

**KIAWAH ISLAND  
COMMUNITY ASSOCIATION, INC.**

KIAWAH ISLAND, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**

INDEPENDENT AUDITORS' REPORT

AND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

**TABLE OF CONTENTS**

<b><u>Financial Statements</u></b>	<b><u>Page</u></b>
Independent Auditors' Report	1
Balance Sheets	2-3
Statements of Revenues, Expenses and Changes in Fund Balances	4-5
Statements of Comprehensive Income	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-18
Independent Auditors' Report on Supplementary Information	19
Supplementary Information on Future Major Repairs and Replacements	20

**DIRECTORS**

Paul Roberts – Chairman  
Armand Glassman – 1<sup>st</sup> Vice Chairman  
Russ Crane – 2<sup>nd</sup> Vice Chairman/Secretary  
Jim Williams – Treasurer  
Kelly Bragg  
Hal Fallon  
Buddy Darby



# Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

C THOMAS DEWITT, CPA  
KENDALL F. ERICKSON, CPA  
J LOUIS GRANT, CPA  
MICHAEL R. PUTICH, CPA  
WILLIAM C. ROBINSON, CPA  
  
JUDITH A. JOHNSON, CPA  
LARRY A. RAMSEY, CPA/ABV, CVA  
  
JAMES W. LITCHFIELD, CPA (1946-1994)

SUITE A  
15 LAFAYETTE PLACE  
INDIGO RUN COMMERCIAL PARK  
POST OFFICE DRAWER 22959  
HILTON HEAD ISLAND, SOUTH CAROLINA 29925-2959  
(843) 342-5151  
FAX (843) 342-5180  
hh@robinsongrant.com  
www.robinsongrant.com

MEMBERS  
AMERICAN INSTITUTE OF CPAS  
S C ASSOCIATION OF CPAS  
BEAUFORT OFFICE (843) 524-3003  
FAX (843) 524-1372  
bft@robinsongrant.com  
BLUFFTON OFFICE (843) 815-6161  
FAX (843) 815-6165  
blf@robinsongrant.com

## Independent Auditors' Report

March 7, 2009

The Board of Directors  
Kiawah Island Community Association, Inc.  
Kiawah Island, South Carolina

We have audited the accompanying balance sheets of Kiawah Island Community Association, Inc. (the "Association") as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in fund balances, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kiawah Island Community Association, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Robinson Grant & Co., P.A.*

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**BALANCE SHEETS**  
AS OF DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash - undesignated	\$ 1,562,407	\$ 1,374,861
Investments	1,498,704	2,179,772
Accounts receivable	40,518	147,750
Accrued interest	10,464	4,320
Accounts receivable - other	52,762	25,893
Refundable income taxes	92,410	-
Prepaid expenses	<u>175,625</u>	<u>198,873</u>
<b>Total current assets</b>	<b>3,432,890</b>	<b>3,931,469</b>
 <b>PROPERTY AND EQUIPMENT</b>		
Cost	9,259,530	8,851,432
Less - accumulated depreciation	<u>(2,723,417)</u>	<u>(2,410,460)</u>
<b>Net property and equipment</b>	<b>6,536,113</b>	<b>6,440,972</b>
 <b>DESIGNATED ASSETS</b>		
Cash - designated	3,900,243	1,004,223
Investments	<u>3,227,262</u>	<u>7,097,693</u>
<b>Total designated assets</b>	<b><u>7,127,505</u></b>	<b><u>8,101,916</u></b>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 17,096,508</u></b>	 <b><u>\$ 18,474,357</u></b>

The accompanying notes are an integral part of the financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 181,666	\$ 732,553
Accrued payroll and payroll taxes/withholdings	110,267	85,450
Accrued annual leave	188,826	165,394
Income taxes payable	-	108,000
Accrued expenses	<u>37,585</u>	<u>85,070</u>
<b>Total current liabilities</b>	518,344	1,176,467
 <b>LONG-TERM LIABILITIES</b>		
Deferred tax liability	6,431	8,212
Deposits held	<u>35,950</u>	<u>47,172</u>
<b>Total long-term liabilities</b>	<u>42,381</u>	<u>55,384</u>
 <b>TOTAL LIABILITIES</b>	560,725	1,231,851
 <b>FUND BALANCES</b>		
Accumulated excess of revenues over expenses (undesignated)	9,483,504	9,815,503
Accumulated excess of revenues over expenses (designated)	7,037,271	7,407,840
Accumulated other comprehensive income (loss)	<u>15,008</u>	<u>19,163</u>
<b>Total fund balances</b>	<u>16,535,783</u>	<u>17,242,506</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 17,096,508</u>	<u>\$ 18,474,357</u>

