

HILTON HEAD PLANTATION
2022 AUDIT REPORT



2022 AUDIT REPORT

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION

PO Box 21940, Hilton Head Island, SC 29925

Telephone: (843) 681-8800

Fax: (843) 681-8801

www.hiltonheadplantation.com



POA - Financial Statements



HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2022

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

December 31, 2022

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1 - 2
-------------------------------------	--------------

FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Revenues and Expenses	4
Statement of Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 16

REQUIRED SUPPLEMENTARY INFORMATION	
Required Supplementary Information on Future Major Repairs and Replacements (Unaudited)	17



Charleston • Columbia • Florence • Hilton Head • Myrtle Beach • Pawleys Island • Summerville • Sumter

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of **Hilton Head Plantation Property Owners' Association, Inc.**, which comprise the statement of financial position as of December 31, 2022, 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.

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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Hilton Head Plantation Property Owners' Association, 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 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 Hilton Head Plantation Property Owners' Association, 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.

POA - 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 Hilton Head Plantation Property Owners' Association, 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 Hilton Head Plantation Property Owners' Association, 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 the information on future major repairs and replacements 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.



Bluffton, South Carolina
March 14, 2023

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2022

	Operating Fund	Major Repairs and Replacements Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 2,896,335	\$ 901,737	\$ 1,568,859	\$ 2,183,312	\$ 113,950	\$ 7,664,193
Investments	-	977,810	977,810	-	-	1,955,620
Due from (to) other funds	(2,254,096)	321,642	87,400	1,952,996	(107,942)	-
Members' assessments receivable net of allowance of \$50,000	576	-	-	-	-	576
Accounts receivable	128,301	6,070	-	-	-	134,371
Prepaid expenses	150,310	-	-	-	-	150,310
Total current assets	921,426	2,207,259	2,634,069	4,136,308	6,008	9,905,070
Property and Equipment						
Property and equipment	19,253,268	-	-	-	16,954	19,270,222
Accumulated depreciation	(8,994,246)	-	-	-	(16,954)	(9,011,200)
Net property and equipment	10,259,022	-	-	-	-	10,259,022
TOTAL ASSETS	\$ 11,180,448	\$ 2,207,259	\$ 2,634,069	\$ 4,136,308	\$ 6,008	\$ 20,164,092
LIABILITIES AND FUND BALANCES						
Current Liabilities						
Accounts payable	\$ 42,558	\$ -	\$ -	\$ -	\$ -	\$ 42,558
Accrued payroll liabilities	70,953	-	-	-	-	70,953
Accrued vacation pay	75,372	-	-	-	-	75,372
contributions	33,821	-	-	-	-	33,821
Deposits	190,363	-	-	-	-	190,363
Total current liabilities	413,067	-	-	-	-	413,067
Long-Term Liabilities						
Deferred contract liability	-	-	-	1,665,112	-	1,665,112
Total liabilities	413,067	-	-	1,665,112	-	2,078,179
Fund Balances	10,767,381	2,207,259	2,634,069	2,471,196	6,008	18,085,913
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,180,448	\$ 2,207,259	\$ 2,634,069	\$ 4,136,308	\$ 6,008	\$ 20,164,092

