

**The Landfall Council
of Associations, Inc.**

Financial Statements
For the Year Ended December 31, 2023
(with Comparative Totals for 2022)



L.L.P.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Landfall Council of Associations, Inc.

Qualified Opinion

We have audited the accompanying financial statements of The Landfall Council of Associations, Inc. (a North Carolina master property owners' association), which comprise the balance sheet as of December 31, 2023, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of not recording certain personal property as discussed in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the balance sheet of The Landfall Council of Associations, Inc. as of December 31, 2023, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Landfall Council of Associations, Inc.'s 2022 financial statements, and our report dated May 22, 2023 expressed a qualified audit opinion related to recording of common personal property on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Basis for Qualified Opinion

As more fully described in Note 2 to the financial statements, The Landfall Council of Associations, Inc.'s policy is to expense personal property used in general operations and maintenance activities in the year acquired and to fund its improvements through its reserving process. This results in cash being set aside to replace property. However, expensing such personal property is not in accordance with generally accepted accounting principles, which requires capitalization and depreciation of all personal property. If the financial statements were adjusted to reflect this change as of December 31, 2023, net personal property would be increased by \$213,134, and the net property and equipment fund balance would be increased by \$213,134, which includes \$132,651 of additional depreciation expense related to this property.

We conducted our audit 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 Landfall Council of Associations, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Landfall Council of Associations, Inc.'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 Landfall Council of Associations, Inc.'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 Landfall Council of Associations, Inc.'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 supplementary information on future major improvements on page 17 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.

Ewing & Company, L.L.P.

Wilmington, North Carolina
March 26, 2024

The Landfall Council of Associations, Inc.
Balance Sheet
As of December 31, 2023

	2023							2022 Comparative Total
	Operating Fund	Property & Equipment Fund	Capital Improvement Funds			Special Assessment Fund	Total	
			Capitalization Projects	LAS/LOS Equipment & Vehicles	Assessed			
ASSETS								
Current Assets								
Cash & cash equivalents	\$ 2,197,715	\$ -	\$ -	\$ 259,314	\$ 3,534,594	\$ -	\$ 5,991,623	\$ 5,277,962
Builders' fund cash	277,843	-	-	-	-	-	277,843	235,225
Accounts receivable, net	386,167	-	-	-	18,105	-	404,272	338,129
Prepaid expenses & other current assets	172,434	-	-	-	2,314	-	174,748	152,079
Total Current Assets	<u>3,034,159</u>	<u>-</u>	<u>-</u>	<u>259,314</u>	<u>3,555,013</u>	<u>-</u>	<u>6,848,486</u>	<u>6,003,395</u>
Property & equipment, net (Note 2)	<u>-</u>	<u>178,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,350</u>	<u>210,851</u>
Total Assets	<u>\$ 3,034,159</u>	<u>\$ 178,350</u>	<u>\$ -</u>	<u>\$ 259,314</u>	<u>\$ 3,555,013</u>	<u>\$ -</u>	<u>\$ 7,026,836</u>	<u>\$ 6,214,246</u>
LIABILITIES & FUND BALANCE								
Current Liabilities								
Accounts payable	\$ 51,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,076	\$ 88,304
Accrued expenses	139,980	-	-	-	-	-	139,980	116,467
Builders' fund liability	277,658	-	-	-	-	-	277,658	235,090
Deferred revenue	2,239,835	-	-	-	-	-	2,239,835	2,307,961
Contract liabilities	-	-	-	-	3,527,082	-	3,527,082	2,774,082
Total Current Liabilities/Total Liabilities	<u>2,708,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,527,082</u>	<u>-</u>	<u>6,235,631</u>	<u>5,521,904</u>
Interfund balance	<u>242,082</u>	<u>-</u>	<u>(403,432)</u>	<u>133,419</u>	<u>27,931</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance								
Unrestricted	83,528	178,350	-	-	-	-	261,878	210,851
Restricted by Board	-	-	403,432	125,895	-	-	529,327	481,491
Total Fund Balance	<u>83,528</u>	<u>178,350</u>	<u>403,432</u>	<u>125,895</u>	<u>-</u>	<u>-</u>	<u>791,205</u>	<u>692,342</u>
Total Liabilities & Fund Balance	<u>\$ 3,034,159</u>	<u>\$ 178,350</u>	<u>\$ -</u>	<u>\$ 259,314</u>	<u>\$ 3,555,013</u>	<u>\$ -</u>	<u>\$ 7,026,836</u>	<u>\$ 6,214,246</u>

