

**Community Services Associates, Inc.**

***Report on Consolidated Financial  
Statements***

***For the Years Ended December 31, 2018 and 2017***

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**Community Services Associates, Inc.**  
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**Board Officers**

Mark Griffith	Chair
Michael Tucker	Vice Chair
David Borghesi	Treasurer
Carolyn Adams	Secretary



## **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, 2018 and 2017, and the related consolidated statements of revenues and expenses, comprehensive income, 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, 2018 and 2017 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 23 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 25 and 26 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.



Charleston, South Carolina  
April 5, 2019

**Community Services Associates, Inc.****Consolidated Balance Sheets****As of December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 675,575	\$ 1,808,635
Investments, at Fair Value	9,521,985	10,217,028
Special Assessment Receivable, Net of Allowance for Uncollectible Special Assessments of \$6,386 in 2018 and \$20,000 in 2017	-	26,832
Due from Property Owners, Net of Allowance for Uncollectible Assessments of \$33,869 in 2018 and \$65,461 in 2017	51,626	13,986
Due from Related Parties	202,383	303,843
Other Receivables	11,434	53,378
Prepaid Expenses and Deposits	116,349	455,424
Total Current Assets	10,579,352	12,879,126
<b>Property and Equipment, Net</b>	8,572,542	7,147,797
Total Assets	<u>\$ 19,151,894</u>	<u>\$ 20,026,923</u>
<b>Liabilities and Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 660,279	\$ 646,268
Retainage Payable	147,271	-
Accrued Payroll and Related Benefits	354,670	321,972
Due to Related Parties	122,748	-
Deferred Revenue	339,726	550,734
Special Assessment Deferred Revenue	926,239	1,446,742
Total Current Liabilities	2,550,933	2,965,716
<b>Fund Balances</b>		
Undesignated	100,000	787,399
Designated		
Board Designated for Property and Equipment	8,572,542	7,147,797
Board Designated for Capital Replacement	5,630,139	6,607,990
Board Designated for Emergency	2,500,000	2,500,000
Board Designated for Specific Operational	313,902	361,330
Total Designated	17,016,583	16,617,117
Accumulated Other Comprehensive Loss	(515,622)	(343,309)
Total Fund Balances	16,600,961	17,061,207
Total Liabilities and Fund Balances	<u>\$ 19,151,894</u>	<u>\$ 20,026,923</u>

**See Notes to Consolidated Financial Statements.**

**Community Services Associates, Inc.**  
**Consolidated Statements of Revenues and Expenses**  
**For the Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
Assessments and Fees		
Residential Assessments	\$ 6,162,964	\$ 6,029,796
Special Assessments	520,503	2,544,201
Sea Pines Resort Assessments	248,012	229,687
Other Commercial Assessments	77,661	73,946
Gate Entry and Permit Fees	5,080,163	4,762,567
Other Operating Revenue	288,545	274,374
Total Assessments and Fees	<u>12,377,848</u>	<u>13,914,571</u>
<b>Expenses</b>		
Maintenance	3,409,043	3,188,419
Safety and Security	2,712,192	2,431,645
Sea Pines Trolley	330,303	323,479
General and Administrative	2,418,790	2,336,879
Facilities	450,586	343,959
Major Repair and Replacement Projects	2,330,511	1,612,689
Depreciation	645,434	613,033
Hurricane Matthew Expenses	520,503	2,544,201
Hurricane Irma Expenses	13,234	126,830
Hurricane Florence Expenses	32,586	-
Total Expenses	<u>12,863,182</u>	<u>13,521,134</u>
Revenues Over (Under) Expenses from Operations	<u>(485,334)</u>	<u>393,437</u>
<b>Other Income, Net</b>		
Investment Income	252,068	271,766
Other	(54,667)	38,815
Total Other Income, Net	<u>197,401</u>	<u>310,581</u>
Revenues Over (Under) Expenses	<u>\$ (287,933)</u>	<u>\$ 704,018</u>

**See Notes to Consolidated Financial Statements.**

**Community Services Associates, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenues Over (Under) Expenses	\$ (287,933)	\$ 704,018
<b>Other Comprehensive Income (Loss)</b>		
Unrealized Holding Loss on Available-For-Sale Securities	(219,273)	(163,857)
Reclassification Adjustment For (Gains) Losses Included in Revenues Over (Under) Expenses	<u>46,960</u>	<u>144,443</u>
Other Comprehensive Loss	<u>(172,313)</u>	<u>(19,414)</u>
Comprehensive Income (Loss)	<u><u>\$ (460,246)</u></u>	<u><u>\$ 684,604</u></u>