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, 2022

	Operating Fund	Major Repairs and Replacements Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
Revenues						
Members' assessments	\$ 4,561,044	\$ 796,800	\$ -	\$ -	\$ 3,445	\$ 5,361,289
Commercial vehicle permits and daily passes	1,110,484	-	-	-	-	1,110,484
Kids Kamp	109,145	-	-	-	-	109,145
Tennis revenues	315,109	-	-	-	-	315,109
Cable and cell tower franchise fees	162,212	-	-	-	-	162,212
Fees and service charges	195,520	-	-	743,835	-	939,355
Advertising revenue	157,460	-	-	-	-	157,460
Architectural review fees	64,845	-	-	-	-	64,845
Late charges and covenant violations	33,602	-	-	-	-	33,602
Real estate setup fees	34,875	-	-	-	-	34,875
Special events	14,924	-	-	-	-	14,924
Interest and investment income (loss)	24,791	(3,057)	5,666	28,564	15	55,979
Bar code sales	5,899	-	-	-	-	5,899
Other	22,765	-	-	-	-	22,765
Total revenues	6,812,675	793,743	5,666	772,399	3,460	8,387,943
Expenses						
Security	1,869,125	-	-	-	-	1,869,125
Administration	1,185,540	-	-	-	-	1,185,540
Depreciation	818,131	-	-	-	-	818,131
Landscape maintenance	684,699	-	-	-	3,331	688,030
General maintenance	396,611	-	-	-	-	396,611
Spring Lake pavilion and pool	213,311	-	-	-	-	213,311
Tennis	225,130	-	-	-	-	225,130
General insurance	299,267	-	-	-	-	299,267
Communications with property owners	214,814	-	-	-	-	214,814
General recreation	219,801	-	-	-	-	219,801
Community services	176,523	-	-	-	-	176,523
Repairs and replacements	126,075	-	-	-	-	126,075
Disaster recovery	8,000	-	-	-	-	8,000
Recreational grounds maintenance	108,667	137,452	-	-	-	246,119
Drainage	119,070	-	-	-	-	119,070
Road repair	55,717	-	-	-	-	55,717
Main entrance	72,336	-	-	-	-	72,336
Property taxes	69,217	-	-	-	-	69,217
Plantation house	53,388	-	-	-	-	53,388
Kids Kamp	76,257	-	-	-	-	76,257
Special events	39,886	-	-	-	-	39,886
Storage area expense	28,950	-	-	-	-	28,950
Bad debt expense (recovery)	-	-	-	-	-	-
Legal	11,936	-	-	-	-	11,936
Total expenses	7,072,451	137,452	-	-	3,331	7,213,234
Revenues over (under) expenses	\$ (259,776)	\$ 656,291	\$ 5,666	\$ 772,399	\$ 129	\$ 1,174,709

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, 2022

	Operating Fund	Major Repairs and Replacements Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
Balance - beginning of year	\$ 11,157,304	\$ 2,023,821	\$ 2,586,403	\$ 1,137,797	\$ 5,879	\$ 16,911,204
Revenues over expenses	(259,776)	656,291	5,666	772,399	129	1,174,709
Interfund transfers	(130,147)	(472,853)	42,000	561,000	-	-
Net change in fund balances	<u>(389,923)</u>	<u>183,438</u>	<u>47,666</u>	<u>1,333,399</u>	<u>129</u>	<u>1,174,709</u>
Balance - end of year	<u>\$ 10,767,381</u>	<u>\$ 2,207,259</u>	<u>\$ 2,634,069</u>	<u>\$ 2,471,196</u>	<u>\$ 6,008</u>	<u>\$ 18,085,913</u>

