

**HILTON HEAD PLANTATION
2018 AUDIT REPORT**



2018 AUDIT REPORT

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION

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**HILTON HEAD PLANTATION
PROPERTY OWNERS' ASSOCIATION, INC.**

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.
Hilton Head Island, South Carolina

December 31, 2018

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Independent Auditors' Report

To the Board of Directors and Members
Hilton Head Plantation Property Owners' Association, Inc.
Hilton Head Island, South Carolina

We have audited the accompanying financial statements of ***Hilton Head Plantation Property Owners' Association, Inc.***, which comprise the balance sheet as of December 31, 2018, and the related statements of revenues and expenses, changes in fund balances and cash flows 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 accounting principles generally accepted in the United States of America; 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.

Auditors' 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 Hilton Head Plantation 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 accounting principles generally accepted in the United States of America.

POA - Financial Statements

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 15 be presented to supplement the basic financial statements. Such information, although not a 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 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.

Handwritten signature of Webster Rogues LLP in cursive script.

Bluffton, South Carolina
February 26, 2019

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

BALANCE SHEET DECEMBER 31, 2018

	Operating Fund	Major Repairs and Replace- ments Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 605,743	\$ 1,441,235	\$ 1,062,687	\$ -	\$ 133,612	\$ 3,243,277
Investments	-	999,092	-	-	-	999,092
Due from (to) other funds	525,061	(651,269)	(361,689)	619,965	(132,068)	-
Members' assessments receivable net of allowance of \$80,579	37,016	-	-	-	-	37,016
Accounts receivable	325,636	-	-	-	218	325,854
Accrued interest receivable	-	6,478	-	-	-	6,478
Prepaid expenses	111,192	-	-	-	-	111,192
Total current assets	1,604,648	1,795,536	700,998	619,965	1,762	4,722,909
Property and Equipment						
Property and equipment	18,205,641	-	-	-	16,954	18,222,595
Projects in progress	11,150	-	-	-	-	11,150
Accumulated depreciation	(8,514,114)	-	-	-	(16,954)	(8,531,068)
Net property and equipment	9,702,677	-	-	-	-	9,702,677
TOTAL ASSETS	\$ 11,307,325	\$ 1,795,536	\$ 700,998	\$ 619,965	\$ 1,762	\$ 14,425,586
LIABILITIES AND FUND BALANCES						
Current Liabilities						
Accounts payable	\$ 79,383	\$ -	\$ -	\$ -	\$ -	\$ 79,383
Accrued payroll liabilities	62,682	-	-	-	-	62,682
Accrued vacation pay	48,075	-	-	-	-	48,075
Deferred revenue and restricted contributions	43,173	-	-	-	-	43,173
Deposits	176,143	-	-	-	-	176,143
Total current liabilities	409,456	-	-	-	-	409,456
Fund Balances	10,897,869	1,795,536	700,998	619,965	1,762	14,016,130
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,307,325	\$ 1,795,536	\$ 700,998	\$ 619,965	\$ 1,762	\$ 14,425,586