The Accompanying Notes are an Integral Part of these Financial Statements

The Landfall Council of Associations, Inc.
Statement of Revenues, Expenses, and Changes in Fund Balance
For the Year Ended December 31, 2023

	2023							2022 Comparative Total
	Operating Fund	Property & Equipment Fund	Capital Improvement Funds			Special Assessment Fund	Total	
			Capitalization Projects	LAS/LOS Equipment & Vehicles	Assessed			
REVENUES								
Assessments	\$ 5,703,635	\$ -	\$ -	\$ -	\$ 2,156,020	\$ 28,760	\$ 7,888,415	\$ 7,473,316
Association services	919,445	-	-	20,000	-	-	939,445	860,052
Owner services	4,519,437	-	-	55,000	-	-	4,574,437	4,109,086
Architectural Review Committee	153,950	-	-	-	-	-	153,950	126,160
Interest income	22,239	-	-	-	79,852	-	102,091	11,518
Other income	226,917	-	-	-	59,186	-	286,103	203,387
Total Revenues, Before Adjustment for Contract Liabilities	11,545,623	-	-	75,000	2,295,058	28,760	13,944,441	12,783,519
Adjustment for contract liabilities	-	-	-	-	(781,760)	-	(781,760)	(904,087)
Net Revenue Recognized	11,545,623	-	-	75,000	1,513,298	28,760	13,162,681	11,879,432
EXPENSES								
Salaries, benefits, & payroll taxes	3,983,286	-	-	-	-	-	3,983,286	3,496,334
Maintenance	1,650,700	-	-	-	-	-	1,650,700	1,480,187
Security	89,291	-	-	-	-	-	89,291	80,024
Association services	818,767	-	-	-	-	-	818,767	731,118
Owner services	4,031,928	-	-	-	-	-	4,031,928	3,670,022
Administration	589,673	-	-	-	-	-	589,673	536,568
Capital improvement fund expenditures	-	-	58,639	73,025	1,650,880	-	1,782,544	1,968,526
Hurricane Florence	-	-	-	-	-	12,103	12,103	1,895
Total Expenses	11,163,645	-	58,639	73,025	1,650,880	12,103	12,958,292	11,964,674
Operating Excess (Deficit)	381,978	-	(58,639)	1,975	(137,582)	16,657	204,389	(85,242)
NON-OPERATING EXPENSES								
Depreciation & gain (loss) on sale of fixed assets	-	(105,526)	-	-	-	-	(105,526)	(135,377)
Excess (Deficit) of Revenues Over (Under) Expenses	381,978	(105,526)	(58,639)	1,975	(137,582)	16,657	98,863	(220,619)
Fund Balance, Beginning	-	210,851	357,571	123,920	-	-	692,342	912,961
Interfund transfers	(225,425)	-	104,500	-	137,582	(16,657)	-	-
Transfer of property	(73,025)	73,025	-	-	-	-	-	-
Fund Balance, Ending	\$ 83,528	\$ 178,350	\$ 403,432	\$ 125,895	\$ -	\$ -	\$ 791,205	\$ 692,342

The Accompanying Notes are an Integral Part of these Financial Statements

The Landfall Council of Associations, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2023

