement costs under normal conditions, were based on consultations with staff, consideration of recent expenditures and observations made by the reserve consultant. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require major repairs or replacement. The scope of the study did not include storm water infrastructure, such as underground pipes and flow-control mechanisms.

The following information is based on the study and presents significant information about the components of common property.

Component	Estimated remaining useful life (years)	Estimated current replacement costs
Buildings and structures	1 to 40	$ 655,400
Streets and bridges	1 to 37	16,803,000
Leisure trails	1 to 30	1,652,750
Landscaping and irrigation	2 to 37	250,000
Maintenance department	1 to 24	3,697,850
Beach access	2 to 38	886,475
Security department	2 to 38	1,439,150
Site and grounds	3 to 27	570,450
Total infrastructure components		$ 25,955,075

Community Services Associates, Inc.

Schedules of Financial Information on Six Oaks Cemetery, Inc. (Unaudited)

As of and for the years ended December 31, 2019 and 2018

The following information summarizes financial information for Six Oaks Cemetery, Inc. as of and for the years ended December 31:

	2019	2018
Total Assets	$ 360,428	$ 251,257
Liabilities	$ 105,904	$ 81,193
Net Assets	254,524	170,064
Total Liabilities and Net Assets	$ 360,428	$ 251,257
Support and Revenue	$ 434,869	$ 262,223
Expenses	350,409	414,852
Change in Net Assets	$ 84,460	$ (152,629)

Community Services Associates, Inc.

Schedules of Financial Information on Sea Pines Forest Preserve Foundation, Inc. (Unaudited)

As of and for the years ended December 31, 2019 and 2018

The following information summarizes financial information for Sea Pines Forest Preserve Foundation, Inc. as of and for the years ended December 31:

	2019	2018
Total Assets	$ 618,557	$ 584,605
Liabilities	$ 11,592	$ -
Net Assets	606,965	584,605
Total Liabilities and Net Assets	$ 618,557	$ 584,605
Support and Revenue	$ 211,416	$ 300,336
Expenses	189,056	274,730
Change in Net Assets	$ 22,360	$ 25,606