The accompanying notes are an integral part of the financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	UNDESIGNATED					DESIGNATED				
	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Preserve Fence Fund	Major Repair and Replacements Fund (MR&R)	MR&R - Vanderhorst Gate Fund	MR&R - Preserve Fence Fund	Landscape Capital Improvements	
Assessments	\$ 5,470,978	\$ 368,167	\$ 206,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Late charges	17,176	1,619	522	-	-	-	-	-	-	
Interest income	496,815	23,283	9,462	-	233	284,137	-	-	-	
Other income	422,258	215,927	-	-	-	-	-	-	-	
Initiation fees	49,840	49,840	-	-	-	-	-	-	-	
Contribution to reserve	1,527,459	-	-	-	-	1,221,967	-	-	305,492	
Vehicle access fees	1,006,458	-	-	-	-	-	-	-	-	
<b>GROSS REVENUES</b>	<b>8,990,984</b>	<b>658,836</b>	<b>216,350</b>	<b>-</b>	<b>233</b>	<b>1,506,104</b>	<b>-</b>	<b>-</b>	<b>305,492</b>	
General and administrative	2,149,388	-	-	-	-	-	-	-	-	
Land management	1,445,506	-	-	-	-	-	-	-	-	
Lakes management	279,394	-	-	-	-	-	-	-	-	
General maintenance	323,817	-	-	-	-	-	-	-	-	
Security - main gate	1,337,628	-	-	-	-	-	-	-	-	
Mechanic's shop	182,085	-	-	-	-	-	-	-	-	
Sandcastle operations	801,422	801,422	-	-	-	-	-	-	-	
Boat/Canoe storage launch	46,739	-	-	-	-	-	-	-	-	
Security - second gate	174,993	-	174,993	-	-	-	-	-	-	
Depreciation	451,642	-	-	451,642	-	-	-	-	-	
Loss (Gain) on sale of property and equipment	(17,938)	3,287	-	-	-	-	-	-	-	
Loss on redemption of investments	20,927	-	-	-	-	20,927	-	-	-	
Major repairs and replacements	2,014,151	-	-	-	-	2,014,151	-	-	-	
Landscape improvements	402,921	-	-	-	-	-	7,459	-	395,462	
<b>TOTAL EXPENSES</b>	<b>9,615,962</b>	<b>804,709</b>	<b>174,993</b>	<b>451,642</b>	<b>-</b>	<b>2,035,078</b>	<b>-</b>	<b>7,459</b>	<b>395,462</b>	
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES BEFORE INCOME TAXES</b>	<b>(624,978)</b>	<b>(145,873)</b>	<b>41,357</b>	<b>(451,642)</b>	<b>233</b>	<b>(528,974)</b>	<b>-</b>	<b>(7,459)</b>	<b>(89,970)</b>	
Income tax expense	77,590	3,875	1,570	-	-	41,905	-	-	-	
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES AFTER INCOME TAXES</b>	<b>\$ (702,568)</b>	<b>\$ (149,748)</b>	<b>\$ 39,787</b>	<b>\$ (451,642)</b>	<b>\$ 233</b>	<b>\$ (570,879)</b>	<b>\$ -</b>	<b>\$ (7,459)</b>	<b>\$ (89,970)</b>	
ACCUMULATED EXCESS - January 1, 2008	\$ 17,223,343	\$ 2,911,363	\$ -	\$ 6,440,972	\$ -	\$ 7,251,388	\$ 148,804	\$ 7,648	\$ -	
Transfer to/from other funds	-	(625,000)	50,000	(39,787)	(233)	485,030	39,787	233	89,970	
Contributed capital	-	-	-	-	-	-	-	-	-	
Purchase/Disposal of assets	-	(207,684)	-	546,782	-	(317,281)	-	-	-	
<b>ACCUMULATED EXCESS - December 31, 2008</b>	<b>\$ 16,520,775</b>	<b>\$ 2,605,789</b>	<b>\$ 341,603</b>	<b>\$ 6,536,112</b>	<b>\$ -</b>	<b>\$ 6,848,258</b>	<b>\$ 188,591</b>	<b>\$ 422</b>	<b>\$ -</b>	

