

**Community Services Associates, Inc.**

***Report on Consolidated Financial  
Statements***

***For the years ended December 31, 2016 and 2015***

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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., which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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, 2016 and 2015 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 express no opinion on it.



Charleston, South Carolina  
April 18, 2017

**Community Services Associates, Inc.****Consolidated Balance Sheets****As of December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,919,284	\$ 4,128,798
Investments, at fair value	8,785,218	9,246,385
Special assessments receivable	1,034,252	-
Due from property owners, net of allowance for uncollectible assessments of \$51,804 in 2016 and \$78,886 in 2015	18,816	4,438
Due from related parties	408,126	171,008
Other receivable	85,588	37,770
Prepaid expenses and deposits	13,914	22,480
Total current assets	<u>13,265,198</u>	<u>13,610,879</u>
<b>Property and equipment, net</b>	<u>6,937,077</u>	<u>7,201,257</u>
Total assets	<u>\$ 20,202,275</u>	<u>\$ 20,812,136</u>
<b>Liabilities and Fund Balances</b>		
<b>Current liabilities</b>		
Line of credit	\$ 1,500,000	\$ -
Accounts payable	494,634	1,064,569
Other accrued expenses	407,852	322,735
Deferred revenue	1,423,186	3,194,630
Total current liabilities	<u>3,825,672</u>	<u>4,581,934</u>
<b>Fund balances</b>		
Undesignated	7,377,037	7,252,575
Designated		
Board designated for capital replacement	6,588,576	6,516,403
Board designated for emergency	2,500,000	2,500,000
Board designated for specific operational	234,885	212,946
Total designated	<u>9,323,461</u>	<u>9,229,349</u>
Accumulated other comprehensive loss	<u>(323,895)</u>	<u>(251,722)</u>
Total fund balances	<u>16,376,603</u>	<u>16,230,202</u>
Total liabilities and fund balances	<u>\$ 20,202,275</u>	<u>\$ 20,812,136</u>

*See Notes to Consolidated Financial Statements.*

**Community Services Associates, Inc.**  
**Consolidated Statements of Revenues and Expenses**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Residential property assessments		
Undesignated	\$ 5,971,130	\$ 5,950,431
Special assessments	2,279,518	-
Total residential property assessments	<u>8,250,648</u>	<u>5,950,431</u>
Grande Ocean Resort access fees	296,238	295,656
Sea Pines Resort, LLC (SPR) assessments	223,912	207,064
Other business land owner assessments and fees	204,293	207,225
Total commercial assessments and fees	<u>724,443</u>	<u>709,945</u>
Gate fees and annual entry permits	3,903,501	3,940,297
Total revenues	<u>12,878,592</u>	<u>10,600,673</u>
<b>Expenses</b>		
Maintenance, sign shop and facilities	3,142,674	2,990,996
Safety and security	2,580,721	2,610,226
General, administrative, and Community Center	2,691,395	2,411,653
Major repair and replacement projects	1,588,482	1,415,104
Sea Pines trolley and maps	394,464	366,860
Depreciation	653,617	523,952
Hurricane Matthew expenses	2,279,518	-
Total expenses	<u>13,330,871</u>	<u>10,318,791</u>
Excess (deficit) of revenues over (under) expenses from operations	<u>(452,279)</u>	<u>281,882</u>
<b>Other income</b>		
Investment income, net	378,223	322,395
Other income	292,630	281,489
Total other income	<u>670,853</u>	<u>603,884</u>
Excess of revenues over expenses	<u>\$ 218,574</u>	<u>\$ 885,766</u>

*See Notes to Consolidated Financial Statements.*

**Community Services Associates, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2016 and 2015**

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	<u>2016</u>	<u>2015</u>
<b>Excess of revenues over expenses</b>	\$ 218,574	\$ 885,766
<b><i>Other comprehensive income (loss)</i></b>		
Unrealized holding gain (loss) on available-for-sale securities	33,809	(132,734)
Reclassification adjustment for (gains) losses included in net income	<u>(105,982)</u>	<u>23,942</u>
Other comprehensive loss	<u>(72,173)</u>	<u>(108,792)</u>
Comprehensive income	<u>\$ 146,401</u>	<u>\$ 776,974</u>

*See Notes to Consolidated Financial Statements.*

**Community Services Associates, Inc.**  
**Consolidated Statements of Changes in Fund Balances**  
**For the years ended December 31, 2016 and 2015**

