

**EAGLE'S POINTE PROPERTY OWNERS' ASSOCIATION, INC.**

Financial Statements – Modified Cash Basis

December 31, 2018

(With Independent Auditors' Report Thereon)

**EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.**

Financial Statements – Modified Cash Basis

December 31, 2018

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## **Independent Auditors' Report**

To the Board of Directors  
Eagle's Pointe Property Owners Association, Inc.  
Bluffton, South Carolina

We have audited the accompanying financial statements of Eagle's Pointe Property Owners Association, Inc. which comprise the statement of assets, liabilities and equity – modified cash basis as of December 31, 2018, and the related statements of revenues, expenses and changes in equity – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle's Pointe Property Owners Association, Inc. as of December 31, 2018 and the results of its operations and its cash flows for the year then ended in conformity with the modified cash basis of accounting.

***Basis of Accounting***

We draw attention to Note 2 in the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Omission of Opinion on Required Supplementary Information***

Management has omitted the Supplementary Information on Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information. Note that this information has been provided as a subsequent event in Note 6 to the financial statements for the year 2020 and forward through 2059. We do not express an opinion or provide any assurance on the information.

A handwritten signature in black ink that reads "June CPA".

June CPA  
November 21, 2019

**EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.**  
Statement of Assets, Liabilities and Equity - Modified Cash Basis  
December 31, 2018

	<u>Operating Fund</u>	<u>Reserve Funds</u>	<u>2018</u>
<b>Assets</b>			
Current assets:			
Cash	\$ 87,228	\$ -	\$ 87,228
Cash, rental deposits	8,500	-	8,500
	<hr/>	<hr/>	<hr/>
Total current assets	95,728	-	95,728
Certificates of deposit	-	634,528	634,528
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 95,728</u>	<u>\$ 634,528</u>	<u>\$ 730,256</u>
 <b>Liabilities and Equity</b>			
Liabilities:			
Accounts payable	\$ 480	\$ -	\$ 480
Refundable rental deposits	8,500	-	8,500
	<hr/>	<hr/>	<hr/>
Total current liabilities	8,980	-	8,980
Equity	<hr/>	<hr/>	<hr/>
	86,748	634,528	721,276
Total liabilities and equity	<u>\$ 95,728</u>	<u>\$ 634,528</u>	<u>\$ 730,256</u>

*See accompanying notes to financial statements.*

**EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.**

Statement of Revenues, Expenses and Changes in Equity -

Modified Cash Basis

For the Year Ended December 31, 2018

	<b>Operating Fund</b>	<b>Reserve Funds</b>	<b>2018</b>
<b>Revenues</b>			
Assessments	\$ 235,356	\$ 78,384	\$ 313,740
Interest income	302	3,889	4,191
Cable royalty income	3,946	-	3,946
Trash collection income	24,949	-	24,949
Owner fines income	3,054	-	3,054
Other income	6,938	-	6,938
	<u>274,545</u>	<u>82,273</u>	<u>356,818</u>
<b>Total revenues</b>			
	<u>274,545</u>	<u>82,273</u>	<u>356,818</u>
<b>Expenses</b>			
Insurance	8,375	-	8,375
Repairs and maintenance	144,556	-	144,556
Infrastructure expenses	38,265	-	38,265
Professional fees	3,922	-	3,922
Committee expenses	9,181	-	9,181
Security	5,001	-	5,001
Utilities	32,530	-	32,530
Management fee	19,500	-	19,500
Administrative	5,407	-	5,407
Capital reserve expenses	-	63,378	63,378
General reserve expenses	-	192,883	192,883
Bad debt	945	-	945
Taxes	1,819	-	1,819
	<u>269,501</u>	<u>256,261</u>	<u>525,762</u>
<b>Total expenses</b>			
	<u>269,501</u>	<u>256,261</u>	<u>525,762</u>
<b>Excess of revenues over expenses (expenses over revenues)</b>	5,044	(173,989)	(168,944)
<b>Beginning equity balance</b>	80,763	809,457	890,220
Interfund transfers	941	(941)	-
<b>Ending equity balance</b>	<u>\$ 86,748</u>	<u>\$ 634,528</u>	<u>\$ 721,276</u>

*See accompanying notes to financial statements.*

**EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.**  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ended December 31, 2018

