

Community Services Associates, Inc.

***Report on Consolidated Financial
Statements***

For the Years Ended December 31, 2021 and 2020

Community Services Associates, Inc.

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Board Officers

| | |
|----------------|------------|
| Larry Movshin | Chair |
| James Kaskie | Vice Chair |
| David Borghesi | Treasurer |
| Cary Corbitt | Secretary |

Independent Auditor's Report

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

Qualified Opinion

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, 2021 and 2020, and the related consolidated statements of revenues and expenses, changes in fund balances and cash flows, for the years then ended and the related notes to the consolidated financial statements (collectively the "financial statements").

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 2 to the 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

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

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
April 27, 2022

Community Services Associates, Inc.**Consolidated Balance Sheets****As of December 31, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 3,050,268 | \$ 3,010,591 |
| Investments, at Fair Value | 9,622,834 | 10,403,549 |
| Due from Property Owners, Net of Allowance for Uncollectible Assessments of \$52,303 in 2021 and \$53,372 in 2020 | 81,923 | 155,691 |
| Due from Related Parties | 123,557 | 366,419 |
| Prepaid Expenses and Deposits | 74,154 | 1,000 |
| Total Current Assets | <u>12,952,736</u> | <u>13,937,250</u> |
| Property and Equipment, Net | 7,933,695 | 8,415,070 |
| Right of Use Asset | <u>74,781</u> | <u>149,373</u> |
| Total Assets | <u>\$ 20,961,212</u> | <u>\$ 22,501,693</u> |
| Liabilities and Fund Balances | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Expenses | \$ 876,478 | \$ 357,568 |
| Retainage Payable | 141,800 | 31,760 |
| Accrued Payroll and Related Benefits | 404,547 | 535,989 |
| Operating Lease Liability | 78,579 | 75,858 |
| Deferred Revenue | 1,666,383 | 2,570,617 |
| Total Current Liabilities | <u>3,167,787</u> | <u>3,571,792</u> |
| Non-Current Liabilities | | |
| Operating Lease Liability | - | 78,579 |
| Total Liabilities | <u>3,167,787</u> | <u>3,650,371</u> |
| Fund Balances | | |
| Undesignated | 1,632,542 | 2,334,182 |
| Undesignated Infrastructure Improvements | (1,387,211) | - |
| Designated | | |
| Board Designated for Property and Equipment | 7,933,695 | 8,415,070 |
| Board Designated for Capital Replacement | 6,114,517 | 5,114,517 |
| Board Designated for Emergency | 2,854,000 | 2,500,000 |
| Board Designated for Specific Operational | 645,882 | 487,553 |
| Total Fund Balances | <u>17,793,425</u> | <u>18,851,322</u> |
| Total Liabilities and Fund Balances | <u>\$ 20,961,212</u> | <u>\$ 22,501,693</u> |

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Revenues and Expenses
For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|-----------------------|-------------------|
| Revenues | | |
| Assessments and Fees | | |
| Residential Assessments | \$ 6,517,647 | \$ 6,440,690 |
| Sea Pines Resort Assessments | 231,754 | 261,205 |
| Other Commercial Assessments | 68,708 | 85,562 |
| Gate Entry and Permit Fees | 6,620,991 | 5,164,039 |
| Other Operating Revenue | 416,502 | 352,413 |
| Total Assessments and Fees | <u>13,855,602</u> | <u>12,303,909</u> |
| Expenses | | |
| Maintenance | 4,050,895 | 3,459,113 |
| Safety and Security | 3,441,624 | 3,423,102 |
| Sea Pines Trolley | 346,084 | 230,876 |
| General and Administrative | 3,210,879 | 2,433,166 |
| Facilities | 487,602 | 410,736 |
| Major Repair and Replacement Projects | 2,298,259 | 2,159,109 |
| Depreciation | 800,092 | 776,838 |
| Tropical Storm Elsa | 225,528 | - |
| Total Expenses | <u>14,860,963</u> | <u>12,892,940</u> |
| Revenues (Under) Expenses from Operations | <u>(1,005,361)</u> | <u>(589,031)</u> |
| Other Income, Net | | |
| Investment Income | 84,209 | 540,463 |
| Governmental Grant | - | 1,110,500 |
| Other Income (Expense) | (136,745) | (139,228) |
| Total Other Income, Net | <u>(52,536)</u> | <u>1,511,735</u> |
| Revenues Over (Under) Expenses | <u>\$ (1,057,897)</u> | <u>\$ 922,704</u> |