The accompanying Notes to Financial Statements are an integral part of these statements.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Major Repairs and Replace- ments Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
Revenues						
Members' assessments	\$ 5,332,760	\$ 728,475	\$ -	\$ -	\$ 6,950	\$ 6,068,185
Commercial vehicle permits and daily passes	877,947	-	-	-	-	877,947
Kids Kamp	67,863	-	-	-	-	67,863
Tennis revenues	241,000	-	-	-	-	241,000
Cable and cell tower franchise fees	155,630	-	-	-	-	155,630
Fees and service charges	171,340	-	-	440,638	-	611,978
Advertising revenue	173,700	-	-	-	-	173,700
Architectural review fees	67,550	-	-	-	-	67,550
Late charges and covenant violations	35,142	-	-	-	-	35,142
Real estate setup fees	37,900	-	-	-	-	37,900
Special events	11,374	-	-	-	-	11,374
Interest and investment income	26,746	31,337	5,880	-	280	64,243
Bar code sales	7,859	-	-	-	-	7,859
Disaster recovery	-	-	225	-	-	225
Other	23,784	-	-	-	-	23,784
Total revenues	7,230,595	759,812	6,105	440,638	7,230	8,444,380
Expenses						
Security	1,688,160	-	-	-	-	1,688,160
Administration	938,721	-	-	-	-	938,721
Depreciation	889,553	-	-	-	-	889,553
Landscape maintenance	726,266	-	-	-	5,222	731,488
General maintenance	324,309	321,528	-	-	-	645,837
Spring Lake pavilion and pool	217,016	-	-	-	-	217,016
Tennis	201,774	-	-	-	-	201,774
General insurance	197,127	-	-	-	-	197,127
Communications with property owners	179,952	-	-	-	-	179,952
General recreation	179,415	-	-	-	-	179,415
Community services	158,531	-	-	-	-	158,531
Repairs and replacements	120,000	-	-	-	-	120,000
Disaster recovery	100,171	-	-	-	-	100,171
Recreational grounds maintenance	97,539	-	-	-	-	97,539
Drainage	94,538	-	-	-	-	94,538
Road repair	84,526	-	-	-	-	84,526
Main entrance	69,198	-	-	-	-	69,198
Property taxes	61,600	-	-	-	-	61,600
Plantation house	53,539	-	-	-	-	53,539
Kids Kamp	47,898	-	-	-	-	47,898
Special events	32,176	-	-	-	-	32,176
Storage area expense	24,503	-	-	-	-	24,503
Bad debt expense	15,000	-	-	-	-	15,000
Legal	12,288	-	-	-	-	12,288
Total expenses	6,513,800	321,528	-	-	5,222	6,840,550
Revenues over expenses	\$ 716,795	\$ 438,284	\$ 6,105	\$ 440,638	\$ 2,008	\$ 1,603,830

The accompanying Notes to Financial Statements are an integral part of these statements.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED DECEMBER 31, 2018

	<u>Operating Fund</u>	<u>Major Repairs and Replace- ments Fund</u>	<u>Weather Casualty Fund</u>	<u>Capital Transfer Fund</u>	<u>Lot Maintenance Fund</u>	<u>Totals</u>
Balance - beginning of year	<u>\$ 10,959,114</u>	<u>\$ 2,419,212</u>	<u>\$ (1,145,107)</u>	<u>\$ 179,327</u>	<u>\$ (246)</u>	<u>\$ 12,412,300</u>
Revenues over expenses	716,795	438,284	6,105	440,638	2,008	1,603,830
Interfund transfers	<u>(778,040)</u>	<u>(1,061,960)</u>	<u>1,840,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(61,245)</u>	<u>(623,676)</u>	<u>1,846,105</u>	<u>440,638</u>	<u>2,008</u>	<u>1,603,830</u>
Balance - end of year	<u><u>\$ 10,897,869</u></u>	<u><u>\$ 1,795,536</u></u>	<u><u>\$ 700,998</u></u>	<u><u>\$ 619,965</u></u>	<u><u>\$ 1,762</u></u>	<u><u>\$ 14,016,130</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Major Repairs and Replacements Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
Cash Flow From Operating Activities						
Revenues over expenses	\$ 716,795	\$ 438,284	\$ 6,105	\$ 440,638	\$ 2,008	\$ 1,603,830
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:						
Income and expense items not affecting cash flows:						
Depreciation	889,553	-	-	-	-	889,553
Bad debt expense	15,000	-	-	-	-	15,000
(Increase) decrease in:						
Members' assessments receivable	(11,283)	-	-	-	-	(11,283)
Accounts receivable	(154,839)	-	-	-	(218)	(155,057)
Allowance for doubtful accounts	14,588	-	-	-	-	14,588
Accrued interest receivable	-	(6,478)	-	-	-	(6,478)
Prepaid expenses	(11,757)	-	-	-	-	(11,757)
Increase (decrease) in:						
Accounts payable and accrued expenses	(26,555)	-	(900,000)	-	-	(926,555)
Deferred compensation	(25,000)	-	-	-	-	(25,000)
Deferred revenue and restricted contributions	(36,578)	-	-	-	-	(36,578)
Deposits	6,965	-	-	-	-	6,965
Net cash provided by (used in) operating activities	1,376,889	431,806	(893,895)	440,638	1,790	1,357,228
Cash Flow From Investing Activities						
Change in projects in progress	(1,073,112)	-	-	-	-	(1,073,112)
Purchase of investments	-	(999,092)	-	-	-	(999,092)
Proceeds from sale of investments	93,229	-	-	-	-	93,229
Net cash used in investing activities	(979,883)	(999,092)	-	-	-	(1,978,975)
Cash Flow From Financing Activities						
Due from (to) other funds	325,274	1,050,373	(940,225)	(440,638)	5,216	-
Interfund transfers	(778,040)	(1,061,960)	1,840,000	-	-	-
Net cash provided by (used in) financing activities	(452,766)	(11,587)	899,775	(440,638)	5,216	-
Net increase (decrease) in cash and cash equivalents	(55,760)	(578,873)	5,880	-	7,006	(621,747)
Cash and Cash Equivalents - Beginning of Year	661,503	2,020,108	1,056,807	-	126,606	3,865,024
Cash and Cash Equivalents - End of Year	\$ 605,743	\$ 1,441,235	\$ 1,062,687	\$ -	\$ 133,612	\$ 3,243,277
Supplemental Disclosures of Cash Flow Information						
Cash paid during the year for:						
Interest	\$ -	\$ -	\$ 3,301	\$ -	\$ -	\$ 3,301