	<b>Operating Fund</b>	<b>Reserve Funds</b>	<b>2018</b>
Net cash provided (used) by operating activities:			
Excess of revenues over expenses (expenses over revenues) \$	5,044	\$ (173,989)	\$ (168,944)
Adjustments to reconcile excess of revenues to net cash used by operating activities:			
Increase(decrease)in:			
Accounts payable	480	-	480
Refundable rental deposits	(1,400)	-	(1,400)
Net cash provided (used) by operating activities	4,124	(173,989)	(169,864)
Net increase (decrease) in cash and cash equivalents	4,124	(173,989)	(169,864)
Beginning cash	91,604	808,517	900,120
Ending cash	\$ 95,728	\$ 634,528	\$ 730,256
Supplemental disclosure:			
Interest paid		\$	-
Income taxes paid		\$	-

*See accompanying notes to financial statements.*

# EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

## Notes to Financial Statements – Modified Cash Basis

December 31, 2018

### **(1) Organization**

Eagle's Pointe Property Owners Association, Inc. ("Association") is a statutory Association organized as a not-for-profit corporation under the laws of the State of South Carolina on December 12, 1997. The Association was established to own, manage and maintain common property for, and furnish services to, the members of the Association, who are owners of real property within Eagle's Pointe in Beaufort County, a planned development golf community in Bluffton, South Carolina. Revenue for the Association is principally derived from assessments of property owners within Eagle's Pointe. Eagle's Pointe encompasses approximately 300 acres and 249 units, has a golf course with a clubhouse, a lake, lagoons, tennis courts, pickle ball courts, a basketball court, a fitness center, a swimming pool and a picnic area with a playground and outdoor entertainment center, covered pavilion and fireplace for use by residents.

### **(2) Summary of Significant Accounting Policies**

#### ***(a) Basis of Accounting***

The Association is on the modified cash basis of accounting where revenues are recognized when received and expenses when they are paid.

To ensure observances 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.

#### *Operating Fund*

This fund is used for the general operations of the Association.

#### *Reserve Fund*

This fund is used to accumulate and account for resources designated for future major repairs and replacements of existing infrastructure and equipment.

#### ***(b) Cash and Cash Equivalents***

For the purposes of the statement of cash flows, the Association considers all investments purchased with original maturities of three months or less to be cash equivalents. Such investments are stated at cost which approximates fair market value.

#### ***(c) Income Taxes***

A homeowners' association may be taxed either as a homeowners' association or as a regular corporation. The Association filed as a homeowners' association for the year ended December 31, 2018. As a regular corporation, income is taxed at the regular federal and state corporate income tax rates. Losses from membership activities cannot be used to offset interest income and income derived from non-members. Certain restricted elections can be made to apply excess membership assessments to the succeeding year and to treat assessments for current and future capital



# EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

## Notes to Financial Statements – Modified Cash Basis

December 31, 2018

acquisitions as non-taxable paid-in capital assessments. As a homeowners' association, membership income is exempt from taxation, and only non-membership income, less allowable expenses is taxed.

### ***(d) Uncertainty in Income Taxes***

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Association's federal and state returns will not be challenged by taxing authorities and that the Association will not be subject to tax, penalties and interest as a result of such challenge. Generally, the Association's tax returns remain open for examination by governmental authorities for three years subsequent to their original filing.

### ***(e) Future Major Repairs and Replacements***

The Association currently designates a portion of the regular annual assessment for current and future major repairs and replacements, general reserves, capital reserves and road reserves (see Note 5). Funds designated for future major repairs and replacements are recorded in these reserve funds and are held in segregated bank accounts which are generally not available for operating purposes.

### ***(f) Revenue Recognition***

The Association recognizes assessment revenue when collected.

### ***(g) Property and Equipment***

Common areas and roadways are owned by the Association but are not recorded in the listing of property and equipment. The Association incurs maintenance costs on all its common areas and roadways. Repairs and replacements are expensed as incurred.

### ***(h) Commitments and Contingencies***

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Recoveries of costs from third parties, which are probable of realization, are separately recorded as assets, and are not offset against the related liability.

### ***(i) Use of Estimates***

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

# EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

Notes to Financial Statements – Modified Cash Basis

December 31, 2018

## *(j) Subsequent Events*

Management of the Association has evaluated events and transactions subsequent to December 31, 2018 through November 21, 2019, the date the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. See Note 6.

## **(3) Commitments and Contingencies**

The Association has annual contracts with various vendors for certain services.

The Association has a contract with a Hargray, a cable provider, to exclusively market and promote them and in return will receive, within 30 days after the end of each quarter, 3% of revenues received by the cable provider for the sale of the services, basic voice, basic video, and basic data from the homeowners of the Association.

The Association is subject to various claims, litigation and contingencies which are in the normal course of business. Management believes that the ultimate liability, if any, arising from such claims is not likely to have a material adverse effect on the results of operations, financial position or liquidity.