The accompanying notes are an integral part of these financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	UNDESIGNATED					DESIGNATED				
	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Preserve Fence Fund	Major Repairs and Replacements Fund (MR&R)	Vanderhorst Gate Fund	MR&R - Preserve Fence Fund	MR&R - Landscape Capital Improvements	
Assessments	\$ 5,236,962	\$ 349,344	\$ 196,672	\$ -	\$ 450	\$ -	\$ -	\$ -	\$ -	
Late charges	13,629	822	542	-	-	-	-	-	-	
Interest income	636,365	30,619	10,038	-	538	364,789	-	-	-	
Other income	504,651	205,226	-	-	-	-	-	-	-	
Initiation fees	36,247	36,247	-	-	-	-	-	-	412,308	
Contribution to reserve	2,061,542	-	-	-	-	1,649,234	-	-	-	
Vehicle access fees	909,578	-	-	-	-	-	-	-	-	
<b>GROSS REVENUES</b>	<b>9,398,974</b>	<b>622,758</b>	<b>207,252</b>	<b>-</b>	<b>988</b>	<b>2,014,023</b>	<b>-</b>	<b>-</b>	<b>412,308</b>	
General and administrative	1,731,431	-	-	-	-	-	-	-	-	
Land management	1,363,769	-	-	-	-	-	-	-	-	
Lakes management	278,625	-	-	-	-	-	-	-	-	
General maintenance	288,980	-	-	-	-	-	-	-	-	
Security - main gate	1,262,233	-	-	-	-	-	-	-	-	
Mechanic's shop	167,696	-	-	-	-	-	-	-	-	
Sandcastle operations	668,693	668,693	-	-	-	-	-	-	-	
Boat/Canoe storage launch	49,625	-	-	-	-	-	-	-	-	
Security - second gate	173,403	-	173,403	-	-	-	-	-	-	
Depreciation	402,891	-	-	402,891	-	-	-	-	-	
Loss (Gain) on sale of property and equipment	21,299	-	-	47,250	-	-	-	-	-	
Loss on redemption of investments	19,999	-	-	-	-	19,999	-	-	-	
Major repairs and replacements	2,113,474	-	-	-	-	2,113,474	-	-	-	
Landscape improvements	470,375	-	-	-	-	-	-	4,860	465,515	
<b>TOTAL EXPENSES</b>	<b>9,012,493</b>	<b>668,693</b>	<b>173,403</b>	<b>450,141</b>	<b>-</b>	<b>2,133,473</b>	<b>-</b>	<b>4,860</b>	<b>465,515</b>	
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES BEFORE INCOME TAXES</b>	<b>386,481</b>	<b>1,025,737</b>	<b>33,849</b>	<b>(450,141)</b>	<b>988</b>	<b>(119,450)</b>	<b>-</b>	<b>(4,860)</b>	<b>(53,207)</b>	
Income tax expense	98,164	39,264	1,965	-	100	51,925	-	-	-	
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES AFTER INCOME TAXES</b>	<b>\$ 288,317</b>	<b>\$ 986,473</b>	<b>\$ 31,884</b>	<b>\$ (450,141)</b>	<b>\$ 888</b>	<b>\$ (171,375)</b>	<b>\$ -</b>	<b>\$ (4,860)</b>	<b>\$ (53,207)</b>	
<b>ACCUMULATED EXCESS - January 1, 2007</b>	<b>\$ 16,935,026</b>	<b>\$ 2,993,004</b>	<b>\$ 464,513</b>	<b>\$ 5,337,499</b>	<b>\$ -</b>	<b>\$ 8,011,470</b>	<b>\$ 116,920</b>	<b>\$ 11,620</b>	<b>\$ -</b>	
Transfer to/from other funds	-	(550,000)	50,000	-	(888)	446,793	31,884	888	53,207	
Contributed capital	-	-	-	-	-	-	-	-	-	
Purchase/Disposal of assets	-	(518,114)	-	1,553,614	-	(1,035,500)	-	-	-	
<b>ACCUMULATED EXCESS - December 31, 2007</b>	<b>\$ 17,223,343</b>	<b>\$ 2,911,363</b>	<b>\$ 463,168</b>	<b>\$ 6,440,972</b>	<b>\$ -</b>	<b>\$ 7,251,388</b>	<b>\$ 148,804</b>	<b>\$ 7,648</b>	<b>\$ -</b>	