The accompanying Notes to Financial Statements are an integral part of these statements.

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 1. Nature of Organization

The Hilton Head Plantation Property Owners' Association, Inc. (the "Association") is a statutory association organized as a not-for-profit corporation under the laws of the State of South Carolina. The Association was formed on May 30, 1973, to own, manage, and maintain the common elements, which include real and personal properties, and furnish services to the members of the Association, who are the owners of real property in Hilton Head Plantation, Hilton Head Island, South Carolina. The Association encompasses almost 4,000 acres and features parks, pools, lagoons, lakes, marshes, beaches, tennis courts, and unspoiled open space for use by the residents. The Association's primary sources of revenues are assessments from members and commercial vehicle entry permits and daily passes.

Note 2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Revenue recognition

The Association recognizes revenue using the accrual method of accounting. Fees received for future periods are deferred and amortized to income over the period to which they apply.

Fund basis of accounting

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 to account for financial resources available for the general operations of the Association.

Major Repairs and Replacements Fund – This fund is used to accumulate funds designated for future major repairs and replacements of existing facilities and equipment.

Weather Casualty Fund – This fund is used to accumulate funds designated by the Board of Directors for repair of damage to common properties resulting from weather disasters, including hurricanes, flood, tornadoes, etc.

Capital Transfer Fund – This fund is used to account for the capital transfer fees charged to purchasers of land and improvements within the Plantation for future capital projects and major improvements to existing fixed assets.

Lot Maintenance Fund – This fund is used to account for an annual assessment on vacant lots purchased after August 1983 which is restricted to provide lot clearing services on an as needed basis.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Assessments receivable and allowance for doubtful accounts

Residential and commercial property owners are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and record a judgment against the property owners of the properties whose assessments are delinquent. Late charges are assessed on delinquent accounts based upon the number of days since the due date, and when payment is not received within 90 days, interest is charged at 1.5% per month on the assessment amount and all other late charges. An allowance for doubtful accounts is determined based on historical experience and management's assessment of the current state of assessments receivable. The allowance for doubtful accounts is maintained at a level deemed sufficient to absorb probable losses as of the balance sheet date.