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Changes in Fund Balances
For the Years Ended December 31, 2021 and 2020

| | Undesignated | Undesignated For Infrastructure Improvements | Designated For Property and Equipment | Designated For Capital Replacement | Designated For Emergency | Designated For Specific Operational | Total |
|---|--------------|--|---------------------------------------|------------------------------------|--------------------------|-------------------------------------|---------------|
| Fund Balances, January 1, 2020 | \$ 917,634 | \$ - | \$ 9,015,232 | \$ 5,114,517 | \$ 2,500,000 | \$ 381,235 | \$ 17,928,618 |
| Revenues Over (Under) Expenses | 1,522,866 | - | (780,988) | 180,826 | - | - | 922,704 |
| Purchases of Property and Equipment, Net of Sales | - | - | 180,826 | (180,826) | - | - | - |
| Allocated to Specific Operational | (106,318) | - | - | - | - | 106,318 | - |
| Fund Balances, December 31, 2020 | 2,334,182 | - | 8,415,070 | 5,114,517 | 2,500,000 | 487,553 | 18,851,322 |
| Revenues Over (Under) Expenses | 810,689 | (1,387,211) | (800,092) | 318,717 | - | - | (1,057,897) |
| Purchases of Property and Equipment, Net of Sales | - | - | 318,717 | (318,717) | - | - | - |
| Allocated to Specific Operational | (158,329) | - | - | - | - | 158,329 | - |
| Fund Balance Transfers | (1,354,000) | - | - | 1,000,000 | 354,000 | - | - |
| Fund Balances, December 31, 2021 | \$ 1,632,542 | \$ (1,387,211) | \$ 7,933,695 | \$ 6,114,517 | \$ 2,854,000 | \$ 645,882 | \$ 17,793,425 |

See Notes to Consolidated Financial Statements.

Community Services Associates, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Operating activities | | |
| Revenues Over (Under) Expenses | \$ (1,057,897) | \$ 922,704 |
| Adjustments to Reconcile Revenues Over Expenses to | | |
| Net Cash Provided By Operating Activities: | | |
| Depreciation and Amortization | 800,092 | 776,838 |
| Gain on Disposal of Property and Equipment | (111,974) | (30,305) |
| Unrealized (Gain) Loss on Investments | 400,544 | (197,284) |
| Non Cash Rental Expense | (1,266) | 1,266 |
| (Increase) Decrease in: | - | |
| Due from Property Owners, Net | 73,768 | (81,938) |
| Due from Related Parties | 242,862 | (209,277) |
| Prepaid Expenses and Deposits | (73,154) | (1,000) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | 387,468 | (62,822) |
| Retainage Payable | 110,040 | 1,811 |
| Due to Property Owners | - | (493,547) |
| Deferred Revenue | (904,234) | 2,381,245 |
| Net Cash Provided (Used) By Operating Activities | <u>(133,751)</u> | <u>3,007,691</u> |
| Investing Activities | | |
| Purchases of Investments | (4,570,627) | (4,999,394) |
| Proceeds from Sale of Investments | 4,950,798 | 4,568,857 |
| Proceeds from Disposal of Property and Equipment | 60,974 | 34,455 |
| Purchases of Property and Equipment | (267,717) | (180,826) |
| Net Cash Provided By (Used For) Investing Activities | <u>173,428</u> | <u>(576,908)</u> |
| Net Increase in Cash and Cash Equivalents | 39,677 | 2,430,783 |
| Cash and Cash Equivalents, Beginning of Year | <u>3,010,591</u> | <u>579,808</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 3,050,268</u> | <u>\$ 3,010,591</u> |
| Non-Cash Investing Activities: | | |
| Trade-In Allowance on Purchase of Property and Equipment | <u>\$ 51,000</u> | <u>\$ -</u> |

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Nature and Governance of Association

Nature of Association

Community Services Associates, Inc. ("CSA" or "Association") was established in September 1987 as a non-profit membership corporation for the Sea Pines 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 is a planned community development that began as an integrated resort, residential, and recreational community which consists of Sea Pines Resort ("SPR"), commercial businesses, residential single and multi-family dwelling units (maximum 5,890 units), and community properties that are located within the Town of Hilton Head Island, South Carolina.