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 CASH FLOWS YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Major Repairs and Replacements Fund	Weather Casualty Fund	Capital Transfer Fund	Lot Maintenance Fund	Totals
Cash Flow From Operating Activities						
Revenues over (under) expenses	\$ (259,776)	\$ 656,291	\$ 5,666	\$ 772,399	\$ 129	\$ 1,174,709
Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities:						
Income and expense items not affecting cash flows:						
Depreciation	818,131	-	-	-	-	818,131
Unrealized loss on investments	-	15,470	15,470	-	-	30,940
(Increase) decrease in:						
Members' assessments receivable	(2,190)	-	-	-	-	(2,190)
Accounts receivable	(43,155)	-	-	-	-	(43,155)
Prepaid expenses	808	-	-	-	-	808
Increase (decrease) in:						
Accounts payable and accrued expenses	(52,473)	-	-	-	-	(52,473)
Deferred revenue and restricted contributions	31,943	-	-	-	-	31,943
Deposits	12,950	-	-	-	-	12,950
Deferred contract liability	-	-	-	(121,841)	-	(121,841)
Net cash provided by operating activities	506,238	671,761	21,136	650,558	129	1,849,822
Cash Flow From Investing Activities						
Expenditures related to construction in progress	(1,297,090)	-	-	-	-	(1,297,090)
Purchase of property and equipment	(133,667)	-	-	-	-	(133,667)
Net cash used in investing activities	(1,430,757)	-	-	-	-	(1,430,757)
Cash Flow From Financing Activities						
Due from other funds	1,408,009	(186,495)	(42,000)	(1,182,994)	3,480	-
Interfund transfers	(130,147)	(472,853)	42,000	561,000	-	-
Net cash provided by (used in) financing activities	1,277,862	(659,348)	-	(621,994)	3,480	-
Net increase in cash and cash equivalents	353,343	12,413	21,136	28,564	3,609	419,065
Cash and Cash Equivalents - Beginning of Year	2,542,992	889,324	1,547,723	2,154,748	110,341	7,245,128
Cash and Cash Equivalents - End of Year	\$ 2,896,335	\$ 901,737	\$ 1,568,859	\$ 2,183,312	\$ 113,950	\$ 7,664,193
Schedule of Non-Cash Investing Activities						
Completed construction placed in service	\$ 389,186	\$ -	\$ -	\$ -	\$ -	\$ 389,186

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

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

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, daily passes, and various other fees and services.

Note 2. Summary of Significant Accounting PoliciesBasis 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).

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. Interest income is allocated to the funds generally in proportion to the interest-bearing deposits of each fund.

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 2022.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

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.

Revenue recognition

In accordance with Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Association recognizes revenues when the related performance obligation is satisfied at transaction amounts expected to be received. Amounts received for future periods are deferred and recognized as income in the period to which they apply.

Ownership transactions

The Association has determined that the following transactions are with owners and therefore, not subject to Topic 606 - operating assessments and reserve replacement assessments. These types of fees and assessments are deemed owner transactions because the members are subject to operating and/or capital assessments as approved by the Board or membership, and members have the ability to vote on Association related matters. Operating assessments are used for the maintenance and management of the common area property, and the revenue is earned on a periodic basis throughout the fiscal year. Replacement reserves are used for major repairs and replacements, and the owners benefit from the assessment when it is imposed.

Contracts with customers

The Association's revenue from contracts with customers is generated from two types of contracts – capital transfer fees and sales of consumable products or services. The customers are billed at the time of service or consumption of products and are typically due in 30 days. As a result, the Association has determined that a significant financing component does not exist. The Association's invoicing terms are to provide members with simplified and predictable ways of purchasing products and services and not to receive financing from or provide financing to the member. Additionally, the Association has elected the practical expedient that permits the Association to not recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less.

The Association considers the capital transfer fees to be contracts with customers and are recognized over time, using the output method, as the performance obligation related to these funds are satisfied when these funds are committed to be expended for their designated purpose.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition (continued)

Contracts with customers (continued)

Sales of consumable products or services include promised goods (performance obligations) of consumables (gate passes and vehicle permits, advertising, architectural review board activities, tennis lessons, and Kids Kamp activities, as well as less significant revenues, such as franchise fees, operating fund fees and service charges, late charges and covenant violations, real estate setup fees, special events, bar code sales and other revenues), and are billed on an as used basis during the term of the contract. Revenue from the consumable contracts is recognized upon delivery to the customer (point in time) because the customer consumes the benefits of the Association's performance at the same time the Association performs and creates those benefits.

Transaction price

The transaction price of transfer fees is based on a set formula. The transaction price for other consumable products and services is the amount of consideration the Association expects to be entitled in exchange for transferring goods and services to the customer/member. Generally, returns of products or refunds of fees are not a significant activity of the Association and have not had a significant impact on the Association's revenue.