## **(4) Concentrations**

### *(a) Concentrations of Credit Risk*

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalent accounts held at financial institutions. The credit worthiness of the parties to these transactions is subject to continuous review and evaluation.

The cash balances are held as deposits with financial institutions. Such balances are secured by the Federal Deposit Insurance Corporation up to \$250,000. The Association monitors its positions with, and the credit quality of, the financial institution which is counterparty to its financial instruments and does not anticipate nonperformance by this financial institution. There were no uninsured balances at December 31, 2018.

### *(b) Other Concentrations*

Due to Eagle's Pointe being located in Bluffton, South Carolina and the Association's dependence upon its assessments and fees on owners for funding, a significant economic dependency exists on the area's ability to remain an attractive tourism and residential location as well as the owners' personal financial conditions.

### *(c) Supplier Concentration*

Significant customers and suppliers are those that account for greater than 10% of the Association's revenues and purchases. The Association has no significant customer concentration in the year ended December 31, 2018. The Association purchased a substantial portion of services and materials from a vendor (45%). The Association believes that there are

# EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

## Notes to Financial Statements – Modified Cash Basis

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numerous other suppliers that could be substituted should the supplier become unavailable or non-competitive.

### **(5) Road Easement**

Per the Master Declaration of Covenants, Conditions, and Restrictions for Eagle's Pointe Golf Course Residential Community dated February 21, 1997 the Association has an easement with the golf course owners that allow the golf course owners access to the road from the main entrance to the golf course clubhouse. In exchange for this, the golf course is to share the cost of the front signage and the road maintenance. The Association is to pay 58% for the primary roads maintenance and 50% for the entry road maintenance. On January 6, 2014, the Master Declaration of Covenants was amended to no longer require quarterly payments to the golf course owner for the road reserve funds. The Association is now holding their own road reserve funds. The balance of this reserve fund is \$209,880 at December 31, 2018 and is included in the certificates of deposit line item. See Note 6(b) regarding litigation.

### **(6) Subsequent Events**

#### ***(a) Reserve Study Starting in 2020***

The Association conducted a study to determine the remaining useful lives of the components of common property and to estimate the costs of future major repairs and replacements on July 26, 2019. Funds are being accumulated in the replacement reserve fund based on estimates of future needs for repairs and replacements of components of common property. Actual expenditures may vary from estimated future expenditures, and the variations may be material. Therefore, accumulated amounts may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed for repairs and replacements, the Association has the right, subject to board/member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacement until funds are available. See page 11 for a summary of this study.

We do not express an opinion or provide any assurance on the information because the limited procedures we applied to it do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***(b) Litigation***

At December 31, 2018, the Association was involved in litigation regarding the road and front entry easement with the golf course owner. They paid the golf course owners \$52,692 through 2012 in unused road reserves. This is currently on the Association's books as an asset that is fully reserved. On November 21, 2019, this litigation was settled in favor of the Association for \$30,000.

**EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.**

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**Subsequent Event - Information on Future Major Repairs and Replacements 2020 through 2059**

Miller Dodson conducted a level 2 update study with site visit/on-site review based on the cash flow method and estimated the remaining useful lives and replacement costs of the components of common property in July 2019. The study included inspection and evaluation of the common property throughout the Association. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study. Estimated current replacement costs have taken into account the effects of expected inflation, estimated at 2.30% between the date of the study and through 2023 that the components will require repair or replacement. Miller Dodson recommended that inflation rates be compared to rates published by the Bureau of Labor Statistics. If there is a greater than 1% discrepancy they recommend they be contacted prior to using their inflation adjusted funding recommendations. The future years have not been adjusted for inflation, as a professional update is recommended every three to five years.

The following information is based on the study performed in 2019 and presents significant information about the components of common property from 2020 through 2059. The total reserve funds balance at December 31, 2018 is \$634,528. The reserve study notes that the current funding is inadequate to fund the projected replacements scheduled.

<u>Components</u>	<u>Estimated Remaining Life in Years</u>	<u>Estimated Future Replacement Costs</u>
Ponds	2-25	\$ 573,327
Play Area	2-8	63,110
Asphalt	3-8	1,486,130
Bocce	2-11	114,000
Concrete	6	209,468
Pools and Pool Areas	5-40	885,628
Pavilion	5-29	82,155
Street Signage	13	5,000
Storm Water Drainage	5	4,800
Speed Bumps	8	19,200
Fitness Center	13	70,065
Tennis Court	2-14	177,503
Totals		<u>\$ 3,690,386</u>