

Community Services Associates, Inc.

***Report on Consolidated Financial
Statements***

For the years ended December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016 and the changes in its fund balances and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 21 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Disclaimer of Opinion on Supplementary Information

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



Charleston, South Carolina
April 17, 2018

Community Services Associates, Inc.**Consolidated Balance Sheets****As of December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,808,635	\$ 2,919,284
Investments, at fair value	10,217,028	8,785,218
Special assessment receivable, net	26,832	5,025,451
Due from property owners, net of allowance for uncollectible assessments of \$65,461 in 2017 and \$51,804 in 2016	13,986	18,816
Due from related parties	300,398	408,126
Other receivables	56,823	85,588
Prepaid expenses and deposits	455,424	13,914
Total current assets	<u>12,879,126</u>	<u>17,256,397</u>
Property and equipment, net	<u>7,147,797</u>	<u>6,937,077</u>
Total assets	<u>\$ 20,026,923</u>	<u>\$ 24,193,474</u>
Liabilities and Fund Balances		
Current liabilities		
Line of credit	\$ -	\$ 1,500,000
Accounts payable	646,268	494,634
Other accrued expenses	321,972	407,852
Deferred revenue	550,734	1,423,186
Special assessment deferred revenue	1,446,742	3,991,199
Total current liabilities	<u>2,965,716</u>	<u>7,816,871</u>
Fund balances		
Undesignated	787,399	439,960
Designated		
Board designated for property and equipment	7,147,797	6,937,077
Board designated for capital replacement	6,607,990	6,588,576
Board designated for emergency	2,500,000	2,500,000
Board designated for specific operational	361,330	234,885
Total designated	<u>16,617,117</u>	<u>16,260,538</u>
Accumulated other comprehensive loss	<u>(343,309)</u>	<u>(323,895)</u>
Total fund balances	<u>17,061,207</u>	<u>16,376,603</u>
Total liabilities and fund balances	<u>\$ 20,026,923</u>	<u>\$ 24,193,474</u>

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Revenues and Expenses
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Assessments and fees		
Residential assessment	\$ 6,029,796	\$ 5,971,130
Special assessment	2,544,201	2,279,518
Sea Pines Resort, LLC assessment	229,687	223,912
Other business land owner assessments and fees	201,446	204,293
Total assessments and fees	<u>9,005,130</u>	<u>8,678,853</u>
Gate fees and annual entry permits	<u>4,762,567</u>	<u>4,199,739</u>
Total revenues	<u>13,767,697</u>	<u>12,878,592</u>
Expenses		
Maintenance, sign shop and facilities	3,658,614	3,142,674
Safety and security	2,464,399	2,580,721
General and administrative	2,325,337	2,691,395
Major repair and replacement projects	1,612,689	1,588,482
Sea Pines trolley and maps	323,477	394,464
Depreciation	613,032	653,617
Hurricane Matthew expenses	2,544,201	2,279,518
Hurricane Irma expenses	126,532	-
Total expenses	<u>13,668,281</u>	<u>13,330,871</u>
Revenues over (under) expenses from operations	<u>99,416</u>	<u>(452,279)</u>
Other income, net		
Investment income	271,466	378,223
Other	<u>333,136</u>	<u>292,630</u>
Total other income	<u>604,602</u>	<u>670,853</u>
Excess of revenues over expenses	<u>\$ 704,018</u>	<u>\$ 218,574</u>

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Excess of revenues over expenses	\$ 704,018	\$ 218,574
<i>Other comprehensive income (loss)</i>		
Unrealized holding loss on available-for-sale securities	(163,857)	(33,809)
Reclassification adjustment for (gains) losses included in net income	<u>144,443</u>	<u>(38,364)</u>
Other comprehensive loss	<u>(19,414)</u>	<u>(72,173)</u>
Comprehensive income	<u><u>\$ 684,604</u></u>	<u><u>\$ 146,401</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, 2017 and 2016