*See Notes to Consolidated Financial Statements.*

**Community Services Associates, Inc.**  
**Consolidated Statements of Changes in Fund Balances**  
**For the Years Ended December 31, 2018 and 2017**

	Undesignated	Designated For Property and Equipment	Designated For Capital Replacement	Designated For Emergency	Designated For Specific Operational	Accumulated Other Comprehensive Loss	Total
<b>Fund Balances, January 1, 2017</b>	\$ 439,960	\$ 6,937,077	\$ 6,588,576	\$ 2,500,000	\$ 234,885	\$ (323,895)	\$ 16,376,603
Comprehensive Income (Loss)	1,298,853	(594,835)	-	-	-	(19,414)	684,604
Purchases of Property and Equipment, Net of Sales	(805,555)	805,555	-	-	-	-	-
Allocated to Specific Operational	(126,445)	-	-	-	126,445	-	-
Income Allocated to Designated Funds	(19,414)	-	19,414	-	-	-	-
<b>Fund Balances, December 31, 2017</b>	787,399	7,147,797	6,607,990	2,500,000	361,330	(343,309)	17,061,207
Comprehensive Income (Loss)	(1,884,991)	(645,434)	2,242,492	-	-	(172,313)	(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)	-	-	-	-
<b>Fund Balances, December 31, 2018</b>	<u>\$ 100,000</u>	<u>\$ 8,572,542</u>	<u>\$ 5,630,139</u>	<u>\$ 2,500,000</u>	<u>\$ 313,902</u>	<u>\$ (515,622)</u>	<u>\$ 16,600,961</u>

See Notes to Consolidated Financial Statements.

**Community Services Associates, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Revenues Over (Under) Expenses	\$ (287,933)	\$ 704,018
Adjustments to Reconcile Revenues Over (Under) Expenses to		
Net Cash Provided By Operating Activities:		
Depreciation	645,434	613,033
Gain on Disposal of Property and Equipment	(69,600)	(18,197)
Unrealized/ Realized Loss on Investments	227,216	300,959
(Increase) Decrease in:		
Special Assessment Receivable, Net	26,832	4,998,619
Due from Property Owners, Net	(37,640)	4,830
Due from Related Parties	101,460	107,728
Other Receivables	41,944	16,803
Prepaid Expenses and Deposits	339,075	(441,510)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	46,709	65,754
Retainage Payable	147,271	-
Due to Related Parties	122,748	-
Deferred Revenue	(211,008)	(872,452)
Special Assessments Deferred Revenue	(520,503)	(2,544,457)
Net Cash Provided By Operating Activities	<u>572,005</u>	<u>2,935,128</u>
<b>Investing Activities</b>		
Purchases of Investments	(5,908,060)	(7,443,239)
Proceeds from Sale of Investments	6,203,574	5,691,056
Proceeds from Disposal of Property and Equipment	40,610	62,198
Purchases of Property and Equipment	(2,041,189)	(855,792)
Net Cash Used For Investing Activities	<u>(1,705,065)</u>	<u>(2,545,777)</u>
<b>Financing Activities</b>		
Payments on Line of Credit	-	(1,500,000)
Net Cash Used For Financing Activities	<u>-</u>	<u>(1,500,000)</u>
Net Decrease in Cash and Cash Equivalents	(1,133,060)	(1,110,649)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,808,635</u>	<u>2,919,284</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 675,575</u>	<u>\$ 1,808,635</u>

See Notes to Consolidated Financial Statements.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies****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 (a barrier island on the Atlantic Ocean), 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 - all among heavily forested areas.

**Principles of consolidation**

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

**Basis of accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

**Financial statement presentation**

The consolidated financial statements 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").

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued***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*

CSA considers all unrestricted highly liquid investments with an initial maturity of 90 days or less to be cash equivalents.

*Concentration of credit risk*

Assessments receivable from property owners are due from resident and non-resident members of CSA. CSA's policy is to retain legal counsel and place a magistrate's judgment on the properties and respective property owners whose assessments are delinquent for ninety days or more.

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, 2018 and 2017. 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 (see Note 3).

*Designated funds*

**Property and Equipment:** The Property and Equipment Fund represents CSA's investment in property and equipment. As of December 31, 2018 and 2017, the balance was \$8,572,542 and \$7,147,797, respectively.