The accompanying notes are an integral part of these financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2008

	UNDESIGNATED				DESIGNATED			
	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	MR&R - Preserve Fence Fund	MR&R - Landscape Capital Improvements
EXCESS (DEFICIT) REVENUES OVER EXPENSES AFTER INCOME TAXES	\$ 527,110	\$ (149,748)	\$ 39,787	\$ (451,642)	\$ 233	\$ -	\$ (7,459)	\$ (89,970)
Unrealized gain/(loss) on investments, net of tax	(4,155)	-	-	-	(4,155)	-	-	-
COMPREHENSIVE INCOME (LOSS)	\$ 527,110	\$ (149,748)	\$ 39,787	\$ (451,642)	\$ 233	\$ (575,034)	\$ (7,459)	\$ (89,970)

The accompanying notes are an integral part of these financial statements.

KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	UNDESIGNATED				DESIGNATED			
	General Operations Fund	Recreation Center Fund	Vanderhorst Gate Fund	Personal and Real Property Fund	Major Repair and Replacements Fund (MR&R)	Vanderhorst Gate Fund	MR&R - Preserve Fence Fund	MR&R - Landscape Capital Improvements
<b>EXCESS (DEFICIT) REVENUES OVER EXPENSES AFTER INCOME TAXES</b>	\$ 288,317	\$ (51,345)	\$ 31,884	\$ (450,141)	\$ 888	\$ -	\$ (4,860)	\$ (53,207)
Unrealized gain/(loss) on investments, net of tax	28,673	-	-	-	28,673	-	-	-
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 316,990</u>	<u>\$ (51,345)</u>	<u>\$ 31,884</u>	<u>\$ (450,141)</u>	<u>\$ 888</u>	<u>\$ -</u>	<u>\$ (4,860)</u>	<u>\$ (53,207)</u>

The accompanying notes are an integral part of these financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficit) revenues over expenses	\$ (702,568)	\$ 288,317
Adjustments to reconcile excess (deficit) revenues over expenses to net cash flow (used in) provided by operating activities:		
Depreciation	451,642	402,891
Loss (gain) on sale of property and equipment	(14,651)	21,299
Loss on redemption of investments	20,927	19,999
(Increase) decrease in:		
Accounts receivable	107,232	8,332
Accrued interest and accrued interest on investments	59,594	(34,379)
Accounts receivable - other	(26,869)	(21,250)
Inventories	-	16,526
Refundable income taxes	(92,410)	-
Prepaid expenses	23,248	11,911
Increase (decrease) in:		
Accounts payable	(550,887)	347,200
Accrued payroll and payroll taxes/withholdings	24,817	21,377
Accrued annual leave	23,432	18,879
Income taxes payable	(108,000)	11,623
Accrued expenses	(47,485)	47,367
Deposits held	(11,222)	28,117
<b>NET CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(843,200)</b>	<b>1,188,209</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	\$ (567,666)	\$ (1,565,471)
Proceeds from sale of property and equipment	35,534	37,807
Redemption of long-term certificates of deposit	5,896,590	90,077
Purchase of long-term certificates of deposit	(6,436,438)	(2,696,151)
Purchase of investments	-	(9,773,000)
Proceeds from maturity of investments	4,998,746	10,314,249

The accompanying notes are an integral part of the financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>NET CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<u>3,926,766</u>	<u>(3,592,489)</u>
NET INCREASE (DECREASE) IN CASH	3,083,566	(2,404,280)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,379,084</u>	<u>4,783,364</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,462,650</u>	<u>\$ 2,379,084</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for:	<u>2008</u>	<u>2007</u>
Income taxes	\$ 278,000	\$ 171,565

**SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS**

In accordance with Statements of Financial Accounting Standards (SFAS) 115, the Association records its investments that are classified as "available for sale" at their fair market value. In accordance with this method of reporting investments, the Association recorded unrealized losses of \$5,935, net of deferred income tax benefits of \$1,780 during 2008, for net unrealized losses of \$4,155. In 2007, the Association recorded unrealized gains of \$40,961, net of deferred income taxes of \$12,288, for net unrealized gains of \$28,673.