	<u>Undesignated</u>	<u>Designated For Capital Replacement</u>	<u>Designated For Emergency</u>	<u>Designated For Specific Operational</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
<b><i>Fund balances, December 31, 2014</i></b>	\$ 6,778,396	\$ 6,510,486	\$ 2,200,000	\$ 107,276	\$ (142,930)	\$ 15,453,228
Comprehensive income	885,766	-	-	-	(108,792)	776,974
Allocated to emergency fund	-	(300,000)	300,000	-	-	-
Allocated to specific operational	(105,670)	-	-	105,670	-	-
Income allocated to designated funds	<u>(305,917)</u>	<u>305,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><i>Fund balances, December 31, 2015</i></b>	7,252,575	6,516,403	2,500,000	212,946	(251,722)	16,230,202
Comprehensive income	218,574	-	-	-	(72,173)	146,401
Allocated to specific operational	(21,939)	-	-	21,939	-	-
Income allocated to designated funds	<u>(72,173)</u>	<u>72,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><i>Fund balances, December 31, 2016</i></b>	<u>\$ 7,377,037</u>	<u>\$ 6,588,576</u>	<u>\$ 2,500,000</u>	<u>\$ 234,885</u>	<u>\$ (323,895)</u>	<u>\$ 16,376,603</u>

See Notes to Consolidated Financial Statements.



**Community Services Associates, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating activities</b>		
Excess of revenues over expenses	\$ 218,574	\$ 885,766
Adjustments to reconcile excess of revenues over expenses to net cash (used for) provided by operating activities:		
Depreciation	653,617	523,952
Gain on disposal of equipment	(49,396)	(50,657)
Realized (gain) loss on investments	(36,506)	6,021
(Increase) decrease in:		
Due from property owners, net	(14,378)	4,658
Receivables	(236,019)	(68,948)
Prepaid expenses and deposits	8,566	16,759
Special assessment receivable	(1,034,252)	-
Increase (decrease) in:		
Accounts payable	(569,935)	571,029
Accrued expenses	85,117	31,223
Deferred revenue	(1,771,444)	306,138
Net cash (used for) provided by operating activities	<u>(2,746,056)</u>	<u>2,225,941</u>
<b>Investing activities</b>		
Purchases of investments	(1,333,155)	(7,147,560)
Proceeds from sale of investments	1,758,655	6,107,929
Proceeds from disposal of equipment	59,406	84,700
Purchases of property and equipment	(448,364)	(1,439,393)
Net cash provided by (used for) investing activities	<u>36,542</u>	<u>(2,394,324)</u>
<b>Financing activities</b>		
Proceeds from line of credit	1,500,000	-
Net cash provided by financing activities	<u>1,500,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,209,514)	(168,383)
<b>Cash and cash equivalents, beginning of year</b>	<u>4,128,798</u>	<u>4,297,181</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,919,284</u>	<u>\$ 4,128,798</u>
<b>Non-cash investing activities</b>		
Uncollected proceeds from disposal of equipment	<u>\$ 48,917</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

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## Community Services Associates, Inc.

### *Notes to Consolidated Financial Statements*

*December 31, 2016 and 2015*

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#### **Note 1. Summary of Significant Accounting Policies**

##### *Nature of association*

Community Services Associates, Inc. ("CSA" or "Association") was established on September 23, 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) 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 and accordingly reflect all significant receivables, payables and other liabilities.

##### *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, 2016 and 2015

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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, 2016. 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

**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, 2016 and 2015, the amount available was \$6,264,681

**Emergency:** The Emergency Fund is used to accumulate financial resources designated in the event of a disaster or other emergency. As of December 31, 2016 and 2015, 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 \$108,752 and \$121,467 for marketing and trolley improvements and \$126,133 and \$91,479 for a dredging permit and water quality testing as of December 31, 2016 and 2015, respectively.

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## Community Services Associates, Inc.

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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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, 2016:

"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) and cost for purposes of calculating gains and losses 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).

##### 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.

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## **Community Services Associates, Inc.**

### ***Notes to Consolidated Financial Statements***

***December 31, 2016 and 2015***

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

##### *Property, equipment and depreciation, continued*

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*

Gate entry fees consist of gate pass revenues collected from non-guest visitors to the community.