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

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

Governance

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

Class A members are owners of single-family lots, single-family dwelling units and multi-family dwelling units with one vote for each lot and/or unit, essentially residential property owners.

Class B members (other than SPR) are property owners other than Class A members (including owners of business land, commercial properties and parcels held for development). These Class B members elect four directors and are each entitled to one Class B vote and shall have one additional vote for each \$500 of assessments over and above the first \$500 in assessments paid in the prior year for the purpose of electing Class B Directors.

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

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies

Financial statement presentation

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

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

CSA's officers serve on and have appointment authority, with approval of the CSA Board, over the respective boards of Sea Pines Forest Preserve Foundation, Inc. ("SPFPF") and Six Oaks Cemetery, Inc. ("SOC"). Accordingly, the financial statements of SPFPF and SOC should be consolidated with CSA due to this level of control and their overall economic dependency on the Association. However, the Association believes the operations of these entities are not compatible to its operations, and the Association provided no financial subsidy to either entity. Therefore the Association has elected not to consolidate these two entities and to present only the financial position and results of operations of CSA and its wholly owned subsidiary. Transactions with these related parties are further described in Note 12. Unaudited financial information of SPFPF and SOC are presented in the accompanying Supplementary Information.

Use of estimates

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

Cash and cash equivalents

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

Investments

Investments are reported at fair value.

Due from property owners

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

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies, continued

Due from property owners, continued

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

An allowance for uncollectible assessments on outstanding balances has been established based on estimates by management in review of specific accounts as well as historical experience. Bad debt expense for the years ended December 31, 2021 and 2020 was \$0 and \$13,377, respectively.

Property, equipment and depreciation

Property includes purchased land, buildings, furniture, fixtures, and equipment with a useful life over one year or where it extends the useful life of an existing asset. Depreciation is provided for capitalized buildings, furniture, fixtures, and equipment using the straight-line method over the estimated useful lives of the respective assets. Estimated lives of the depreciable property and equipment range from 3 to 40 years.

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

Undesignated infrastructure improvements

Undesignated infrastructure improvements are financial resources for community-wide infrastructure improvement projects. These projects are to be funded by an increase in the property owner assessments as approved by a certified vote of more than 87% of those submitting a ballot, to amend the Covenants. Such additional funding is expected to raise approximately \$3.5 million annually. During the year ended December 31, 2021, \$1,387,211 was spent on infrastructure improvements. No amounts were spent during the year ended December 31, 2020. See Note 14.

Designated funds

Property and Equipment: The Property and Equipment Fund represents CSA's investment in property and equipment recorded at cost, net of accumulated depreciation. As of December 31, 2021 and 2020, the balance was \$7,933,695 and \$8,415,070, respectively.

Capital Replacement: The Capital Replacement Fund is used to accumulate financial resources designated for future major repairs and replacement of common property. As of December 31, 2021 and 2020, the amount available was \$6,114,517 and \$5,114,517, respectively.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies, continued

Management of CSA received a related reserve study in June 2020. 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 requirements. Actual future expenditures may vary materially from those estimates. Therefore, amounts accumulated in the Capital Replacement Fund may not be adequate to meet future needs.

Emergency: The Emergency Fund is used to accumulate financial resources designated in the event of a disaster or other emergency. As of December 31, 2021 and 2020, the balance in the Emergency Fund was \$2,854,000 and \$2,500,000, respectively.

Specific Operational: The Specific Operational Fund is used to accumulate financial resources for other operational activities, including \$438,157 and \$376,401 for marketing and trolley lot improvements; \$72,512 and \$0 for improvements to property owners and short term rental beach shuttle parking lot, (\$8,353) and (\$1,282) for commercial property owners marketing fund and \$143,566 and \$112,434 for dredging permit, mobilization and water quality testing as of December 31, 2021 and 2020, respectively.