Property and equipment

Newly acquired real and personal property and major improvements are recorded at cost. The Association does not capitalize common real property transferred from the developer. Such assets owned by the Association but not recorded in these financial statements include the common areas, roadways, the Spring Lake Recreation Area facilities, the Dolphin Head Recreation Area, and the Plantation House. The Association generally cannot dispose of common property. The Association depreciates property and equipment over their estimated useful lives using the straight-line method.

Fund for major repairs and replacements

The Association's governing documents and applicable state laws do not require the Association to accumulate funds for future major repairs and replacements, although the Association's Amended Declaration permits 15% of each year's annual assessments, exclusive of the portion of the annual assessment earmarked for the Weather Casualty Fund, to be used for this purpose and the Board has opted to exercise that option for 2018.

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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Recently issued pronouncements

In February 2016, the FASB issued new guidance to change accounting for leases that will generally require most leases to be recognized on the statement of financial position (balance sheet). The new lease standard only contains targeted changes to accounting by lessors; however, lessees will be required to recognize most leases in their statements of financial position as lease liabilities for lease payments and right-of-use assets representing the lessee's rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Association is currently evaluating the impact of this new guidance on its financial statement presentation.

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Association for reporting periods beginning after December 15, 2018. The Association is currently evaluating the impact of this new guidance on the financial statement presentation.

Other accounting standards that have been issued or proposed by the FASB or other standard-setting bodies are not expected to have a material impact on the Association's net assets (fund balances) or changes in net assets.

Note 3. Concentration 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 and assessments receivable. The credit worthiness of the parties to these transactions is subject to continuous review and evaluation.

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) insures deposits held at insured financial institutions up to \$250,000 for each financial institution.

The Association from time to time may have amounts on deposit in excess of the respective insurance and protection limits. As of December 31, 2018, the Association did not have uninsured cash balances at FDIC insured depository institutions. The Association has not experienced any losses in such accounts.

Note 4. Investments and Fair Value Measurement

Accounting principles generally accepted in the United States of America provide a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 4. Investments and Fair Value Measurement (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used during the year ended December 31, 2018.

- *U.S. Treasury Note*: Valued at the Net Asset Value (NAV) of the shares held by the Association at year end.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 999,092</u>	<u>\$ 999,092</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u><u>\$ 999,092</u></u>	<u><u>\$ 999,092</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note 5. Prepaid Expenses

Prepaid expenses at December 31, 2018, consisted of the following:

Insurance	\$ 72,581
Fuel	16,014
Fabric and mailboxes	12,597
Land lease for recreational vehicle storage area	<u>10,000</u>
	<u><u>\$ 111,192</u></u>

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 6. Property and Equipment

The major components of property and equipment and their respective useful lives at December 31, 2018, are as follows:

	Estimated Depreciable Life - Years	Balance
Land	Non-depreciable	\$ 344,000
Land improvements	5 - 25	826,634
Buildings and building equipment	5 - 40	4,552,006
Machinery and equipment	3 - 10	1,099,268
Fencing	10 - 15	317,596
Roadways	15	4,689,317
Stormwater management	40	2,101,137
Leisure paths	10	202,804
Bluff revetment	10 - 35	389,370
Office furniture and equipment	5	296,433
Motor vehicles	3	428,952
Communications equipment	5	118,250
Swimming pool equipment	15	2,768,763
Signs and outdoor lights	5 - 8	71,111
Total operating fund property and equipment		18,205,641
Equipment-Lot Maintenance Fund	3 - 10	16,954
Total property and equipment		18,222,595
Less accumulated depreciation		8,531,068
Net property and equipment		\$ 9,691,527