	2023							2022 Comparative Total
	Operating Fund	Property & Equipment Fund	Capital Improvement Funds			Special Assessment Fund	Total	
			Capitalization Projects	LAS/LOS Equipment & Vehicles	Assessed			
Cash Flows From Operating Activities								
Cash Collections for:								
Assessments	\$ 5,536,622	\$ -	\$ 55	\$ -	\$ 2,152,775	\$ 13,265	\$ 7,702,717	\$ 8,360,451
Association services	919,445	-	-	20,000	-	-	939,445	860,052
Owner services	4,519,437	-	-	55,000	-	-	4,574,437	4,109,086
Architectural Review Committee	153,950	-	-	-	-	-	153,950	126,160
Interest & other income	249,156	-	-	-	139,038	-	388,194	214,905
Less: Cash Payments for:								
Salaries, benefits, & payroll taxes	(3,983,286)	-	-	-	-	-	(3,983,286)	(3,496,334)
Association services	(818,767)	-	-	-	-	-	(818,767)	(731,118)
Owner services	(4,031,928)	-	-	-	-	-	(4,031,928)	(3,670,022)
Other expenses	(2,285,495)	-	(58,639)	(73,025)	(1,666,196)	(12,103)	(4,095,458)	(4,039,692)
Net Cash Provided (Used) By Operating Activities	<u>259,134</u>	<u>-</u>	<u>(58,584)</u>	<u>1,975</u>	<u>625,617</u>	<u>1,162</u>	<u>829,304</u>	<u>1,733,488</u>
Cash Flows From Investing Activities								
Purchase of property & equipment	(73,025)	-	-	(42,618)	-	-	(115,643)	(90,975)
Net Cash Provided (Used) By Investing Activities	<u>(73,025)</u>	<u>-</u>	<u>-</u>	<u>(42,618)</u>	<u>-</u>	<u>-</u>	<u>(115,643)</u>	<u>(90,975)</u>
Cash Flows From Financing Activities								
Interfund transfers	(431,049)	-	58,584	(198,125)	587,126	(16,536)	-	-
Net Cash Provided (Used) By Financing Activities	<u>(431,049)</u>	<u>-</u>	<u>58,584</u>	<u>(198,125)</u>	<u>587,126</u>	<u>(16,536)</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	<u>(244,940)</u>	<u>-</u>	<u>-</u>	<u>(238,768)</u>	<u>1,212,743</u>	<u>(15,374)</u>	<u>713,661</u>	<u>1,642,513</u>
Cash & Cash Equivalents, Beginning	<u>2,442,655</u>	<u>-</u>	<u>-</u>	<u>498,082</u>	<u>2,321,851</u>	<u>15,374</u>	<u>5,277,962</u>	<u>3,635,449</u>
Cash & Cash Equivalents, Ending	<u>\$ 2,197,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,314</u>	<u>\$ 3,534,594</u>	<u>\$ -</u>	<u>\$ 5,991,623</u>	<u>\$ 5,277,962</u>

(Continued)

The Accompanying Notes are an Integral Part of these Financial Statements

The Landfall Council of Associations, Inc.
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2023

	2023							2022 Comparative Total
	Operating Fund	Property & Equipment Fund	Capital Improvement Funds			Special Assessment Fund	Total	
			Capitalization Projects	LAS/LOS Equipment & Vehicles	Assessed			
Reconciliation of Cash Flows From								
Operating Activities:								
Excess (deficit) of revenues over (under) expenses	\$ 381,978	\$ (105,526)	\$ (58,639)	\$ 1,975	\$ (137,582)	\$ 16,657	\$ 98,863	\$ (220,619)
Adjustments to Reconcile Excess (Deficit) of Revenues to Net Cash Provided (Used)								
By Operating Activities:								
Depreciation	-	105,526	-	-	-	-	105,526	135,377
(Increase) Decrease in:								
Accounts receivable, net	(76,218)	-	55	-	(3,245)	13,265	(66,143)	145,826
Prepaid expenses & other current assets	(22,669)	-	-	-	-	-	(22,669)	162,815
Increase (Decrease) in:								
Accounts payable & other current liabilities	44,169	-	-	-	(15,316)	-	28,853	45,320
Deferred revenue	(68,126)	-	-	-	-	-	(68,126)	580,389
Contract liabilities	-	-	-	-	781,760	(28,760)	753,000	884,380
Net Cash Provided (Used) By Operating Activities	\$ 259,134	\$ -	\$ (58,584)	\$ 1,975	\$ 625,617	\$ 1,162	\$ 829,304	\$ 1,733,488
Supplemental Disclosure								
Interest paid							\$ -	\$ -
Income taxes paid							\$ -	\$ -