##### *Annual gate entry permits*

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 2016 and 2015, residential property assessments of \$1,018 and \$1,016, respectively, were billed each year for each developed property and \$607 and \$606, 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 be always 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 shall exceed 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.

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## Community Services Associates, Inc.

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

##### Annual property owner assessments, continued

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 \$223,912 and \$207,064 for the years ended December 31, 2016 and 2015, 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 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.

##### Access fees

For the years ended December 31, 2016 and 2015, Grande Ocean Resort access fees of \$1,018 and \$1,016, respectively, were billed for each time share unit for a non-exclusive easement to access Sea Pines Plantation. These amounts totaled \$296,238 and \$295,656 for the years ended December 31, 2016 and 2015, respectively.

##### 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. There was no special assessment levied during 2015. 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, together with the 2017 regular assessment.

The original due date of the special assessment was January 13, 2017. However, the CSA’s Board authorized an extended due date of June 1, 2017, without penalty or interest. CSA’s Board authorized a payment plan after June 1, 2017 to October 1, 2017 with interest accruing at 4% per annum.

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## Community Services Associates, Inc.

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

##### Special assessment, continued

In accordance with Accounting Standards Codification (ASC) 972, *Common Interest Realty Associations*, the special assessment is recognized in revenue as the corresponding expenses are incurred. For the year ended December 31, 2016, Hurricane Matthew-related cleanup and remediation expenses totaling \$2,279,518 were recognized. Therefore, of the original \$6,270,461 special assessment, \$2,279,518 was recognized as revenue in 2016. Of this amount earned and receivable, \$1,245,266 was collected from homeowners during 2016, resulting in a special assessment receivable of \$1,034,252 at December 31, 2016. Amounts assessed but not collected at December 31, 2016 totaled \$5,025,195. This amount is not included in receivables at December 31, 2016, as the expenses have not yet been incurred and the revenue has therefore not been earned.

##### 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 shall be subject to suspension for nonpayment of assessments. The CSA Board shall be 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 (see Note 16). For the year ended December 31, 2015, CSA filed IRS Form 990 as a tax-exempt organization and intends to do the same for the year ended December 31, 2016.

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## **Community Services Associates, Inc.**

### ***Notes to Consolidated Financial Statements***

***December 31, 2016 and 2015***

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

##### *Income tax status, continued*

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, 2016 or 2015. With few exceptions, CSA is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2013.

##### *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 18, 2017, which is the date these consolidated financial statements were available to be issued.

#### **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 ("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 \$2,919,284 and \$4,128,798 and bank balances totaling \$3,634,803 and \$4,228,716 at December 31, 2016 and 2015, respectively.



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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2016 and 2015**

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**Note 3. Cash and Cash Equivalents, Continued**

Coverage for these bank balances at December 31 was as follows:

	<u>2016</u>	<u>2015</u>
Insured		
Insured by the Federal Deposit Insurance Corporation	\$ 252,008	\$ 998,564
Insured by Securities Investor Protection Corporation	<u>250,000</u>	<u>214,988</u>
	<u>502,008</u>	<u>1,213,552</u>
Uninsured and uncollateralized	<u>3,132,795</u>	<u>3,015,164</u>
Total bank balances	<u>\$ 3,634,803</u>	<u>\$ 4,228,716</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 has been established based on estimates by management in review of specific accounts of \$51,804 and \$78,886 at December 31, 2016 and 2015, respectively. Bad debt expense was \$0 and \$9,646 for the years ended December 31, 2016 and 2015, respectively.

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

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

<u>Entity</u>	<u>Relationship</u>
Association of Sea Pines Plantation Property Owners ("ASPPPO")	A voluntary association acting in the interest of residential property owners
Sea Pines Forest Preserve Foundation ("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, 2016 and 2015

#### Note 5. Related Parties and Related Party Transactions, Continued

Entity	Relationship
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.

During the years ended December 31, 2016 and 2015, CSA incurred reimbursable expenses on behalf of SPFPF, SOC, ASPPPO and SPARC. In addition, each of the related entities pays a monthly administrative services fee to CSA.