The accompanying notes are an integral part of the financial statements.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 1 – NATURE OF ORGANIZATION**

Kiawah Island Community Association, Inc. (the "Association") is a non-profit, non-stock, corporate homeowners' association. The membership consists of most property owners on Kiawah Island, South Carolina. The "Declaration of Covenants and Restrictions of the Kiawah Island Community Association, Inc." was adopted December 21, 1977. Kiawah Island is located 21 miles south of Charleston, South Carolina. The island consists of approximately 10,000 acres. There are approximately 4,000 residential properties of which approximately 83% are improved properties, and commercial entities own approximately 140 properties.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Method**

The Association uses the accrual method of accounting. Revenues, which consist primarily of property assessments, are recognized when earned. Expenses are recognized when incurred.

The Association uses fund accounting, which requires that funds, such as operating funds, property funds, and funds designated for future major repair and replacement costs, be classified separately for accounting and reporting purposes. The disbursements from the operating fund are generally at the discretion of the Board of Directors and management for operating expenses. The disbursements from the reserve funds may only be utilized in accordance with the established purposes for accumulation. These replacement disbursements are comprised of building repairs, pavement resurfacing, and other infrastructure replacements, repairs or additions.

**Fund Basis of Accounting**

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

- General Operations Fund - This fund is used to account for financial resources available for the general operations of the Association.
- Recreation Center Fund - This fund provides funds for operations of the recreation community center activities.
- Vanderhorst Gate Fund - This fund provides funds for the operations and major repairs and replacements of the second security gate.
- Personal and Real Property Fund - This fund accounts for capitalized property.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Basis of Accounting (continued)**

- Preserve Fence Fund - This fund accounts for future repairs and maintenance of the split rail fence and for other extraordinary land management costs in the Preserve.
  
- Major Repairs and Replacements Fund and Landscape Capital Improvements Fund - These funds are used to accumulate funds designated for future major repairs and replacements of existing facilities and equipment plus capital projects approved by the Board, and for the major landscape repairs and replacements plus the ongoing landscape capital projects.

**Property and Equipment**

Property and equipment, when purchased, are recorded at cost. Donated assets are recorded at fair market value at the time of conveyance. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renovations and improvements are capitalized.

The Association owns significant amounts of real property and improvements as follows: Common areas and rights of way, roadways, leisure trails and lakes. These properties are being conveyed periodically to the Association for the consideration of \$1 under an agreement with the Developer or conveyed by means of a 99 year lease agreement. These common properties are real property directly associated with the individual ownership of member properties and dedicated for the use of the entire community. They cannot be sold separately and thus have no fair market value other than related to their intended use. Such assets are not recognized in the financial statements of the Association. The Association is responsible for the upkeep, repair, maintenance and improvement of these assets. Replacements and improvements to the common area assets are expensed as incurred.

**Cash Equivalents**

For purpose of the statement of cash flows, the association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. This includes any operating bank accounts and interest bearing money market and deposit accounts.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Assessments**

Annual assessments for unimproved and improved properties (for type A residential) ranged between \$610 to \$1,220 and \$589 to \$1,178 for 2008 and 2007, respectively. The annual budgets and member's assessments are determined by the Board of Directors, within the restrictions imposed by the governing documents. The Association retains excess funds at the end of the operating year, if any, for use in future periods.

**Contribution to Reserve Fees**

A Contribution to Reserve Fee in the amount of 0.50% of the gross purchase price of real estate transfers of subject property is collected at closing from the buyer and allocated as follows: 80% allocated to major repairs and replacements and 20% allocated to landscape capital improvements.

**Vehicle Access Fees**

The Association charges a vehicle access fee to commercial entities doing business on the island. The fee is determined annually by the Board of Directors and consists of annual business passes as well as daily trip fees. Such fees collected are accumulated in the general operations fund to fund road and drainage repairs and replacements. Total fees collected for 2008 and 2007 were \$1,006,458 and \$909,578, respectively.

**Allowance for Doubtful Accounts**

The Association's policy is to retain legal counsel and place liens on the properties of those members whose assessments are in arrears. Because the Board of Directors believes that such procedures will result in collection of the assessment, no allowance for doubtful accounts has been provided at December 31, 2008 and 2007.

**Investments (Available for Sale)**

The Association has the intent to hold its investments for an indefinite period of time, but not necessarily to maturity. Accordingly, the Association classifies its investments as "available for sale" and accounts for them at fair value in accordance with SFAS 115.