	Undesignated	Designated For Property and Equipment	Designated For Capital Replacement	Designated For Emergency	Designated For Specific Operational	Accumulated Other Comprehensive Loss	Total
Fund balances, January 1, 2016	\$ 51,318	\$ 7,201,257	\$ 6,516,403	\$ 2,500,000	\$ 212,946	\$ (251,722)	\$ 16,230,202
Comprehensive income (loss)	822,795	(604,221)	-	-	-	(72,173)	146,401
Purchases of property and equipment, net of sales	(340,041)	340,041	-	-	-	-	-
Allocated to specific operational	(21,939)	-	-	-	21,939	-	-
Income allocated to designated funds	(72,173)	-	72,173	-	-	-	-
Fund balances, December 31, 2016	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	-	-	-	-
Fund balances, December 31, 2017	<u>\$ 787,399</u>	<u>\$ 7,147,797</u>	<u>\$ 6,607,990</u>	<u>\$ 2,500,000</u>	<u>\$ 361,330</u>	<u>\$ (343,309)</u>	<u>\$ 17,061,207</u>

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities		
Excess of revenues over expenses	\$ 704,018	\$ 218,574
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used for) operating activities:		
Depreciation	613,032	653,617
Gain on disposal of equipment	(18,197)	(49,396)
Realized (gain) loss on investments	300,959	(36,506)
(Increase) decrease in:		
Special assessment receivable	4,998,619	(5,025,451)
Due from property owners, net	4,830	(14,378)
Due from related parties	107,728	(237,118)
Other receivables	16,803	1,099
Prepaid expenses and deposits	(441,510)	8,566
Increase (decrease) in:		
Accounts payable	151,634	(569,935)
Other accrued expenses	(85,880)	85,117
Deferred revenue	(872,452)	(1,771,444)
Special assessments deferred revenue	(2,544,457)	3,991,199
Net cash provided by (used for) operating activities	<u>2,935,127</u>	<u>(2,746,056)</u>
Investing activities		
Purchases of investments	(7,443,239)	(1,333,155)
Proceeds from sale of investments	5,691,056	1,758,655
Proceeds from disposal of equipment	62,198	59,406
Purchases of property and equipment	(855,791)	(448,364)
Net cash provided by (used for) investing activities	<u>(2,545,776)</u>	<u>36,542</u>
Financing activities		
(Payments on) proceeds from line of credit	(1,500,000)	1,500,000
Net cash provided by (used for) financing activities	<u>(1,500,000)</u>	<u>1,500,000</u>
Net decrease in cash and cash equivalents	(1,110,649)	(1,209,514)
Cash and cash equivalents, beginning of year	<u>2,919,284</u>	<u>4,128,798</u>
Cash and cash equivalents, end of year	<u>\$ 1,808,635</u>	<u>\$ 2,919,284</u>
Non-cash investing activities		
Uncollected proceeds from disposal of equipment	<u>\$ 36,955</u>	<u>\$ 48,917</u>

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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").

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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, 2017 and 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, 2017 and 2016, 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, 2017 and 2016, 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 \$249,968 and \$108,752 for marketing and trolley improvements as of December 31, 2017 and 2016, respectively, and \$111,362 and \$126,133 for dredging permit, mobilization and water quality testing as of December 31, 2017 and 2016, respectively.

Property and Equipment: The Property and Equipment Fund represents CSA's investment in property and equipment.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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.

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2017 and 2016**

Note 1. Summary of Significant Accounting Policies, ContinuedProperty, 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 2017 and 2016, residential property assessments of \$1,028 and \$1,018, respectively, were billed each year for each developed property and \$613 and \$607, 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.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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 \$229,687 and \$223,912 for the years ended December 31, 2017 and 2016, respectively. All other business landowners whose properties are not owned, managed or controlled by SPR, contribute one percent (1%) of adjusted gross resort revenue.

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

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

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

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, 2017, 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.

Access fees

For the years ended December 31, 2017 and 2016, Grande Ocean Resort access fees of \$1,028 and \$1,018, respectively, were billed for each time share unit for a non-exclusive easement to access Sea Pines Plantation. These amounts totaled \$298,120 and \$296,238 for the years ended December 31, 2017 and 2016, respectively.