The Accompanying Notes are an Integral Part of these Financial Statements

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

1. NATURE OF ORGANIZATION

The Landfall Council of Associations, Inc. (the "Council"), a North Carolina corporation, is a master property owners' association in the Landfall community located on approximately 2,250 acres of land in New Hanover County, North Carolina. The Council was formed to provide the maintenance, preservation, and control of the shared common areas within Landfall, as well as to provide security, general administrative services, and architectural review services for the Landfall community. The Council assesses all property owners within the Landfall community and pays for the common expenses from these assessments. The Council represented 2,026 residential lots as of December 31, 2023 and 2,023 residential lots as of December 31, 2022.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Council prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for homeowners' associations using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Council's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Council's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Fund Accounting

The Council’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Council 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:

The Operating Fund is used to account for financial resources available for general operations of the Council.

The Property and Equipment Fund is used to account for fixed assets and related accumulated depreciation.

The Capital Improvement Funds are used to accumulate financial resources for future repairs, replacements, unforeseen contingencies, and for new capital purchases that were not previously included in the reserve study. The funds are managed by the Board in three funds as follows:

- Capitalization Projects are resources designated by the Board for capital additions currently anticipated and subject to Board final approval to include the following:

<u>Component</u>	<u>2023</u>	<u>2022</u>
Sidewalk Engineering Survey	\$ -	\$ 80,153
Entrance Modifications	298,932	277,418
Leaf Collector	5,500	-
Overlook Park - Additional Parking	8,000	-
Generators	20,000	-
Traffic Logix Speeding Citation Cameras	35,000	-
Security Gator	16,000	-
Software Design	20,000	-
Total Planned Capital Improvement		
Funds Capitalization Projects	<u>\$ 403,432</u>	<u>\$ 357,571</u>

- LAS/LOS Equipment and Vehicles are resources reserved by the Board for repair and replacement of LAS/LOS equipment and vehicles that are currently covered by the reserve study.
- Assessed is used to manage resources assessed to property owners and used for anticipated major repairs and replacements indicated in the Council’s reserve study (see page 17).

The Special Assessment Fund is used to account for financial resources charged to property owners for non-recurring expenditures for a specific purpose. A special assessment was assessed during 2018 (see Note 6).

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts, certificates of deposit, and treasury bills with maturities of 12 months or less. From time to time during the periods presented, the Council has had cash balances in financial institutions that have exceeded federal depository insurance limits. The Council deposits its cash with high quality institutions, and management believes the Council is not exposed to significant credit risk on those amounts.

Cash and cash equivalents are as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Operating Fund		
Truist, ICS Operating 1.00%	\$ 2,183,013	\$ 2,435,755
Truist, Celebration Walkway Checking	10,175	6,400
Truist, Landfall Community Garden Checking	4,027	-
Petty Cash	<u>500</u>	<u>500</u>
Total Operating Fund	<u>2,197,715</u>	<u>2,442,655</u>
LAS/LOS Equipment & Vehicles Fund		
Live Oak Bank, Savings, 4.01%	259,314	-
Self Help Credit Union, Money Market, 1.89%	-	249,033
United Bank, Money Market, 0.31%	<u>-</u>	<u>249,049</u>
Total LAS/LOS Equipment & Vehicles Fund	<u>259,314</u>	<u>498,082</u>
Assessed Fund		
Raymond James Investment, 1.00%	647,971	1,355,898
Live Oak Bank, Savings, 3.15%	-	249,607
Truist, Federated Money Market, 5.27%	517,061	-
Truist, Sweep Account, 5.28%	521,948	-
Truist, T-Bill, 02/22/24, 5.047%	521,099	-
Truist, T-Bill, 05/16/24, 5.195%	520,821	-
Truist, T-Bill, 08/08/24, 5.433%	522,522	-
Truist, CIF Checking	63,008	203,468
Truist, CIF Money Market, 3.44%	220,159	10,009
Corning Credit Union, Savings	5	-
Corning Credit Union, Money Market, 1.50%	-	252,833
North State Bank, Money Market, 0.65%	<u>-</u>	<u>250,036</u>
Total Assessed Fund	<u>3,534,594</u>	<u>2,321,851</u>
Special Assessment Fund		
Truist, Special Assessment Checking	<u>-</u>	<u>15,374</u>
Total Special Assessment Fund	<u>-</u>	<u>15,374</u>
 Total Cash & Cash Equivalents	 <u>\$ 5,991,623</u>	 <u>\$ 5,277,962</u>