Revenue recognition

CSA's primary sources of revenue are derived from residential and commercial property owner assessments and gate entry fees and permits. Virtually all of CSA's revenues relate to performance obligations that are satisfied over time (typically all or a portion of the calendar year), except for gate entry fees and other operating revenue aggregating \$5,792,761 and \$4,363,215 for the years ended December 31, 2021 and 2020, respectively, for which performance obligation is satisfied at a point in time.

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

Major repair and replacement projects

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

Income tax status

CSA has recognition of tax exempt status under Section 501(c)(4) of the Internal Revenue Code ("IRC"). CSA files Internal Revenue Service ("IRS") Form 990 as a tax-exempt organization.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2. Summary of Significant Accounting Policies, 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 as of and for the years ended December 31, 2021 or 2020.

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through April 27, 2022, which is the date these consolidated financial statements were available to be issued.

Note 3. Cash and Cash Equivalents

CSA's cash and cash equivalents had book balances totaling \$3,050,268 and \$3,010,591 and bank balances totaling \$3,330,255 and \$3,117,867 at December 31, 2021 and 2020, respectively.

CSA maintains its cash and cash equivalents with several financial institutions. The balances in these accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. CSA also maintains cash and cash equivalents 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.

Coverage for these balances at December 31 was as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Insured | | |
| Insured by the Federal Deposit Insurance Corporation | \$ 250,000 | \$ 250,000 |
| Insured by Securities Investor Protection Corporation | 500,000 | 12,714 |
| | <u>750,000</u> | <u>262,714</u> |
| Uninsured and Uncollateralized | <u>2,580,255</u> | <u>2,855,153</u> |
| Total Bank Balances | <u>\$ 3,330,255</u> | <u>\$ 3,117,867</u> |

Note 4. Assessments and Fees

Annual property owner assessments

For 2021 and 2020, residential property assessments of \$1,110 and \$1,095, respectively, were billed for each developed property and \$661 and \$652, 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

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Assessments and Fees, continued

always be developed. Annual operating assessments may be greater or less than, or the same as, the assessment for the previous year, provided that no such increase exceeds the increase in the Consumer Price Index ("CPI") for

the most recent 12 month period prior to such determination. If the Board fails to determine the annual assessment for any year, the annual assessment for such year shall be the same as the previous year.

SPR contributes annually toward the funding of community services at one-half of one percent (0.5%) of the adjusted gross resort revenue that they earned during the immediately preceding calendar year. This amounted to \$231,754 and \$261,205 for the years ended December 31, 2021 and 2020, 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.

Special assessments

The Board, by a vote of two-thirds (2/3) of its members, may levy a special assessment for emergency funding following an extraordinary disaster as declared by an appropriate government agency for damage to common properties. The Board may levy such special assessments for an amount not to exceed the total amount of the annual assessment in effect for the current year. Special assessments in excess of that amount must be approved by a referendum. Special Assessments are recognized in revenue when related expenses have been incurred. There were no special assessments levied for the years ended December 31, 2021 and 2020.

Access fees

For the years ended December 31, 2021 and 2020, Grande Ocean Resort access fees of \$1,110 and \$1,095, respectively, were billed for each time share unit for a non-exclusive easement to access Sea Pines Plantation. These amounts totaled \$321,900 and \$317,550 for the years ended December 31, 2021 and 2020, respectively, and are included in Gate Entry and Permit Fees on the Consolidated Statements of Revenue and Expenses.

Community Services Associates, Inc.
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4. Assessments and Fees, continued

Agreement with the Town of Hilton Head Island

CSA has an agreement with the Town of Hilton Head Island, South Carolina (the "Town") to receive reimbursement for necessary or emergency repairs and replacements of the storm water infrastructure incurred by CSA. The agreement limits the Town's liability to the extent of available funding it receives from Beaufort County, South Carolina. The Town reimbursed CSA \$111,399 for costs incurred in prior years during the year ended December 31, 2021 which is recorded as Other Income.