Note 7. Deferred Compensation

On July 1, 2005, the Association entered into an agreement to pay the general manager the sum of \$50,000 on the five-year anniversary date of the agreement, which occurred and was paid during 2010, and the sum of \$100,000 on the ten-year anniversary date of the agreement. The agreement was amended in December 2014 to accelerate the payment date of the second payment to January 31, 2015. The Association accrued the full cost of this deferred compensation arrangement over the term of the agreement and is currently paying out the full \$100,000 over a four year period. The balance was paid off during the year ended December 31, 2018, and there was no remaining amount to be paid out as of December 31, 2018.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 8. Deposits, Deferred Revenues and Restricted Contributions

Deposits, deferred revenues, and restricted contributions at December 31, 2018, are as follows:

Architectural Review Board - builders compliance deposits	\$	162,925
Facility usage deposits		<u>13,218</u>
Total deposits	\$	<u>176,143</u>
Prepaid assessments	\$	13,974
Memorials and other restricted contributions		<u>29,199</u>
Total deferred revenue and restricted contributions	\$	<u>43,173</u>

Note 9. Members' Assessments

The Finance Committee recommends an annual budget of revenues and expenditures, along with related assessment amounts, which is approved by the Board of Directors. The annual assessment rates for 2018 are summarized as below:

	Payment by	
	Cash	Credit Card
Family dwelling annual assessment	\$ 1,368	\$ 1,395
Residential lot annual assessment	\$ 821	\$ 837
Commercial office space per square foot	1.77%	1.81%
Outdoor recreational facilities (% of revenue)	6.85%	6.99%
Private recreational property per acre	\$ 233	\$ 238
Public and commercial site (% of value)	1.77%	1.81%

Of the above annual assessment, \$250 per property was earmarked by the Board to cover costs incurred by the Weather Casualty Fund due to Hurricane Matthew and other recent storms. The \$250 per property is shown as an interfund transfer on the statement of revenue and expenses, not as member assessments. The Association assesses late charges at various rates on past due property assessments. Liens are recorded against properties with past due assessments, and ultimately, personal judgments are sought against owners of property with past due assessments. Accounts are written-off after all reasonable efforts of collection have been exhausted or the related property has been sold in foreclosure.

Note 10. Operating Leases

The Association leases office equipment under operating lease agreements with varying rental terms. Total rent expense under these leases amounted to \$8,716 during the year ended December 31, 2018.

In September 2012, the Association entered into a lease with the Hilton Head No. 1 Public Service District for a parcel of land comprised of approximately 6.375 acres for expansion of the Association's storage area for its member's boats and recreational vehicles. The lease has an initial term of five years with the option to extend the term for an additional five years and calls for rent in the amount of \$22,275 for the first year and increases by a percentage determined by the consumer price index for each of the remaining years. The Association exercised the option to extend the lease for an additional five years, and the lease will expire in August 2022. Rent is payable annually. Total lease expense under this lease was \$24,503 in 2018.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 10. Operating Leases (Continued)

Approximate future minimum lease payments under operating leases in effect as of December 31, 2018, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 30,991
2020	30,991
2021	30,991
2022	17,727
	<u>\$ 110,700</u>

Note 11. 401(k) Retirement Savings Plan

The Association has a 401(k) Retirement Savings Plan for its employees which is a defined contribution pension plan. Employees must have 1,000 hours of service annually and have attained 21 years of age in order to participate. Employees may make elective contributions to the plan, and in 2018, the Association made matching contributions on behalf of the employees up to a maximum of 5% of each employee's compensation. The total cost to the Association of the plan for the year ended December 31, 2018, was \$43,907.

Note 12. Income Taxes

The Association may be taxed either as a homeowners' association or as a Subchapter C corporation. For the year ended December 31, 2018, the Association elected to be taxed as a homeowners' association. As a homeowners' association, membership income is exempt from taxation, and the Association is taxed only on its non-membership income, less allowable expenses, at statutory rates. The Association did not incur any federal or South Carolina income tax expense for the year ended December 31, 2018.

The Association evaluated all other tax positions that could have a significant effect on the financial statements and determined the Association had no uncertain income tax positions at December 31, 2018.