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Builders’ Fund Cash and Liability

Before beginning new construction, a property owner or builder is required to provide a builder’s deposit. The cash received is kept in checking and money market accounts and certificates of deposit and is restricted for reimbursement to the property owner or builder until completion of construction and payment of fines and/or penalties, if any, relating to the construction. Earnings on the account belong to the Council and may be used in its operations. Since construction is expected to be completed within an 18-month period, the restricted cash and related liability are classified as current. The confirmed and book balance was \$277,843 as of December 31, 2023 and \$235,225 as of December 31, 2022.

Member Assessments

Association members are subject to semi-annual assessments to provide funds for the Council’s operating expenses, capital acquisitions, and major improvements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Council’s performance obligations related to the operating fund assessments are satisfied over time on a daily pro-rata basis using the input method. The Council’s performance obligations related to the capital improvement fund assessments are satisfied when these funds are expended for their designated purpose.

Although the semi-annual assessments are mailed in November, they are not due until January. Assessments collected in November and December, but not due until the following year, are shown as deferred revenue on the accompanying balance sheet. The Council’s policy is to place liens on the properties of property owners who have one assessment that is 60 days or more delinquent. A summary of accounts receivable is as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 417,442	\$ 356,778
Less: Allowance for uncollectibles	<u>(13,170)</u>	<u>(18,649)</u>
Accounts Receivable, Net	<u>\$ 404,272</u>	<u>\$ 338,129</u>

The Council’s policy is to provide an allowance on delinquent accounts where ultimate collection is impaired. As a result of refinement of its policies and procedures for estimating the allowance during 2023 and 2022, management estimates the allowance by analyzing the age and lien status of year end receivable balances by property owner. As a result, an additional bad debt provision of \$0 for the year ended December 31, 2023 and \$16,398 for the year ended December 31, 2022 was recorded as an administration expense. Bad debt of \$5,479 for the year ended December 31, 2023 and \$24,172 for the year ended December 31, 2022 was written off against the allowance.

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Property and Equipment

The Council does not capitalize real property or improvements to real property. The Council also does not capitalize personal property used in general operations and maintenance activities covered by property owners' regular assessments. The Council expenses such personal property in the year acquired and funds its improvements through its reserving process. Personal property used in direct operations is budgeted and financed through current assessments, as well as reserved in the capital improvement funds. Although not in accordance with generally accepted accounting principles, in the opinion of management, this approach is operationally prudent and conservative. Personal property used in income-producing activities is capitalized at cost if it has a useful life when acquired of one year or more and a cost of \$5,000 or more. In accordance with IRS regulations and generally accepted accounting principles, repairs and maintenance that do not significantly increase the useful life or efficiency of operation of the asset are expensed as incurred. Property is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period. Capitalized personal property used in income-producing activities consisted of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Vehicles	\$ 846,880	\$ 846,880
Equipment	<u>589,475</u>	<u>555,600</u>
	1,436,355	1,402,480
Less: Accumulated depreciation	<u>(1,258,005)</u>	<u>(1,191,629)</u>
Property & Equipment, Net	<u>\$ 178,350</u>	<u>\$ 210,851</u>

Capitalized property and equipment are depreciated over their estimated useful lives primarily using the straight-line method for vehicles and furniture and equipment acquired prior to December 31, 1999 and tax accelerated methods for vehicles and furniture and equipment acquired thereafter, over the estimated useful lives of the assets as follows:

Vehicles	7-10 years
Furniture & equipment	5-7 years

A summary of depreciation and gain on sale of fixed assets as shown in the statement of revenues, expenses, and changes in fund balance is as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Depreciation	<u>\$ 105,526</u>	<u>\$ 135,377</u>
Total Non-Operating Expenses	<u>\$ 105,526</u>	<u>\$ 135,377</u>

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Contract Liabilities (Assessments Received in Advance – Capital Improvement Funds)

The Council recognizes revenue from property owners as the related performance obligations are satisfied. Contract liabilities (assessments received in advance – capital improvement funds) are recorded when the Council has the right to receive payment in advance of the satisfaction of performance obligations related to capital improvement fund assessments. The balance of contract liabilities (assessments received in advance – capital improvement funds) is \$3,527,082 as of December 31, 2023 and \$2,774,082 as of December 31, 2022.