Note 5. Investments

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

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

CSA's investments as of December 31, 2021 and 2020 were comprised of non-equity marketable securities and certificates of deposit with original maturity dates greater than 90 days:

| At December 31, | Earlier date either callable or due | Cost | Unrealized holding gain on securities | Accrued Interest | Fair Market Value |
|-----------------|---|---------------------|--|---------------------|----------------------|
| 2021 | January 2022 - September 2028 | <u>\$ 9,397,284</u> | <u>\$ 162,455</u> | <u>\$ 63,095</u> | <u>\$ 9,622,834</u> |
| 2020 | January 2021 - September 2028 | <u>\$ 9,910,427</u> | <u>\$ 426,697</u> | <u>\$ 66,425</u> | <u>\$ 10,403,549</u> |

Investment income for the years ended December 31, 2021 and 2020 is comprised as follows:

| | 2021 | 2020 |
|--|------------------|-------------------|
| Interest Income | \$ 343,429 | \$ 338,275 |
| Appreciation (depreciation) of investments | (264,242) | 197,284 |
| Realized gain on sale of investments | <u>5,022</u> | <u>4,904</u> |
| | <u>\$ 84,209</u> | <u>\$ 540,463</u> |

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 5. Investments, continued

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:

| | 2021 | | | |
|-------------------------|---------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Investments | | | | |
| Governmental Securities | \$ - | \$ 1,535,317 | \$ - | \$ 1,535,317 |
| Fixed Income Securities | - | 6,042,962 | - | 6,042,962 |
| Mutual Bond Funds | 1,641,028 | - | - | 1,641,028 |
| Certificates of Deposit | 403,527 | - | - | 403,527 |
| | <u>\$ 2,044,555</u> | <u>\$ 7,578,279</u> | <u>\$ -</u> | <u>\$ 9,622,834</u> |
| | | | | |
| | 2020 | | | |
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Investments | | | | |
| Governmental Securities | \$ - | \$ - | \$ - | \$ - |
| Fixed Income Securities | - | 7,332,145 | - | 7,332,145 |
| Mutual Bond Funds | 2,659,207 | - | - | 2,659,207 |
| Certificates of Deposit | 412,197 | - | - | 412,197 |
| | <u>\$ 3,071,404</u> | <u>\$ 7,332,145</u> | <u>\$ -</u> | <u>\$ 10,403,549</u> |

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 6. 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>2020</u> | <u>Additions</u> | <u>Disposals</u> | <u>2021</u> |
|--------------------------|---|---------------------|---------------------|------------------|---------------------|
| Land | | \$ 4,621,486 | \$ - | \$ - | \$ 4,621,486 |
| Building and Improvement | 5 - 40 | 2,945,752 | 24,991 | - | 2,970,743 |
| Equipment and Vehicles | 3 - 10 | 6,959,852 | 293,726 | (571,830) | 6,681,748 |
| | | 14,527,090 | 318,717 | (571,830) | 14,273,977 |
| Accumulated Depreciation | | (6,112,020) | (800,092) | 571,830 | (6,340,282) |
| | | <u>\$ 8,415,070</u> | <u>\$ (481,375)</u> | <u>\$ -</u> | <u>\$ 7,933,695</u> |

Depreciation expense for the years ended December 31, 2021 and 2020 was \$800,092 and \$776,838 respectively.

Note 7. Employee Benefits

Employees may accumulate Paid Time Off ("PTO") up to a maximum of 261 hours for carry forward purposes. Upon termination, accumulated PTO is paid. Accrued compensated absences were \$213,342 and \$301,336 at December 31, 2021 and 2020, respectively, and are included in Accrued Payroll and Related Benefits on the Consolidated Balance Sheets.

CSA maintains a 401(k) retirement savings plan for all eligible employees. Employees are eligible to participate in the plan upon attaining the age of 21 years and completing 6 months of active service. Employees may enter the plan in any month after these two requirements have been met. Employees may invest up to the maximum amounts allowed by law. CSA matches contributions of 100% up to 3% of pay and 50% on the next 2% of pay. Vesting begins immediately for matching contributions. Contribution expense, including administration expense for the plan, was \$166,851 and \$147,931 for the years ended December 31, 2021 and 2020, respectively. CSA's 401k retirement plan is administered by a financial institution.