**Uninsured Cash Balance**

The Association maintains a portion of its cash balance at a local bank and invests the balance in a money market fund with another financial institution. Cash balances are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through December 31, 2009. The money market fund is not insured by the FDIC but is protected by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. The financial institution has additional insurance coverage for the remaining balance over \$500,000 through the Customer Asset Protection Company (CAPCO). This coverage, however, does not protect against losses from any change in the market value of investments. Uninsured cash balances of the Association were \$398,017 as of December 31, 2008.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to the prior year's financial statements in order for them to be in conformity with the current year presentation.

**NOTE 3 – COMPREHENSIVE INCOME**

The Association has adopted Statement of Financial Accounting Standards (SFAS) 130, *Reporting Comprehensive Income*. SFAS 130 establishes rules for the reporting and presentation of comprehensive income and its components. Accounting principles generally require that recognized revenue, expense, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gain and loss on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items among others, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects for 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Unrealized gains (losses) on available for sale securities	\$ (5,935)	\$ 40,961
Tax effect	<u>1,780</u>	<u>(12,288)</u>
Other comprehensive income (loss)	<u>\$ (4,155)</u>	<u>\$ 28,673</u>

Changes in accumulated other comprehensive income are as follows:

	<u>2008</u>	<u>2007</u>
Accumulated other comprehensive income, beginning balance	\$ 19,163	\$ (9,510)
Change during year	<u>(4,155)</u>	<u>28,673</u>
Accumulated other comprehensive income, ending balance	<u>\$ 15,008</u>	<u>\$ 19,163</u>

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 4 - PROPERTY AND EQUIPMENT**

Major classifications of property and equipment and their respective useful lives at December 31 are as follows:

<u>Description</u>	<u>Estimated Lives</u>	<u>2008</u>	<u>2007</u>
Land	non-depreciable	\$ 40,253	\$ 40,253
Land improvements	10-40 yrs.	104,658	104,658
Building improvements	5-40 yrs.	6,429,246	6,111,964
Swimming pool	20 yrs.	816,369	816,369
Furniture and equipment	3-15 yrs.	1,366,601	1,311,349
Vehicles and trailers	5-10 yrs.	502,403	466,839
		<u>\$ 9,259,530</u>	<u>\$ 8,851,432</u>

Depreciation expense for the years ended December 31, 2008 and 2007 were \$451,642 and \$402,891, respectively.

**NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents provide for the levying of the annual general purpose assessment which, in addition to providing funds for general operations of the Association, also provides for the repair and maintenance of the common properties, e.g., roads, bridges, lakes, drainage systems, etc. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the major repair and replacement funds may not be adequate to meet all the future needs for major repairs and replacements. However, based upon an independent review of expected infrastructure repair and replacement costs by an outside consultant, the board of directors and management of the Association both believe that current reserves appear adequate for normal forecasted repair and replacement requirements. If additional funds are needed, the Association has the right, subject to membership approval, to increase annual assessments or levy special assessments. In addition, the Association may delay such repairs and replacements until funds are available.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 6 – INVESTMENTS (AVAILABLE FOR SALE)**

The Association's investments at December 31, 2008 and 2007 are summarized as follows:

	<b>December 31, 2008</b>			
	<u>Cost</u>	<u>Adjustment to Market Value</u>	<u>Accrued Interest</u>	<u>Fair Market Value</u>
Corporate bonds	\$ 199,811	\$ (17,601)	\$ 1,520	\$ 183,730
Certificates of deposit	3,236,000	-	20,518	3,256,518
U.S. Treasury investments	1,133,236	39,037	113,445	1,285,718
	<u>\$ 4,569,047</u>	<u>\$ 21,436</u>	<u>\$ 135,483</u>	<u>\$ 4,725,966</u>

	<b>December 31, 2007</b>			
	<u>Cost</u>	<u>Adjustment to Market Value</u>	<u>Accrued Interest</u>	<u>Fair Market Value</u>
Corporate bonds	\$ 399,738	\$ (35,131)	\$ 2,963	\$ 367,570
Certificates of deposit	2,696,151	-	-	2,696,151
U.S. Treasury investments	6,052,493	62,503	98,748	6,213,744
	<u>\$ 9,148,382</u>	<u>\$ 27,372</u>	<u>\$ 101,711</u>	<u>\$ 9,277,465</u>

**NOTE 7 – FEDERAL AND STATE INCOME TAXES**

The Association had deferred tax liabilities of \$6,431 and \$8,212 at December 31, 2008 and 2007, respectively. These deferred tax liabilities resulted from the unrealized losses in investments, which are not being recognized for tax purposes. The Association estimates its effective federal tax rate to be 30%.