Interest Income

Interest income is allocated to the operating fund and capital improvement funds as it is earned by each of the funds.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2023 and 2022, the Council elected to be taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made and the Council is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate tax rates.

The Council's 2023 tax return reported non-member taxable income of \$67,140 resulting in \$14,099 of federal income taxes due and \$758 of state income taxes due. The Council has accumulated member loss carryovers aggregating \$2,742,957 as of December 31, 2023. The Council's 2022 tax return reported non-member taxable loss of \$1,016 resulting in no income taxes due.

The Council is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Council's management believes it is no longer subject to income tax examinations for years prior to 2020.

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Council's audited financial statements for the year ended December 31, 2022, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported fund balances.

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

Subsequent Events

Subsequent events have been evaluated through March 26, 2024, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. IMPROVEMENT FUNDS

The Council's governing documents generally allow the levying of special assessments or the increasing of regular assessments when major improvements are needed. The Board of Directors, however, has chosen to establish funds for the estimated costs of future major improvements. Accumulated funds, which aggregate \$3,814,327 as of December 31, 2023, are held in separate accounts and are generally not available for operating purposes. It is the Council's policy to allocate interest income earned by the capital improvement funds to the capital improvement funds.

Maintenance and major improvements to the common property are the responsibility of the Council. The Council authorized an independent reserve study in 2021 (completed in 2022), along with an inventory of common property currently in its care, to determine the remaining useful lives of the common property and current estimates of costs of future improvements. The Council has allocated funds specifically for the purpose of funding the future major improvements of these common properties. Actual expenses, however, may vary from estimated amounts. Activity related to the capital improvement equity held for future improvements was as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Balance, beginning	\$ -	\$ -
Member assessments designated as improvement fund contributions	1,511,842	1,626,273
Interest income	79,852	9,460
Other contributions	59,186	40,351
Funds used for improvements	<u>(1,650,880)</u>	<u>(1,676,084)</u>
Balance, ending	<u>\$ -</u>	<u>\$ -</u>

4. RETIREMENT PLAN

The Council adopted a 401(k) retirement plan effective January 1, 2010. Generally, for employees with one or more years of service, the Council matches a participant's salary reduction contribution up to 4% of the participant's salary. New participants to the plan will fully vest in three years. Total Council matching contributions were \$101,768 for the year ended December 31, 2023 and \$96,150 for the year ended December 31, 2022.

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

5. LINE OF CREDIT

The Council has an annually renewable revolving line of credit dated September 10, 2018 for \$500,000 with Truist. There have been no advances under this line and the balance was \$0 as of December 31, 2023 and 2022.

6. HURRICANE FLORENCE AND SPECIAL ASSESSMENT

On September 14, 2018, Hurricane Florence made landfall as a Category 1 hurricane at Wrightsville Beach, North Carolina, which is a barrier island contiguous to Wilmington, North Carolina. The winds and heavy rain caused widespread damage to the Council's common areas. Extraordinary expenditures were required to repair damage to common property, including damage to the roads, storm water facilities, and infrastructure.

As a result of this storm, to fund the estimated cost of about \$3,825,000, the property owners were assessed a \$1,895 full-share assessment per lot during 2018. In 2023, \$12,103 was expensed for the hurricane and the remaining balance of \$16,657 was transferred to the operating fund. For 2022, the Council had a bad debt write off of \$1,895. For the year ended December 31, 2021, \$5,402 was expensed for the hurricane. For the year ended December 31, 2020, \$13,539 was expensed for the hurricane. For the year ended December 31, 2019, \$1,943,765 was expensed, while \$1,917,849 was expensed for the year ended December 31, 2018.

The Council's operations and cash flows were impacted by the storm, but in the opinion of management, there will be no permanent, long-term effect on the operations of the Council.