Contract liabilities (Capital transfer fees received in advance - Capital Transfer Fund)

A contract liability (transfer fees received in advance – Capital Transfer Fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to specific designated purposes. The balances of contract liabilities (transfer fees received in advance-Capital Transfer Fund) as of December 31, 2022 is \$1,665,112. The following table reflects the contract liability activity for the year ended December 31, 2022:

Contract liability as of January 1, 2022	\$ 1,786,953
Capital transfer fees received during 2022	<u>621,994</u>
	2,408,947
Less capital transfer fees revenue recognized in 2022	<u>743,835</u>
Contract liability as of December 31, 2022	<u><u>\$ 1,665,112</u></u>

Disaggregation of revenue

The following table disaggregates contract revenue based on the timing of the transfer of goods or services:

Recognized over time	\$ 1,384,069
Recognized at a point in time	<u>1,508,143</u>
Total revenue recognized under ASC 606	<u><u>\$ 2,892,212</u></u>

Leases (as of January 1, 2022)

Effective January 1, 2022, the Association accounts for its lease agreements in accordance with Financial Accounting Standards Board (FASB) ASU 2016-02 *Leases* (Topic 842).

Right of Use (ROU) liabilities represent the Association's obligation to make lease payments arising from the lease, and are recognized as the present value of the future minimum lease payments over the lease term as of the commencement date.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

Leases (as of January 1, 2022) (continued)

ROU assets represent the Association's right to use an underlying asset for the lease term, and are recognized as the present value of future minimum lease payments over the lease term as of the commencement date, plus any initial direct costs incurred and lease payments made, less any lease incentives received.

The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Association determines if an arrangement contains a lease at inception. In evaluating contracts to determine if they qualify as a lease, the Association considers factors such as if the Association has obtained substantially all of the rights to the underlying asset through exclusivity, if the Association can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. The evaluation may require significant judgement.

If an arrangement is considered a lease, the Association determines at the commencement date whether the lease is an operating or finance lease. Finance leases are leases that meet any of the following criteria: the lease transfers ownership of the underlying asset at the end of the lease term; the lessee is reasonably certain to exercise an option to purchase the underlying asset; the lease term is for the major part of the remaining economic life of the underlying asset (except when the commencement date falls at or near the end of such economic life); the present value of the sum of the lease payments and any additional residual value guarantee by the lessee equals or exceeds substantially all of the fair value of the underlying asset; or the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. A lease that does not meet any of these criteria is considered an operating lease. After the commencement date, lease cost for an operating lease is recognized over the remaining lease term on a straight-line basis, while lease cost for a finance lease is based on the amortization of the lease asset and interest on the lease liability.

The terms of the Association's lease arrangements vary, and certain leases include one or more of the following: renewal option(s), a cancellation option, a residual value guarantee, a purchase option, or an escalation clause. An option to extend or terminate a lease is accounted for when assessing a lease term when it is reasonably certain that the Association will exercise such option. The Association has made a policy election to classify leases with an initial lease term of 12 months or less as short-term leases, and these leases are not recorded in the accompanying consolidated balance sheets unless the lease contains a purchase option that is reasonably certain to be exercised. Lease cost related to short-term leases is recognized on a straight-line basis over the lease term.

Determinations with respect to lease term (including any extension thereof), discount rate, variable lease cost, and future minimum lease payments require the use of judgment based on the facts and circumstances related to each lease. The Association considers various factors, including economic incentives and penalties and business need, to determine the likelihood that a renewal option will be exercised. Unless a renewal option is reasonably certain to be exercised, which is typically at the Association's sole discretion, the initial non-cancelable lease term is used.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Association uses the rates implicit in the lease, or if not readily available, the Association has elected to use a risk-free rate. The risk-free rate is considered to equal the rate of a zero-coupon U.S. Treasury instrument for the same period as the term of the lease and is used for all major classes of underlying assets.