The amounts due from related parties at December 31, and costs incurred and payments received during 2016 are comprised of the following:

	2015	Costs incurred	Less payments received	2016
ASPPPO	\$ 34,973	\$ 124,982	\$ (69,930)	\$ 90,025
SPFPF	10,569	292,073	(178,455)	124,187
SOC	56,625	332,621	(281,740)	107,506
SPARC	<u>68,841</u>	<u>266,863</u>	<u>(249,296)</u>	<u>86,408</u>
Total due from related parties	<u>\$ 171,008</u>	<u>\$ 1,016,539</u>	<u>\$ (779,421)</u>	<u>\$ 408,126</u>

#### Note 6. Investments

CSA's investments as of December 31, 2016 and 2015 were comprised of non-equity marketable securities and certificates of deposit with original maturity dates greater than 90 days:

		2016			
Earlier date either callable or due	Cost	Unrealized holding gain (loss) on securities	Accrued interest	Fair market value	
Marketable CD's and bond Securities	Apr 2017 - Oct 2023	<u>\$ 9,017,044</u>	<u>\$ (323,895)</u>	<u>\$ 92,069</u>	<u>\$ 8,785,218</u>
		2015			
Earlier date either callable or due	Cost	Unrealized holding gain (loss) on securities	Accrued interest	Fair market value	
Marketable CD's and bond securities	Apr 2016 - Dec 2023	<u>\$ 9,414,162</u>	<u>\$ (251,722)</u>	<u>\$ 83,943</u>	<u>\$ 9,246,385</u>

## Community Services Associates, Inc.

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

#### Note 7. Property and Equipment

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

<u>Description</u>	<u>Estimated Life range (years)</u>	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance December 31, 2016</u>
Land		\$ 3,171,371	\$ -	\$ -	\$ 3,171,371
Building and improvements	5 – 40	2,851,872	28,657	-	2,880,529
Equipment and vehicles	3 - 10	5,424,504	419,707	(633,511)	5,210,700
		11,447,747	448,364	(633,511)	11,262,600
Accumulated depreciation		(4,246,490)	(653,617)	574,584	(4,325,523)
Net property and equipment		<u>\$ 7,201,257</u>	<u>\$ (205,253)</u>	<u>\$ (58,927)</u>	<u>\$ 6,937,077</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$653,617 and \$523,952 respectively.

#### Note 8. Other Accrued Expenses

Other accrued expenses include, among other items, accrued compensated absences of \$208,896 and \$247,802 at December 31, 2016 and 2015, respectively. Employees may accumulate vacation leave up to 160 hours for carry forward purposes. Upon termination, accumulated vacation leave is paid. Employees are entitled to 48 hours per year of sick leave and may carry forward up to 120 hours, with any additional hours forfeited.

#### Note 9. Deferred Revenue

Deferred revenue is comprised primarily of assessments paid in advance. Annual assessments for the years 2017 and 2016 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:

	<u>2016</u>	<u>2015</u>
Approved and unapproved property assessments billed, for subsequent year	\$ 6,647,537	\$ 6,366,526
Less assessments not collected at year end	<u>(5,276,375)</u>	<u>(3,215,812)</u>
Deferred revenue from property assessments	1,371,162	3,150,714
Cell tower rental, private charter fees, received in advance	<u>52,024</u>	<u>43,916</u>
	<u>\$ 1,423,186</u>	<u>\$ 3,194,630</u>

#### Note 10. Income Taxes

CSA self-declared exempt status under IRC Section 501(c)(4) as an exempt social welfare organization effective January 1, 2014, and in 2015 filed a Form 1024 application with the IRS requesting formal recognition of its tax exempt status. CSA's tax exempt status was upheld during 2016.

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2016 and 2015**

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**Note 10. Income Taxes, Continued**

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, 2016 and 2015.

**Note 11. Commitments and Contingencies**

CSA has commitments in place for future community center rent, insurance, taxes and common area maintenances totaling approximately \$75,000.

Under the terms and conditions of employment agreements with certain key employees, CSA is obligated to make severance payments in the event the employee or CSA delivers a proper written notice of non-renewal or CSA delivers a proper written notice for termination without cause. The amount of severance is equal to one month's current salary for each full year of service, not to exceed twelve months, plus eligible accrued vacation hours (see also Note 8).