The Landfall Council of Associations, Inc.
Notes to Financial Statements
December 31, 2023

7. CONTINGENCIES AND RISK MANAGEMENT

From time to time, the Council becomes aware of asserted and unasserted claims. In most cases, these claims can be successfully defended. All of these situations are carefully reviewed by management, and when necessary, management will consult with the Council's insurance broker and attorney. When management is confident in the outcome and the financial risk to the Council is small, management will pursue the Council's defense vigorously without involving the insurance broker or attorney. When management is uncertain of the outcome and/or the financial risk could be material, management will look to the Council's insurance broker or attorney for its defense.

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Council deposits its cash with high quality financial institutions, and management believes the Council is not exposed to significant credit risk on those amounts.

The Council is exposed to various risks of loss in the ordinary course of business as a result of torts, theft, damage to or destruction of assets, business interruption, management errors and omissions, natural disasters, and employee workplace injuries and illnesses.

The Council purchases commercial property and casualty insurance against risk of loss due to property damage to buildings, equipment, vehicles, theft, public liability, auto liability, fiduciary liability, pollution liability, management errors, and employee workplace injuries and illnesses.

The Council carried property insurance against fire, extended perils, and wind and hail. The wind and hail "NCJUA" policy is a 2% deductible with a wind buy back through CRC for a \$10,000 flat deductible. The Philadelphia Insurance Companies policy has a \$5,000 deductible for all other perils per claim. The total property values are \$2,624,264 through Philadelphia Insurance Companies and \$2,444,400 through NCJUA. The Council is self-insured for property damage to the 720 light poles in the community, which have a replacement cost of about \$2,900 each.

The Council carries a cyber risk liability policy with a \$1,000,000 limit and a \$10,000 deductible.

The Council was insured for workers' compensation subject to the statutory limits and employer's liability with a primary limit of \$500,000. Management liability is on a claims made basis with a limit of \$2,000,000 per claim. General (public) liability is written on an occurrence basis with an occurrence limit of \$1,000,000. Auto liability is written on a per accident basis with a limit of \$1,000,000. Excess liability is written on an occurrence basis in the amount of \$5,000,000 in excess of the primary general liability limit, excess of the primary auto liability limit, and excess of the primary employer's liability limit. In the past three fiscal years, no insurance claim has exceeded the Council's insurance limits.

The Landfall Council of Associations, Inc.
Supplementary Information on Future Major Improvements
December 31, 2023 (Unaudited)

The Council's Board of Directors authorized a third-party reserve study in 2021 (completed in 2022) to estimate the remaining useful lives and the major improvement costs of the inventoried common property within the Landfall community. The estimates were obtained from licensed contractors who inspected the property. The improvement costs were based on the estimated costs to improve the common property components at the date of the study and have been updated by management through December 31, 2023. The Board of Directors, however, uses a budgetary funding plan based on this information to estimate an annual capital improvement funds contribution. The following information is based on the study:

Component	Estimated Useful Life (Years)	Estimated Improvement Cost	Estimated Components of Cash Balance 12/31/23
Vehicles & equipment	3-25	\$ 3,401,129	\$ 189,695
Facilities & property site elements	15-75	<u>74,419,765</u>	<u>3,604,213</u>
Total		<u>\$ 77,820,894</u>	<u>\$ 3,793,908</u>

The Council's Board of Directors has a policy and process for maintaining and refurbishing property to avoid total replacement wherever possible. Consistent with that policy, anticipated scheduled expenditures for improvements of the capital improvement fund components are as follows as of December 31, 2023:

2024	\$ 2,000,261
2025	3,106,559
2026	3,245,101
2027	2,784,113
2028	2,478,123
Thereafter	<u>64,206,737</u>
Total	<u>\$ 77,820,894</u>

The following is a summary of capital improvement fund expenditures for the year ended December 31:

Component	2023
Streets	\$ 953,549
Stormwater Systems	274,838
Perimeter Walls & Fencing	188,022
Equipment & Vehicles	134,127
Building Repairs & Improvements	89,844
Gate & Entry Systems	34,450
Street Lights	30,561
Pond Improvements	27,453
Irrigation System Pumps	22,662
Computer Servers	19,554
Other	<u>7,484</u>
Total Capital Improvement Fund Expenditures	<u>\$ 1,782,544</u>
2023 Budget	<u>\$ 2,555,120</u>