

EAGLE'S POINTE PROPERTY OWNERS' ASSOCIATION, INC.

Financial Statements – Modified Cash Basis

December 31, 2019

(With Independent Accountants' Review Report Thereon)

EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

Financial Statements – Modified Cash Basis

December 31, 2019

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Independent Accountants' Review Report

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

We have reviewed 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, 2019, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the modified cash basis of accounting.



Required Supplementary Information

The information about future major repairs and replacements of common property on page 10 is presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

A handwritten signature in black ink that reads "June CPA". The signature is written in a cursive, flowing style.

June CPA
October 28, 2020

EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.
Statement of Assets, Liabilities and Equity - Modified Cash Basis
December 31, 2019

	Operating Fund	Reserve Funds	2019
Assets			
Current assets:			
Cash	\$ 74,218	\$ -	\$ 74,218
Cash, rental deposits	7,000	-	7,000
Certificates of deposit	-	453,446	453,446
Total current assets	81,218	453,446	534,664
Certificates of deposit	-	113,293	113,293
Total assets	\$ 81,218	\$ 566,739	\$ 647,957
Liabilities and Equity			
Liabilities:			
Refundable rental deposits	\$ 7,000	\$ -	\$ 7,000
Total current liabilities	7,000	-	7,000
Equity	74,218	566,739	640,957
Total liabilities and equity	\$ 81,218	\$ 566,739	\$ 647,957

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, 2019

	<u>Operating Fund</u>	<u>Reserve Funds</u>	<u>2019</u>
Revenues			
Assessments	\$ 242,926	\$ 70,814	\$ 313,740
Interest income	256	-	256
Cable royalty income	3,758	-	3,758
Trash collection income	25,477	-	25,477
Owner fines income	3,922	-	3,922
Other income	5,343	-	5,343
	<hr/>	<hr/>	<hr/>
Total revenues	281,682	70,814	352,496
Expenses			
Insurance	8,202	-	8,202
Repairs and maintenance	132,389	-	132,389
Infrastructure expenses	18,832	-	18,832
Professional fees	10,096	-	10,096
Committee expenses	11,361	-	11,361
Security	3,546	-	3,546
Utilities	33,973	-	33,973
Management fee	21,415	-	21,415
Administrative	5,928	-	5,928
Capital reserve expenses	-	-	-
General reserve expenses	-	169,525	169,525
Bad debt	600	-	600
Taxes	1,948	-	1,948
	<hr/>	<hr/>	<hr/>
Total expenses	248,290	169,525	417,815
Excess of revenues over expenses (expenses over revenues)	33,392	(98,711)	(65,319)
Other (revenues) expenses			
Golf course expenses	45,000	-	45,000
Legal settlement	(30,000)	-	(30,000)
Total excess of revenue over expenses (expenses over revenues)	18,392	(98,711)	(80,319)
Beginning equity balance	86,748	634,528	721,276
Interfund transfers	(30,922)	30,922	-
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Ending equity balance	\$ 74,218	\$ 566,739	\$ 640,957

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, 2019

	<u>Operating Fund</u>	<u>Reserve Funds</u>	<u>2019</u>
Net cash provided (used) by operating activities:			
Excess of revenues over expenses (expenses over revenues) \$	\$ 18,392	\$ (98,711)	\$ (80,319)
Interfund transfers	(30,922)	30,922	
Adjustments to reconcile excess of revenues (expenses over revenues) to net cash used by operating activities:			
(Increase) decrease in:			
Increase (decrease) in:			
Accounts payable	(480)	-	(480)
Refundable rental deposits	(1,500)	-	(1,500)
Net cash provided (used) by operating activities	<u>(14,510)</u>	<u>(67,789)</u>	<u>(82,299)</u>
Net increase (decrease) in cash and cash equivalents	(14,510)	(67,789)	(82,299)
Beginning cash	<u>95,728</u>	<u>634,528</u>	<u>730,256</u>
Ending cash	<u>\$ 81,218</u>	<u>\$ 566,739</u>	<u>\$ 647,957</u>
Supplemental disclosure:			
Interest paid			\$ <u> -</u>
Income taxes paid			\$ <u> -</u>

See accompanying notes to financial statements.

EAGLE'S POINTE PROPERTY OWNERS ASSOCIATION, INC.

Notes to Financial Statements— Modified Cash Basis

December 31, 2019

(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, 2019. 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, 2019

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, and general reserves. 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, 2019

(j) Subsequent Events

Management of the Association has evaluated events and transactions subsequent to December 31, 2019 through October 28, 2020, the date the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. See Note 7.

(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, 2019.

(b) Geographic Concentration

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 had no significant customer concentration in the year ended December 31, 2019. The Association purchased a substantial portion of services and materials from a vendor. The Association believes that there are

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December 31, 2019

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

(5) Road Easement

At December 31, 2018, the Association was involved in litigation regarding the road and front entry easement with the golf course owner. On November 21, 2019, this litigation was settled in favor of the Association for \$30,000.

(6) Future Major Repairs and Replacements

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 10 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.

(7) Subsequent Event—Covid-19

In January 2020, the United States Secretary of Health and Human Services declared a public health emergency in response to COVID-19, which continues to spread throughout the world and has adversely impacted commercial activity. The coronavirus outbreak and government responses are creating disruption in supply chains and adversely impacting many industries. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Association and its financial results.

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Information on Future Major Repairs and Replacements

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 fund balance at December 31, 2019 is \$566,739. The reserve study notes that the current funding is inadequate to fund the projected replacements scheduled.

Components	Estimated Remaining Lives(years)	Estimated Replacement Cost (Inflation Adjusted)	Fund Balance at December 31, 2019
Ponds	2-25	\$ 573,327	\$ 88,047
Play Area	2-8	63,110	9,692
Asphalt	3-8	1,486,130	228,381
Bocce	2-11	114,000	17,507
Concrete	6	209,468	32,015
Pools and Pool Areas	5-40	885,628	136,007
Pavilion	5-29	82,155	12,617
Street Signage	13	5,000	768
Storm Water Drainage	5	4,800	737
Speed Bumps	8	19,200	2,949
Fitness Center	13	70,065	10,760
Tennis Court	2-14	177,503	27,259
Totals		\$ 3,690,386	\$ 566,739