**Capital Replacement:** The Capital Replacement Fund is used to accumulate financial resources designated for future major repairs and replacement of common property. In determining the amount available for future repairs and replacements, the balance of Accumulated Other Comprehensive Loss is considered an offset to the Capital Replacement Fund. As of December 31, 2018 and 2017, the amount available was \$5,114,517 and \$6,264,681, respectively.

**Emergency:** The Emergency Fund is used to accumulate financial resources designated in the event of a disaster or other emergency. As of December 31, 2018 and 2017, the balance in the Emergency Fund was \$2,500,000, respectively.

**Specific Operational:** The Specific Operational Fund is used to accumulate financial resources for other operational activities, including \$316,849 and \$249,968 for marketing and trolley improvements as of December 31, 2018 and 2017, respectively, and (\$2,947) and \$111,362 for dredging permit, mobilization and water quality testing as of December 31, 2018 and 2017, respectively.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued****Investment policy**

CSA's Board of Directors (the "Board") approved the following investment policy on June 21, 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."

The CSA Board of Directors has approved the following investment principles in support of the investment policy:

1. **Preservation of Capital:** Emphasis on preservation of capital and managing risks to achieve the portfolio's objectives of maintenance of purchasing power for designated long-term funds.
2. **Diversification:** By diversifying the issuers of fixed income securities, credit risk of issuers can be minimized.
3. **Maturity:** Emphasis on securities with reasonable maturity dates to manage interest rate volatility and associated risks.
4. **Liquidity:** Investments shall have market values that have publicly available comparable prices and be convertible to cash if needed.
5. **Investment Income:** Investments shall be made in those instruments that will produce the highest level of return within these principles.

Investments are reported at fair value as required by GAAP (see Note 15). For purposes of calculating gains and losses, cost is assigned using specific identification.

**Due from property owners**

CSA uses the allowance method to account for bad debts. The allowance is established based on estimates by management in review of specific accounts, as well as historical experience. Management's policy is to write off a receivable only after all collection efforts have been exhausted (see also Note 4).

**Retainage payable**

Retainage payable of \$147,271 at December 31, 2018 is an agreed upon portion of the contract to rebuild a section of Greenwood Drive that has been withheld to assure that the contractor will satisfy its obligations. The amount will be paid upon successful completion of the project.

**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

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued***Property, equipment and depreciation, continued*

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 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 several tracts of open space and parks, walkways, drainage systems, a pump station, and other real and personal property.

*Economic dependency*

CSA's primary sources of revenue are derived from residential and commercial property owner assessments and gate entry fees and permits.

*Revenue recognition*

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.

*Annual property owner assessments*

For 2018 and 2017, residential property assessments of \$1,050 and \$1,028, respectively, were billed each year for each developed property and \$626 and \$613, 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 \$248,012 and \$229,687 for the years ended December 31, 2018 and 2017, 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.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued***Annual property owner assessments, continued*

"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.

*Due from 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, 2018, 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.

*Access fees*

For the years ended December 31, 2018 and 2017, Grande Ocean Resort access fees of \$1,050 and \$1,018, respectively, were billed for each time share unit for a non-exclusive easement to access Sea Pines Plantation. These amounts totaled \$305,490 and \$298,120 for the years ended December 31, 2018 and 2017, respectively, and are included in Gate Entry and Permit Fees on the Consolidated Statements of Revenue and Expenses.

*Special assessment*

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, for emergency and other repairs following a storm, fire, natural disaster or other casualty loss. Special assessments in excess of that amount must be approved by a referendum. On November 22, 2016, CSA's Board approved a \$6,270,461 special assessment to provide funding for both immediate and projected storm cleanup, repairs, and restoration related to Hurricane Matthew, which struck Hilton Head Island on October 7, 2016. The special assessment was billed in December 2016, together with the 2017 regular assessment.

The special assessment is recognized in revenue as the corresponding expenses are incurred. For the year ended December 31, 2018 and 2017, Hurricane Matthew-related cleanup and remediation expenses totaling \$520,503 and \$2,544,201, respectively, were recognized. Therefore, of the original \$6,270,461 special assessment, \$520,503 and \$2,544,201 was recognized as revenue in 2018 and 2017, respectively. Any amounts assessed but not yet spent are included in deferred revenue as of December 31, 2018 and 2017.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued****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, drainage (appeal and appearance), trails, beach walkways, boardwalks, curbs, fences, landscaping, historic site preservation, land use covenant referendum, community governance, and any other projects for the benefit of the Sea Pines Community.