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2017 and 2016**

Note 1. Summary of Significant Accounting Policies, ContinuedSpecial 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, 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.

The special assessment is recognized in revenue as the corresponding expenses are incurred. For the year ended December 31, 2017 and 2016, Hurricane Matthew-related cleanup and remediation expenses totaling \$2,544,201 and \$2,279,518, respectively, were recognized. Therefore, of the original \$6,270,461 special assessment, \$2,544,201 and \$2,279,518 was recognized as revenue in 2017 and 2016, respectively. Of these amounts, \$4,978,363 and \$1,245,266 was collected from homeowners during 2017 and 2016, respectively, resulting in a special assessment receivable of \$26,832 and \$5,025,451 at December 31, 2017 and 2016, respectively and a special assessment deferred revenue of \$1,446,742 and \$3,991,199 at December 31, 2017 and 2016, respectively. The special assessment receivable, as of December 31, 2017, is presented net of an allowance for uncollectible assessments of \$20,000.

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.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, Continued

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. 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, 2017 or 2016.

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 17, 2018, which is the date these consolidated financial statements were available to be issued.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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. The Association is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows. CSA is currently evaluating the impact of this new guidance on its financial statement presentation.

In February 2016, 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 financial statement presentation.

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 \$1,808,635 and \$2,919,284 and bank balances totaling \$2,245,190 and \$3,634,803 at December 31, 2017 and 2016, respectively.

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2017 and 2016**

Note 3. Cash and Cash Equivalents, Continued

Coverage for these balances at December 31 was as follows:

	<u>2017</u>	<u>2016</u>
Insured		
Insured by the Federal Deposit Insurance Corporation	\$ 251,711	\$ 252,008
Insured by Securities Investor Protection Corporation	<u>250,000</u>	<u>250,000</u>
	<u>501,711</u>	<u>502,008</u>
Uninsured and uncollateralized	<u>1,743,479</u>	<u>3,132,795</u>
Total bank balances	<u>\$ 2,245,190</u>	<u>\$ 3,634,803</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 \$65,461 and \$51,804 at December 31, 2017 and 2016, respectively. Bad debt expense was \$35,760 for the year ended December 31, 2017. There was no bad debt expense incurred during the year ended December 31, 2016.

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, 2017 and 2016

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, 2017 and 2016, 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 2017, costs incurred and payments received during the year then ended are comprised of the following:

	2016	Costs incurred	Less payments received	2017
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
Total due from related parties	<u>\$ 408,126</u>	<u>\$ 1,294,786</u>	<u>\$ (1,402,514)</u>	<u>\$ 300,398</u>

The amounts due from related parties at December 31 2016, costs incurred and payments received during the year then ended 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	68,841	266,863	(249,296)	86,408
Total due from related parties	<u>\$ 171,008</u>	<u>\$ 1,016,539</u>	<u>\$ (779,421)</u>	<u>\$ 408,126</u>

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 6. Investments

CSA's investments as of December 31, 2017 and 2016 were comprised of non-equity marketable securities and certificates of deposit with original maturity dates greater than 90 days:

	2017				
	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>\$ 10,469,554</u>	<u>\$ (343,309)</u>	<u>\$ 90,783</u>	<u>\$ 10,217,028</u>

	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>

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,			Balance December 31,
		2016	Additions	Disposals	2017
Land		\$ 3,171,371	\$ -	\$ -	\$ 3,171,371
Building and improvements	5 - 40	2,880,529	31,311	-	2,911,840
Equipment and vehicles	3 - 10	<u>5,210,700</u>	<u>824,480</u>	<u>(423,451)</u>	<u>5,611,729</u>
		11,262,600	855,791	(423,451)	11,694,940
Accumulated depreciation		<u>(4,325,523)</u>	<u>(613,032)</u>	<u>391,412</u>	<u>(4,547,143)</u>
Net property and equipment		<u>\$ 6,937,077</u>	<u>\$ 242,759</u>	<u>\$ (32,039)</u>	<u>\$ 7,147,797</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$613,032 and \$653,617 respectively.