Note 8. Deferred Revenue

Deferred revenue is comprised primarily of annual assessments paid in advance. Assessments for the years 2022 and 2021 were billed in December of the preceding year, which prompted some property owners to pay them early. This early payment resulted in revenue that was deferred until the following year, which is the year to which the assessment applies (and the performance obligation is completed).

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2021 and 2020**

Note 8. Deferred Revenue, continued

Deferred revenue consists of the following as of December 31:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Property Assessments Received in Advance for the Subsequent Year | \$ 1,581,853 | \$ 2,495,355 |
| Short-Term Rental Vouchers | 54,630 | 47,010 |
| Cell Tower Revenue | <u>29,900</u> | <u>28,252</u> |
| | <u>\$ 1,666,383</u> | <u>\$ 2,570,617</u> |

Note 9. Income Taxes

The majority of CSA's activities are recognized as exempt activities for income tax purposes; however, certain activities may be 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, 2021 and 2020.

Note 10. Lines of Credit

CSA entered into a line of credit agreement in June 2011 with Morgan Stanley which holds assets as a custodian for CSA. The available borrowing amount is based on a formula which includes a release percentage based on fair market value, type, rating, and maturity of each security, and is secured by assets held at the financial institution. The line bears interest at the Open Fed Funds Rate plus 100 basis points. The Open Fed Funds Rate was 0.08% and 0.09% at December 31, 2021 and 2020, respectively. The available line of credit as of December 31, 2021 and 2020 was approximately \$7.40 and \$10.19 million, respectively. There was no outstanding balance on this line of credit as of December 31, 2021 and 2020.

CSA maintains another line of credit with Truist that has a maximum borrowing limit of \$5,000,000. These funds can only be used for recovery from an unplanned catastrophic event. This line bears interest at the bank prime rate less 0.50%. The bank's prime rates was 3.25% as of December 31, 2021 and 2020. The current line of credit expires in July of 2023 and is secured by all income and assessments of CSA. There were no borrowings on this line of credit during 2021 or 2020 and no balance outstanding as of December 31, 2021 or 2020.

Community Services Associates, Inc.**Notes to Consolidated Financial Statements****December 31, 2021 and 2020**

Note 11. Commitments and Contingencies

In 2018, CSA entered into a lease for meeting space for certain community activities which extends through December 31, 2022. For this lease, a right-of-use asset and operating lease liability was recognized using the risk free discount rate of 2.52%. Operating lease expense was \$109,528 and \$109,419 for the years ended December 31, 2021 and 2020, respectively.

Future payments under CSA's operating lease as of December 31, 2021 are as follows:

| | |
|---|-----------------|
| 2022 | <u>86,088</u> |
| Total minimum lease payments | 86,088 |
| Less amounts representing interest | (7,509) |
| Less operating lease liability - current | <u>(78,579)</u> |
| Total operating lease liability - long term | <u>\$ -</u> |

In December 2020, the Association signed a construction contract for the North Sea Pines drive reconstruction project. As of December 31, 2021 there was approximately \$1.399 million remaining on the contract which began in January 2021 and will continue into 2022.

The Association is involved in claims, lawsuits, and proceedings and is the defendant in lawsuits that arise out of, and are incidental to, the conduct of business. It is the Association's policy to accrue amounts related to legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. The Association maintains general liability insurance to cover potential damages. Management has not recorded any liability for legal claims as of December 31, 2021 and 2020.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 12. Transactions with Related Parties

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

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

During the years ended December 31, 2021 and 2020, CSA maintained a management (service) agreement with these organizations to pay for reimbursable expenses on behalf of ASPPPO, SPFPF, SOC, SPARC and SPCARC. In addition, most of the related entities pay a monthly administrative service fee to CSA.