**Membership classes**

CSA has two types of regular voting memberships for the election of the Board of Directors:

**Class A:** Owners of single-family lots, single-family dwelling units and multi-family dwelling units with one vote for each lot and/or unit.

**Class B:** 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 will 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. The CSA Board is comprised of nine Class A directors and eight Class B directors, four of such Class B directors to be designated by SPR or its successors and four directors to be elected by Class B members.

**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 for the years ended December 31, 2018 or 2017.

**Reclassifications**

Certain accounts and amounts in the prior year consolidated financial statements have been reclassified in order to conform to the current year presentation.

**Subsequent events**

Management has evaluated events and transactions for potential recognition or disclosure through April 5, 2019, which is the date these consolidated financial statements were available to be issued.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued****Recently issued accounting pronouncements**

In May 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. FASB ASU No. 2014-09 eliminates the transaction and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition. The new standard is effective for fiscal years beginning after December 15, 2018 and must be applied retrospectively. CSA is currently evaluating the impact of this new guidance on its consolidated financial statement presentation and does not expect this amendment to have a material effect on the consolidated financial statements.

In February 2017, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the statements of financial position. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all organizations. CSA is currently evaluating the impact of this new guidance on its consolidated financial statement presentation and does not expect this amendment to have a material effect on the consolidated financial statements.

**Note 2. Consolidation of Related Entities**

CSA's officers serve on and have appointment authority over the respective boards of Sea Pines Forest Preserve Foundation, Inc. ("SPFPF") and Six Oaks Cemetery, Inc. ("SOC"), related parties as more fully described in Note 5. SPFPF and SOC are required to be consolidated with CSA under GAAP due to this level of control and their overall economic dependency on the Association. However, the Association has elected not to consolidate these two entities and to present only the financial results of operations of Community Services Associates, Inc. and its wholly-owned subsidiary.

**Note 3. 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 (see Note 6).

CSA's cash and cash equivalents had book balances totaling \$675,575 and \$1,808,635 and bank balances totaling \$728,383 and \$2,245,190 at December 31, 2018 and 2017, respectively.

**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017****Note 3. Cash and Cash Equivalents, Continued**

Coverage for these balances at December 31 was as follows:

	2018	2017
Insured		
Insured by the Federal Deposit Insurance Corporation	\$ 251,520	\$ 251,711
Insured by Securities Investor Protection Corporation	128,889	250,000
	<u>380,409</u>	<u>501,711</u>
Uninsured and Uncollateralized	347,974	1,743,479
Total Bank Balances	<u>\$ 728,383</u>	<u>\$ 2,245,190</u>

**Note 4. 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.

An allowance for uncollectible assessments on amounts Due from Property Owners has been established based on estimates by management in review of specific accounts of \$33,869 and \$65,461 at December 31, 2018 and 2017, respectively. There was no bad debt expense incurred during the year ended December 31, 2018. Bad debt expense was \$35,760 for the year ended December 31, 2017.

**Note 5. Related Parties and Related Party Transactions**

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.
Care and Maintenance Trust Fund of Six Oaks Cemetery	SOC is the sole trustee.
Six Oaks Cemetery Perpetual Care and Maintenance Trust Fund	SOC is the sole trustee.

**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017****Note 5. Related Parties and Related Party Transactions, Continued**

<u>Entity</u>	<u>Relationship</u>
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, 2018 and 2017, CSA incurred reimbursable expenses on behalf of SPFPF, SOC, ASPPPO, SPARC and SPCARC. In addition, most of the related entities pay a monthly administrative service fee to CSA.

The amounts due from related parties at December 31 2018, costs incurred and payments received during the year then ended are comprised of the following:

	<u>2017</u>	<u>Costs Incurred</u>	<u>Less payments Received</u>	<u>2018</u>
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	<u>\$ 303,843</u>	<u>\$ 1,065,045</u>	<u>\$ (1,166,505)</u>	<u>\$ 202,383</u>

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

The amounts due from related parties at December 31, 2017, cost incurred and payments received during the year ended are comprised of the following:

	<u>2016</u>	<u>Costs Incurred</u>	<u>Less payments Received</u>	<u>2017</u>
ASPPPO	\$ 90,025	\$ 304,953	\$ (283,573)	\$ 111,405
SPFPF	124,187	331,317	(367,612)	87,892
SOC	107,506	305,896	(383,141)	30,261
SPARC	86,408	352,620	(368,188)	70,840
SPCARC	-	3,445	-	3,445
Total Due from Related Parties	<u>\$ 408,126</u>	<u>\$ 1,298,231</u>	<u>\$ (1,402,514)</u>	<u>\$ 303,843</u>