For the years ended December 31, 2008 and 2007, the Association has elected to file its income tax returns in accordance with Section 277 of the Internal Revenue Code. As such, the Association allocates its income and expenses between membership and non-membership activities. By making an election to defer any excess net membership income to the subsequent year, the Association becomes taxed on its net non-membership income at regular corporate tax rates. Any net non-membership losses are treated as net operating losses in accordance with Section 172 of the Internal Revenue Code. Accordingly, the Association's components of income tax expense (benefit) are as follows:

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 7 – FEDERAL AND STATE INCOME TAXES (continued)**

	<u>2008</u>	<u>2007</u>
Federal - current	\$ 75,590	\$ 165,000
State - current	<u>2,000</u>	<u>2,000</u>
	77,590	167,000
Prior year's adjustment	<u>-</u>	<u>(68,836)</u>
Total	<u>\$ 77,590</u>	<u>\$ 98,164</u>

The estimated federal and state tax liability for the calendar year ending December 31, 2006, was estimated to be \$120,312 for financial statement purposes. The 2006 federal and state tax returns, when filed, resulted in a tax liability of \$51,476. The adjustment is included in the provision for income taxes for 2007.

**NOTE 8 – OPERATING LEASES**

The Association maintains various operating leases for machinery, office space and office equipment. The future annual lease payments required under these operating leases are as follows:

<u>For year ending December 31,</u>	
2009	\$ 122,938
2010	122,105
2011	93,176
2012	89,834
2013	86,690
Thereafter	<u>229,900</u>
Total minimum lease payments	<u>\$ 744,643</u>

Rent expense associated with lease payments in 2008 and 2007 was \$94,909 and \$86,978, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 9 - RETIREMENT PLAN**

The Association maintains a defined contribution retirement plan, which allows eligible employees meeting minimum age and service requirements to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Total deferrals in any Plan year may not exceed the dollar limit, which is determined by law.

The Association will match \$0.70 for each \$1.00 of a participants' contribution up to a maximum contribution of 5% of compensation. The Association's expense was \$49,676 and \$42,875, net of forfeitures totaling \$-0- and \$2,258, respectively, in 2008 and 2007, respectively.

**NOTE 10 - RELATED PARTY TRANSACTIONS**

Kiawah Resort Associates (KRA), the developer, held one seat on the Association's board for the years covered in these financial statements. Additionally, KRA owned 91 commercial, developed and undeveloped units, and lots in inventory during these years. Assessments paid by KRA for this inventory was \$174,027 and \$169,397 in 2008 and 2007, respectively.

**NOTE 11 - SELF-FUNDED EMPLOYEE HEALTH INSURANCE**

In an effort to reduce increasing health insurance premiums for the employees, as well as keep healthcare costs down for the Association, the Board of Directors permits the Association to self-fund the higher health insurance deductible for all employees. An employee's deductible through the Association's current health insurance provider is \$1,000, with the Association self-funding \$550 after the first \$400 has been met. This results in significantly lower monthly premiums to the Association. During any given year, the Association will reimburse its employees for the \$550 deductible plus a \$250 "out-of-pocket" maximum of additional coverage from the General Operations fund. Actual claims reimbursed to employees were \$8,805 and \$10,576 for the years ended December 31, 2008 and 2007, respectively.

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008 and 2007

**NOTE 12 – COMMITMENTS**

The Association engages various outside organizations to provide contractual services for the care and maintenance of its common properties. These organizations are compensated monthly for their services. The approximate fees incurred for services under these contractual obligations for the years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Pool facility	\$ 31,600	\$ 28,000
Beach access maintenance	19,500	19,500
Office cleaning	14,500	14,500
Elevator service	12,000	5,900
	<u>\$ 77,600</u>	<u>\$ 67,900</u>

**NOTE 13 – SUBSEQUENT EVENTS**

In December 2008, the Association filed an exemption application (Form 1024 - *Application for Recognition of Exemption Under Section 501(a)*) with the IRS to be recognized as a “social welfare organization” under Internal Revenue Code section 501(c)(4). If approved, the Association will pay no taxes on exempt function activities, including investment earnings. However, the net income from unrelated business activities will still be subject to taxation. While it generally takes 120 days for the IRS to begin processing the application, management has elected, in the meantime, to provide for an income tax expense for the 2008 tax year as provided in footnote #7. Upon acceptance of the exemption application by the IRS, the Association intends to file amended tax returns for all years available under statute.