**Note 12. Lines of Credit**

CSA entered into a line of credit agreement on June 27, 2011 with Morgan Stanley (financial institution) 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 0.55% and 0.28% at December 31, 2016 and 2015, respectively. The available line of credit as of December 31, 2016 and 2015 was approximately \$4.7 million and \$6.2 million, respectively. The balance outstanding on the line of credit as of December 31, 2016 and 2015 was \$1,500,000 and \$0, respectively. The outstanding balance as of December 31, 2016 was paid in full during January 2017.

CSA entered into another line of credit with BB&T on May 29, 2015. Maximum borrowings under this line of credit are \$5,000,000 and bears interest at the bank's prime rate minus 0.50%. The bank's prime rate was 3.75% and 3.50% as of December 31, 2016 and 2015, respectively. This line of credit is secured by all income and assessments of CSA and is due in full on May 29, 2017. There was no outstanding balance on this line of credit as of December 31, 2016 or 2015.

**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 completed a reserve study in November 2005, which was updated June 20, 2016, with the assistance of a professional capital reserve consultant to estimate the remaining useful lives and major repairs and replacement costs of the components of common property that have limited and predictable useful lives. 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.

## Community Services Associates, Inc.

### Notes to Consolidated Financial Statements

December 31, 2016 and 2015

#### 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 \$128,119 and \$142,113 for the years ended December 31, 2016 and 2015, respectively. CSA's 401k retirement plan is administered by a financial institution.

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

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also 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.

In determining the appropriate levels, the Association performs an analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. 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:

	2016			
	Level 1	Level 2	Level 3	Fair Value
Investments				
Bonds and fixed income	\$ -	\$ 8,554,997	\$ -	\$ 8,554,997
Certificates of deposit	<u>230,221</u>	<u>-</u>	<u>-</u>	<u>230,221</u>
	<u>\$ 230,221</u>	<u>\$ 8,554,997</u>	<u>\$ -</u>	<u>\$ 8,785,218</u>

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**Community Services Associates, Inc.****Notes to Consolidated Financial Statements****December 31, 2016 and 2015**

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

	<b>2015</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Bonds and fixed income	\$ -	\$ 8,389,624	\$ -	\$ 8,389,624
Certificates of deposit	<u>856,761</u>	<u>-</u>	<u>-</u>	<u>856,761</u>
	<u>\$ 856,761</u>	<u>\$ 8,389,624</u>	<u>\$ -</u>	<u>\$ 9,246,385</u>

**Note 16. Subsequent Event**

Subsequent to December 31, 2016, CSA incurred special assessment related expenses \$1,366,019 and collected amounts due from residents totaling \$3,147,259. The remaining uncollected special assessment balance was \$1,877,936 as of March 31, 2017.

## **Supplementary Information**

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**Community Services Associates, Inc.****Schedule of Future Major Repairs and Replacements (Unaudited)****December 31, 2016**

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Management of Community Services Associates, Inc. obtained an updated reserve study from a capital reserve consultant on June 12, 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 original study conducted in November 2005 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 have been revised by management for infrastructure components' price changes as well as the actual replacements and deletions of vehicles, equipment, and building components between December 31, 2015, and June 12, 2016. Estimated replacement costs do not take into account the effects of inflation between the date of the updated study and the date that the components will require major repairs or replacement.

The following information is based on the updated 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>



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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, 2016 and 2015**

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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>2016</u>	<u>2015</u>
Total assets	\$ <u>355,119</u>	\$ <u>358,252</u>
Liabilities	\$ 174,534	\$ 122,877
Net assets	<u>180,585</u>	<u>235,375</u>
Total liabilities and net assets	<u>\$ 355,119</u>	<u>\$ 358,252</u>
	<u>2016</u>	<u>2015</u>
Support and revenue	\$ 444,839	\$ 468,186
Expenses	<u>499,629</u>	<u>412,051</u>
Change in net assets	<u>\$ (54,790)</u>	<u>\$ 56,135</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, 2016 and 2015**

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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>2016</u>	<u>2015</u>
Total assets	\$ 583,596	\$ 563,924
Liabilities	\$ 124,187	\$ 11,935
Net assets	<u>459,409</u>	<u>551,989</u>
Total liabilities and net assets	<u>\$ 583,596</u>	<u>\$ 563,924</u>
	<u>2016</u>	<u>2015</u>
Support and revenue	\$ 168,070	\$ 184,606
Expenses	<u>260,650</u>	<u>131,989</u>
Change in net assets	<u>\$ (92,580)</u>	<u>\$ 52,617</u>