**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017****Note 6. Investments**

CSA's investments as of December 31, 2018 and 2017 were comprised of non-equity marketable securities and certificates of deposit with original maturity dates greater than 90 days:

		<b>2018</b>			
			<b>Unrealized holding gain (loss) on securities</b>	<b>Accrued Interest</b>	<b>Fair Market Value</b>
Marketable CD's and bond securities	<b>Earlier date either callable or due</b>	<b>Cost</b>			
	<b>January 2019 - September 2042</b>				
		<u>\$ 9,660,235</u>	<u>\$ (235,400)</u>	<u>\$ 97,150</u>	<u>\$ 9,521,985</u>
		<b>2017</b>			
			<b>Unrealized holding gain (loss) on securities</b>	<b>Accrued Interest</b>	<b>Fair Market Value</b>
Marketable CD's and bond securities	<b>Earlier date either callable or due</b>	<b>Cost</b>			
	<b>January 2018 - September 2042</b>				
		<u>\$ 10,469,554</u>	<u>\$ (343,309)</u>	<u>\$ 90,783</u>	<u>\$ 10,217,028</u>

The following table shows the gross unrealized losses and fair value of the Association's investments, with unrealized losses that are deemed to be temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

		<b>2018</b>			
		<b>12 Months or Longer</b>		<b>12 Months or Less</b>	
		<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Marketable CD's and bond securities		<u>\$ 5,339,015</u>	<u>\$ (157,914)</u>	<u>\$ 3,266,803</u>	<u>\$ (86,806)</u>
		<b>2017</b>			
		<b>12 Months or Longer</b>		<b>12 Months or Less</b>	
		<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Marketable CD's and bond securities		<u>\$ 2,590,217</u>	<u>\$ (143,809)</u>	<u>\$ 3,541,612</u>	<u>\$ (18,937)</u>

The Association has the ability and the intent to hold these investments until such time as the value recovers. The Association believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market rates and is not in the credit quality of the issuer and, therefore, these losses are not considered other-than-temporary.

**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017****Note 7. Property and Equipment**

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

Description	Estimated Life Range (Years)	Balance December 31, 2017	Additions	Disposals	Balance December 31, 2018
Land		\$ 3,171,371	\$ 1,450,115	\$ -	\$ 4,621,486
Building and Improvements	5 - 40	2,911,840	31,852	-	2,943,692
Equipment and Vehicles	3 - 10	5,611,729	598,369	(394,293)	5,815,805
		11,694,940	2,080,336	(394,293)	13,380,983
Accumulated Depreciation		(4,547,143)	(645,434)	384,136	(4,808,441)
		<u>\$ 7,147,797</u>	<u>\$ 1,434,902</u>	<u>\$ (10,157)</u>	<u>\$ 8,572,542</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$645,434 and \$613,033 respectively.

**Note 8. Accrued Compensated Expenses**

Accrued compensated absences were \$207,924 and \$242,159 at December 31, 2018 and 2017, respectively, and are included in Accrued Payroll and Related Benefits on the Consolidated Balance Sheets. Employees may accumulate Paid Time Off ("PTO") up to a maximum of 261 hours for carry forward purposes. Upon termination, accumulated PTO is paid.

**Note 9. Deferred Revenue**

Deferred revenue is comprised primarily of annual assessments paid in advance. Assessments for the years 2019 and 2018 were billed in December of the preceding year, which prompted some property owners to pay them early. This resulted in revenue that was deferred until the following year, which is the year to which the assessment applies.

Deferred revenue consists of the following as of December 31:

	2018	2017
Property Assessments Received in Advance for the Subsequent Year	\$ 299,281	\$ 525,618
Short-Term Rental Vouchers	14,325	-
Cell Tower Revenue	26,120	25,116
	<u>\$ 339,726</u>	<u>\$ 550,734</u>

**Note 10. Income Taxes**

The majority of CSA's activities are recognized as exempt activities under the social welfare status; 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, 2018 and 2017.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 11. Commitments and Contingencies**

In 2018, CSA entered into a lease for space for certain community activities. Under the lease, CSA is required to make minimum monthly payments beginning on January 1, 2018 through December 31, 2022. Future minimum payments by year under this lease consist of the following as of December 31, 2019:

2019	\$ 78,492
2020	81,024
2021	83,556
2022	86,088
	<u>\$ 329,160</u>

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 settlements as of December 31, 2018 and 2017.