**NOTE 14 – CONCENTRATIONS**

Kiawah Island is a coastal community located on the upper-part of the southeastern coast of the United States and is a vacation destination for thousands of people each year. The members of the Association include persons purchasing a home for personal residential use as well as those purchasing homes and land for investment and commercial/rental purposes. Although the Association’s members, and those vacationing on Kiawah Island, are not necessarily from a concentrated geographical area, the Association is exposed to risks associated with conditions affecting the economy, real estate, tourism and weather for that geographical area.

**SUPPLEMENTARY INFORMATION**



# Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

C THOMAS DEWITT, CPA  
KENDALL F. ERICKSON, CPA  
J LOUIS GRANT, CPA  
MICHAEL R. PUTICH, CPA  
WILLIAM C. ROBINSON, CPA  
  
JUDITH A. JOHNSON, CPA  
LARRY A. RAMSEY, CPA/ABV, CVA  
JAMES W. LITCHFIELD, CPA (1946-1994)

SUITE A  
15 LAFAYETTE PLACE  
INDIGO RUN COMMERCIAL PARK  
POST OFFICE DRAWER 22959  
HILTON HEAD ISLAND, SOUTH CAROLINA 29925-2959  
(843) 342-5151  
FAX (843) 342-5180  
hh@robinsongrant.com  
www.robinsongrant.com

MEMBERS  
AMERICAN INSTITUTE OF CPAS  
S C ASSOCIATION OF CPAS  
BEAUFORT OFFICE (843) 524-3003  
FAX (843) 524-1372  
bft@robinsongrant.com  
BLUFFTON OFFICE (843) 815-6161  
FAX (843) 815-6165  
bhf@robinsongrant.com

## Independent Auditors' Report on Supplementary Information

March 7, 2009

The Board of Directors  
Kiawah Island Community Association, Inc.  
Kiawah Island, South Carolina

The supplementary information on future major repairs and replacements on page 20 is not a required part of the basic financial statements of Kiawah Island Community Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Robinson Grant & Co., P.A.*

**KIAWAH ISLAND COMMUNITY ASSOCIATION, INC.**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**  
**FOR THE YEAR ENDING DECEMBER 31, 2008**

The Association engaged Miller-Dodson Associates, Inc. to conduct a replacement reserve study in June 2008 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Replacement costs were based on the estimated costs to repair or replace common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement. The following information is based on the study, and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Lives</u>	<u>Estimated Replacement Costs</u>	<u>Fund Balance at December 31, 2008</u>
Street repair, resurfacing	1-22 years	\$ 8,674,620	
Off-road drainage system	1-50 years	20,395,370	
Buildings and structures:			
Security gate house #1	28 years	109,200	
Maintenance facility	7-27 years	283,502	
Boardwalks	1-16 years	728,310	
Walking bridges	1-24 years	389,875	
Observation towers	7-29 years	264,600	
Roadway bridges	8-28 years	2,348,178	
Revetments/bulkheads	2-39 years	627,312	
Flood control and flap gates	1-46 years	667,454	
Docks	1-32 years	135,455	
Rhetts' Bluff facility	9-34 years	192,215	
Canoe/Boat Launch & Pavilion	1-15 years	423,718	
Community meeting place	1-13 years	55,841	
Roadway signage	1-9 years	57,750	
Sandcastle Recreation Center	1-40 years	1,533,846	
Irrigation	3-27 years	446,250	
Dredging	1- 5 years	262,500	
Ponds	1 year	272,000	
Engineering services - admin.	1-5 years	525,000	
Railings	1-13 years	100,800	
		\$ 38,493,796	\$ 6,848,258
Security gate house - second gate	28 yrs.	94,815	188,591
Preserve split rail fence	1-13 yrs.	50,400	422
Totals		\$ 38,639,011	\$ 7,037,271