Note 13. Commitments and Contingencies

During the year ended December 31, 2018, the Association was party to a landscaping maintenance contract which was renewed in January 2014. The contract required initial annual fees of \$693,450, with a 3.5% increase in fees January 1, 2015, and a subsequent increase of 2.5% for the three remaining years. The contract was renewed in January 2018 and will expire December 31, 2023. The services included in the contract include turf management for centipede and winter rye grass, tree management, weed and insect control, and the maintenance of irrigation systems, lagoon banks, roadsides, and leisure paths. Both the Association and the landscape maintenance company have the right to terminate the contract for any reason by providing a 60-day prior written notice. The annual fee for the year ended December 31, 2018, was \$772,130, paid in equal monthly installments.

In February of 2003, the Association obtained a \$2,000,000 line of credit from a regional bank to be used only in the event of a natural disaster, such as a hurricane, to make immediate repairs to the common area structures and for storm debris cleanup. The line is renewed annually in July. Interest is payable monthly on principal drawn on the line of credit at the bank's prime rate with principal due in one year. No amounts were drawn on the line of credit during 2018.

The Association has an employment contract with the General Manager which provides for service to the Association through December 31, 2020.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 14. Interfund Activity

Interfund transfers

A summary of interfund transfers for the year ended December 31, 2018, follows:

	<u>Operating Fund</u>	<u>Major Repairs & Replace- ments Fund</u>	<u>Weather Casualty Fund</u>	<u>Capital Transfer Fund</u>	<u>Lot Maintenance Fund</u>	<u>Total</u>
Major repair & replacement capitalized projects	\$ 1,061,960	\$ (1,061,960)	\$ -	\$ -	\$ -	\$ -
Transfer of equity from annual assessment for weather fund	(1,200,000)	-	1,200,000	-	-	-
Transfers declared from excess funds	<u>(640,000)</u>	<u>-</u>	<u>640,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (778,040)</u>	<u>\$ (1,061,960)</u>	<u>\$ 1,840,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 15. Major Repair and Replacement Study

The Association's management updated its study during 2018 of the estimated remaining useful lives and the replacement costs of the Association's common property components. The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future repairs and replacements. At December 31, 2018, the Association had \$1,795,536 in fund balance designated for such future major repairs and replacements. Actual expenditures, however, may vary from the estimated amounts, and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. In the event that amounts budgeted may not be adequate to meet all future needs for major repairs and replacements, the Association has the right, subject to the terms of the Association covenants, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 16. Subsequent Events

The Association has evaluated subsequent events through February 26, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

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HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2018 (UNAUDITED)

Management of the Association conducted a study during 2012 to estimate the remaining useful lives and the replacement costs of the components of common property at the date of the study. This study was updated as of December 31, 2018, to reflect any changes that occurred during 2018. Replacement costs were based on the estimated costs to repair or replace the common property components at current replacement costs. Estimated current replacement costs have not been revised since that date.

The following information is based on the study and presents significant information about the components of common property.

	<u>Useful Life</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Replacement Cost (in thousands)</u>
Community wide infrastructure	7-40	1-26	\$ 3,860
Dolphin Head recreation area	5-20	2-10	191
Machinery and equipment	4-25	1-15	1,028
Pipes and drainage structures	15-40	1-15	1,041
Plantation House	5-25	1-13	381
Property Owners' Association - office building	3-20	1-15	290
Property Owners' Association - shop	7-20	1-8	89
Roads, curbing, and leisure paths	7-15	1-15	5,711
Security buildings and equipment	5-20	2-14	411
Signage	12	1-6	143
Spring Lake Pavilion	6-25	2-20	1,057
Spring Lake pool	5-20	4-19	449
Spring Lake tennis	4-25	2-12	236
Vehicles	4-10	1-4	341
			<u>\$ 15,228</u>



**HILTON HEAD
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PROPERTY OWNERS' ASSOCIATION
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