Note 8. Other Accrued Expenses

Other accrued expenses include, among other items, accrued compensated absences of \$242,159 and \$208,896 at December 31, 2017 and 2016, 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.

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2017 and 2016**

Note 9. Deferred Revenue

Deferred revenue is comprised primarily of annual assessments paid in advance. Assessments for the years 2018 and 2017 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>2017</u>	<u>2016</u>
Property assessments received in advance for the subsequent year	\$ 525,618	\$ 1,371,162
Cell tower rental	<u>25,116</u>	<u>52,024</u>
	<u>\$ 550,734</u>	<u>\$ 1,423,186</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, 2017 and 2016.

Note 11. Commitments and Contingencies

In 2017, 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, 2017:

2018	\$ 75,960
2019	78,492
2020	81,024
2021	83,556
2022	<u>86,088</u>
	<u>\$ 405,120</u>

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).

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2017 and 2016**

Note 12. Lines of Credit

CSA entered into a line of credit agreement on June 27, 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 1.42% and 0.55% at December 31, 2017 and 2016, respectively. The available line of credit as of December 31, 2017 and 2016 was approximately \$4.7 million. There was no outstanding balance on this line of credit as of December 31, 2017. The balance outstanding on the line of credit as of December 31, 2016 was \$1,500,000.

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 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, 2017 and 2016, 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, 2017 or 2016.

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 reserve study on June 20, 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 \$128,650 and \$128,119 for the years ended December 31, 2017 and 2016, respectively. CSA's 401k retirement plan is administered by a financial institution.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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.

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

	2017			
	Level 1	Level 2	Level 3	Fair Value
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>
	2016			
	Level 1	Level 2	Level 3	Fair Value
Investments				
Bonds	\$ -	\$ 8,554,997	\$ -	\$ 8,554,997
Certificates of deposit	230,221	-	-	230,221
	<u>\$ 230,221</u>	<u>\$ 8,554,997</u>	<u>\$ -</u>	<u>\$ 8,785,218</u>

Note 16. Subsequent Event

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. Subsequent to December 31, 2017, the Association received notice that it was party to a new lawsuit related to events which occurred during the year ended December 31, 2016. The Association has filed for dismissal of the complaint with the court, and does not believe that any damages are likely. The Association maintains general liability insurance to cover any potential damages awarded to the plaintiff. Management has not reflected any liability for legal settlements on the consolidated balance sheet as of December 31, 2017.

Supplementary Information

Community Services Associates, Inc.**Schedule of Future Major Repairs and Replacements (Unaudited)****December 31, 2017**

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

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

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

Community Services Associates, Inc.**Schedules of Financial Information on Six Oaks Cemetery, Inc. (Unaudited)****As of and for the years ended December 31, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Total assets	\$ <u>397,401</u>	\$ <u>355,119</u>
Liabilities	\$ 74,708	\$ 174,534
Net assets	<u>322,693</u>	<u>180,585</u>
Total liabilities and net assets	<u>\$ 397,401</u>	<u>\$ 355,119</u>
	<u>2017</u>	<u>2016</u>
Support and revenue	\$ 561,422	\$ 444,839
Expenses	<u>419,314</u>	<u>499,629</u>
Change in net assets	<u>\$ 142,108</u>	<u>\$ (54,790)</u>

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, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Total assets	\$ 646,890	\$ 583,596
Liabilities	\$ 41,206	\$ 124,187
Net assets	<u>605,684</u>	<u>459,409</u>
Total liabilities and net assets	<u>\$ 646,890</u>	<u>\$ 583,596</u>
	<u>2017</u>	<u>2016</u>
Support and revenue	\$ 440,009	\$ 168,070
Expenses	<u>293,734</u>	<u>260,650</u>
Change in net assets	<u>\$ 146,275</u>	<u>\$ (92,580)</u>