**Note 12. Lines of Credit**

CSA entered into a line of credit agreement in June 2011 with Morgan Stanley which holds assets for CSA. The available borrowing amount is based on a formula which includes a release percentage based on fair market value, type and rating of security, and maturity, 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 3.40% and 1.42% at December 31, 2018 and 2017, respectively. The available line of credit as of December 31, 2018 and 2017 was approximately \$6.15 million and \$4.7 million, respectively. There was no outstanding balance on this line of credit as of December 31, 2018 and 2017.

CSA entered into another line of credit with BB&T in May 2015. Maximum borrowings under this line of credit are \$5,000,000 and the line bears interest at the bank's prime rate minus 0.50%. The bank's prime rate was 4.50% and 3.75% as of December 31, 2018 and 2017, respectively. This line of credit is secured by all income and assessments of CSA and expires on June 26, 2019. There was no outstanding balance on this line of credit as of December 31, 2018 or 2017.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 13. Future Major Repairs and Replacements**

CSA's governing documents allow for the establishment of reserves for major repairs and replacements. These reserves are accounted for in the Designated Capital Replacement Fund.

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.

**Note 14. Retirement Plan**

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's plan became a "safe harbor" on January 1, 2005 with qualified matching contributions of 100% up to 3% of pay and 50% on the next 2% of pay. Vesting begins immediately for matching contributions. Defined contribution expense, including administration expense for the plan, was \$152,046 and \$128,650 for the years ended December 31, 2018 and 2017, respectively. CSA's 401k retirement plan is administered by a financial institution.

**Note 15. Fair Value of Financial Instruments**

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.

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.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2018 and 2017**

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**Note 15. Fair Value of Financial Instruments, Continued**

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

	2018			Fair Value
	Level 1	Level 2	Level 3	
Investments				
Bonds	\$ -	\$ 8,505,419	\$ -	\$ 8,505,419
Certificates of Deposit	1,016,566	-	-	1,016,566
	<u>\$ 1,016,566</u>	<u>\$ 8,505,419</u>	<u>\$ -</u>	<u>\$ 9,521,985</u>
	2017			Fair Value
	Level 1	Level 2	Level 3	
Investments				
Bonds	\$ -	\$ 9,590,142	\$ -	\$ 9,590,142
Certificates of Deposit	626,886	-	-	626,886
	<u>\$ 626,886</u>	<u>\$ 9,590,142</u>	<u>\$ -</u>	<u>\$ 10,217,028</u>

## **Required Supplementary Information**

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**Community Services Associates, Inc.*****Schedule of Future Major Repairs and Replacements (Unaudited)******December 31, 2018***

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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.

<b>Component</b>	<b>Estimated remaining useful life (years)</b>	<b>Estimated current replacement costs</b>
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	<u>570,450</u>
Total infrastructure components		<u>\$ 25,955,075</u>

## **Supplementary Information**

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**Community Services Associates, Inc.*****Schedules of Financial Information on Six Oaks Cemetery, Inc. (Unaudited)******As of and for the years ended December 31, 2018 and 2017***

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

	<u>2018</u>	<u>2017</u>
Total Assets	<u>\$ 251,257</u>	<u>\$ 397,401</u>
Liabilities	\$ 81,193	\$ 74,708
Net Assets	<u>170,064</u>	<u>322,693</u>
Total Liabilities and Net Assets	<u>\$ 251,257</u>	<u>\$ 397,401</u>
Support and Revenue	\$ 262,223	\$ 561,422
Expenses	<u>414,852</u>	<u>419,314</u>
Change in Net Assets	<u>\$ (152,629)</u>	<u>\$ 142,108</u>

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**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, 2018 and 2017***

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

	<u>2018</u>	<u>2017</u>
Total Assets	<u>\$ 584,605</u>	<u>\$ 646,890</u>
Liabilities	\$ -	\$ 87,891
Net Assets	<u>584,605</u>	<u>558,999</u>
Total Liabilities and Net Assets	<u>\$ 584,605</u>	<u>\$ 646,890</u>
Support and Revenue	\$ 300,336	\$ 393,324
Expenses	<u>274,730</u>	<u>293,734</u>
Change in Net Assets	<u>\$ 25,606</u>	<u>\$ 99,590</u>