The Association is party to a lease with 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 members' boats and recreational vehicles. Management has determined that the lease agreement is short-term in nature, and therefore has not recorded a ROU asset or ROU liability in connection with the lease agreement. Total short-term lease cost related to this lease for the year ended December 31, 2022, was \$35,536. There were no other leases under Topic 842 as of and for the year ended December 31, 2022.

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

Leases (prior to adoption of ASU 2016-02 Leases [Topic 842])

Prior to the adoption of Topic 842, the Association accounted for its lease agreements in accordance with Topic 840 under which each lease was classified as either operating or capital depending on the specifics in the underlying lease agreement.

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.

Fair value measurements

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.

Recently adopted accounting standards

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Association adopted the standard using the modified retrospective approach effective January 1, 2022, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB ASC 840.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

Recently adopted accounting standards (Continued)

The Association elected the available practical expedients to account for existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under Topic 842, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

Management determined that two agreements previously accounted for as operating leases under Topic 840 were not significant to the financial statements under Topic 842. The adoption of the standard effective January 1, 2022, had no other impact on the Association's financial statements for the year ended December 31, 2022.

Recently issued pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) used ASU 2016-13 Current Expected Credit Losses (CECL), which will require companies to identify losses based on expected losses rather than incurred losses. ASU 2016-13 is effective for non-public companies for fiscal years beginning after December 15, 2022. The Association is evaluating the impact the pronouncement may have on the financial statements.

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 financial statements.

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, 2022, the Association had \$1,243,928 in uninsured cash balances at FDIC insured depository institutions. The Association has not experienced any losses in such accounts.

Other concentrations

The Association is a coastal community located on the southeastern coast of the United States. The members of the Association include persons purchasing a home for residential, social, and recreational use. Although the Association members are not necessarily located within a concentrated geographical area, the Association is exposed to risks associated with conditions affecting the economy, real estate, and weather for that geographical area.

Note 4. Investments and Fair Value Measurement

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.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 4. Investments and Fair Value Measurement (Continued)

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, 2022.

- *U.S. Treasury Notes*: valued using other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.) and are classified as Level 2 investments.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2022, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury Notes	\$ 1,955,620	\$ -	\$ 1,955,620	\$ -
	<u>\$ 1,955,620</u>	<u>\$ -</u>	<u>\$ 1,955,620</u>	<u>\$ -</u>

Note 5. Prepaid Expenses

Prepaid expenses at December 31, 2022, consisted of the following:

Insurance	\$ 112,917
Fuel	20,658
Fabric and mailboxes	6,735
Land lease for recreational vehicle storage area	<u>10,000</u>
	<u>\$ 150,310</u>

Note 6. Major Repair and Replacement Study

The Association's management updated its study during 2022 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, 2022, the Association had \$2,207,259 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 7. Deposits, Deferred Revenues, and Restricted Contributions

Deposits, deferred revenues, and restricted contributions at December 31, 2022, are as follows:

Architectural Review Board - builders compliance deposits	\$ 174,500
Facility usage deposits	<u>15,863</u>
Total deposits	<u>\$ 190,363</u>
Prepaid assessments	31,274
Memorials and other restricted contributions	<u>2,547</u>
Total deferred revenue and restricted contributions	<u>\$ 33,821</u>

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 8. Property and Equipment

The major components of property and equipment and their respective useful lives at December 31, 2022, 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	4,150,386
Machinery and equipment	3 - 10	1,228,586
Fencing	10 - 15	323,444
Roadways	15	4,661,042
Stormwater management	40	2,073,796
Leisure paths	10	194,097
Bluff revetment	10 - 35	389,370
Office furniture and equipment	5	326,488
Motor vehicles	3	486,253
Communications equipment	5	76,959
Swimming pool equipment	15	2,779,122
Signs and outdoor lights	5 - 8	67,736
Add: projects in progress		<u>1,325,355</u>
Total operating fund property and equipment		19,253,268
Equipment-Lot Maintenance Fund	3 - 10	<u>16,954</u>
Total property and equipment		19,270,222
Less accumulated depreciation		<u>9,011,200</u>
Net property and equipment		<u><u>\$ 10,259,022</u></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 2022 are summarized as below:

	Payment by	
	Cash	Credit Card
Family dwelling annual assessment	\$ 1,145	\$ 1,168
Residential lot annual assessment	\$ 687	\$ 701
Commercial office space per square foot	\$ 1.50	\$ 1.53
Outdoor recreational facilities (% of revenue)	5.81%	5.92%
Private recreational property per acre	\$ 198	\$ 202
Public and commercial site (% of value)	1.50%	1.53%

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.

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 10. 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 2022, 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, 2022, was \$52,463.

Note 11. Income Taxes

The Association may be taxed either as a homeowners' association or as a Subchapter C corporation. For the year ended December 31, 2022, the Association expects to elect 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 does not anticipate that it will incur any federal or South Carolina income tax expense for the year ended December 31, 2022.

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, 2022.

Note 12. Commitments and Contingencies

During the year ended December 31, 2022, 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, 2022, was \$804,000 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. The line was approved for a two-year renewal in July 2019 with a maturity date of July 2021. The line was renewed in October 2021 for a two-year renewal and has a maturity of October 2023. 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 2022.

The Association has an employment contract with the General Manager which provides for service to the Association through April 30, 2023.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2022

Note 13. Interfund Activity

Interfund transfers

A summary of interfund transfers for the year ended December 31, 2022, follows:

	<u>Operating Fund</u>	<u>Major Repairs and Replacements 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	\$ 522,853	\$ (522,853)	\$ -	\$ -	\$ -	\$ -
Capital transfer construction in process	-	-	-	-	-	-
Excess gate fees	(50,000)	50,000	-	-	-	-
Excess storm clean up	(42,000)	-	42,000	-	-	-
Transfers declared from excess funds	<u>(561,000)</u>	<u>-</u>	<u>-</u>	<u>561,000</u>	<u>-</u>	<u>-</u>
	<u>\$ (130,147)</u>	<u>\$ (472,853)</u>	<u>\$ 42,000</u>	<u>\$ 561,000</u>	<u>\$ -</u>	<u>\$ -</u>

Note 14. Subsequent Events

The Association has evaluated subsequent events through March 14, 2023, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. There were no subsequent events requiring disclosure as of this date.

POA - Financial Statements

HILTON HEAD PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2022 (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 by management as of December 31, 2022, to reflect any changes that occurred during 2022. Replacement costs were based on the estimated costs to repair or replace the common property components at current replacement costs.

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

	Useful Life	Estimated Remaining Useful Life	Estimated Replacement Cost (in thousands)
Community wide infrastructure	7-40	3-23	\$ 4,095
Dolphin Head recreation area	5-20	0	-
Machinery and equipment	4-25	1-14	1,114
Pipes and drainage structures	15-40	2-12	1,021
Plantation House	5-25	1-10	402
Property Owners' Association - office building	3-20	2-12	275
Property Owners' Association - shop	7-20	1-5	92
Roads, curbing, and leisure paths	7-15	1-15	5,784
Security buildings and equipment	5-20	1-11	432
Signage	12	1-5	147
Spring Lake Pavilion	6-25	2-17	1,111
Spring Lake pool	5-20	3-16	475
Spring Lake tennis	4-25	1-13	248
Vehicles	4-10	1-4	372
			<u>\$ 15,568</u>

REQUIRED SUPPLEMENTARY INFORMATION

COMING SOON!

The New Dolphin Head Recreation Area



**HILTON HEAD
PLANTATION**
PROPERTY OWNERS' ASSOCIATION
www.hiltonheadplantation.com