Community Services Associates, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 12. Transactions with Related Parties, continued

Balances of amounts due from the related parties described above (including costs incurred and payments received) during the year ended December 31, 2021 as follows:

| | 2020 | Costs Incurred | Less payments Received | 2021 |
|--------------------------------|------------|----------------|---------------------------|------------|
| ASPPPO | \$ 95,418 | \$ 132,481 | \$ (181,614) | \$ 46,285 |
| SPFPF | 9,386 | 205,646 | (211,447) | 3,585 |
| SOC | 58,240 | 281,600 | (331,931) | 7,909 |
| SPARC | 195,550 | 381,252 | (519,574) | 57,228 |
| SPCARC | 7,825 | 725 | - | 8,550 |
| Total Due from Related Parties | \$ 366,419 | \$ 1,001,704 | \$ (1,244,566) | \$ 123,557 |

Note 13. Governmental Grant

The Association applied for and received a loan from a financial institution under the Paycheck Protection Program ("PPP") established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES ACT") in the amount of \$1,110,500. The loan was subject to a note dated April 21, 2020. The Association's loan was forgiven because the funds were used for eligible expenditures for payroll and other expenses described in the CARES Act. For the year ended December 31, 2020, loan forgiveness is reflected in the Other Income (Expense) section in the accompanying *Consolidated Statements of Revenues and Expenses* as a government grant.

Note 14. Subsequent Events

In January of 2021, residential property owners approved, by a certified vote of more than 87% of those submitting a ballot, to amend applicable Covenants to provide for additional assessment revenues to be placed in an Infrastructure Improvement Fund for use of specified projects. Beginning in 2022, such additional funding is expected to raise approximately \$3.5 million annually.

On March 15, 2021, a residential property owner filed an amended complaint in the United States District Court of South Carolina. The amended complaint alleges, in part, that the Association did not have the right to call for a referendum to amend the Sea Pines Covenants and seeks, among other things, to invalidate the referendum and results thereof. Ultimate resolution of this litigation is ongoing and cannot be predicted at this time.

Supplementary Information

Community Services Associates, Inc.

Schedule of Future Major Repairs and Replacements (Unaudited)

December 31, 2021

Management of Community Services Associates, Inc. obtained a reserve study from a capital reserve consultant in June 2020 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.

| <u>Component</u> | <u>Estimated remaining useful life (years)</u> | <u>Estimated current replacement costs</u> |
|---------------------------------|--|--|
| Buildings and structures | 1 to 35 | \$ 1,397,360 |
| Streets | 1 to 17 | 17,644,020 |
| Leisure trails and bridges | 1 to 20 | 4,003,025 |
| Landscaping and irrigation | 1 to 7 | 265,000 |
| Maintenance department | 1 to 20 | 3,927,350 |
| Beach access | 1 to 16 | 1,317,400 |
| Security department | 1 to 30 | 1,680,405 |
| Site and grounds | 1 to 40 | 990,850 |
| Total infrastructure components | | <u>\$ 31,225,410</u> |

Community Services Associates, Inc.*Schedules of Financial Information on Six Oaks Cemetery, Inc. (Unaudited)**As of and for the years ended December 31, 2021 and 2020*

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

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Total Assets | \$ 898,386 | \$ 536,580 |
| Liabilities | \$ 71,064 | \$ 114,027 |
| Net Assets | <u>827,322</u> | <u>422,553</u> |
| Total Liabilities and Net Assets | <u>\$ 898,386</u> | <u>\$ 536,580</u> |
| Support and Revenue | \$ 1,009,649 | \$ 644,627 |
| Expenses | <u>604,880</u> | <u>476,598</u> |
| Change in Net Assets | <u>\$ 404,769</u> | <u>\$ 168,029</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, 2021 and 2020

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

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|--------------------|
| Total Assets | \$ 849,824 | \$ 592,327 |
| Liabilities | \$ 3,585 | \$ 9,386 |
| Net Assets | <u>846,239</u> | <u>582,941</u> |
| Total Liabilities and Net Assets | <u>\$ 849,824</u> | <u>\$ 592,327</u> |
| Support and Revenue | \$ 490,208 | \$ 203,460 |
| Expenses | <u>226,910</u> | <u>227,484</u> |
| Change in Net Assets | <u>\$ 263,298</u> | <u>\$ (24,024)</u> |