

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION
YEARS ENDED JUNE 30, 2011 AND 2010
AND
INDEPENDENT AUDITORS' REPORT

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
of Hilton Head Island - Bluffton
Chamber of Commerce

We have audited the accompanying statements of financial position of Hilton Head Island - Bluffton Chamber of Commerce, as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head Island - Bluffton Chamber of Commerce, as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

J.W. Hunt and Company, LLP

October 25, 2011

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash	\$ 850,519	\$ 1,370,392
Accounts receivable	23,637	128,445
Less, allowance for uncollectible accounts	(2,673)	(4,695)
Prepaid expenses	27,395	13,993
Other	<u>21,339</u>	<u>17,042</u>
Total current assets	920,217	1,525,177
Property and equipment - net	1,204,436	1,161,544
Other assets:		
Investment in Welcome Center joint venture	<u>9,816</u>	<u>9,276</u>
Total assets	<u>\$ 2,134,469</u>	<u>\$ 2,695,997</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 87,550	\$ 336,630
Deferred revenue	384,956	538,268
Notes payable and current portion of long-term debt	90,824	38,322
Other liabilities	<u>136,269</u>	<u>137,681</u>
Total current liabilities	<u>699,599</u>	<u>1,050,901</u>
Long-term liabilities:		
Long-term debt	<u>747,310</u>	<u>788,133</u>
Total long-term liabilities	<u>747,310</u>	<u>788,133</u>
Unrestricted net assets	<u>687,560</u>	<u>856,963</u>
Total liabilities and net assets	<u>\$ 2,134,469</u>	<u>\$ 2,695,997</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Unrestricted revenues and other support:		
Visitor and Convention Bureau projects	\$ 2,498,835	\$ 3,494,809
Membership dues	699,886	712,353
Membership projects	996,134	937,948
Brochure advertising	223,982	204,282
Building rent and common share	108,691	107,357
Income (loss) from Welcome Center joint venture	(33,060)	(27,444)
Interest income	16,620	25,390
	<u>4,511,088</u>	<u>5,454,695</u>
 Expenses:		
Visitor and Convention Bureau	1,779,959	2,509,685
Salaries and related benefits	2,050,894	1,998,922
General and administrative	286,792	314,800
Membership projects	287,280	320,322
Bluffton Office	20,538	29,742
Depreciation	108,642	125,078
Building	91,675	93,757
Interest	54,711	56,747
	<u>4,680,491</u>	<u>5,449,053</u>
 Change in unrestricted net assets	 (169,403)	 5,642
 Unrestricted net assets at beginning of year	 <u>856,963</u>	 <u>851,321</u>
 Unrestricted net assets at end of year	 <u>\$ 687,560</u>	 <u>\$ 856,963</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in unrestricted net assets	\$ (169,403)	\$ 5,642
Adjustments to reconcile change in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	108,642	125,078
(Gain) loss from Welcome Center joint venture	33,060	27,444
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	102,786	(15,885)
(Increase) decrease in prepaid expenses and other assets	(17,699)	(4,691)
Increase (decrease) in accounts payable	(249,080)	194,950
Increase (decrease) in other liabilities	(1,412)	(15,379)
Increase (decrease) in deferred revenue	(153,312)	100,124
	(346,418)	417,283
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Investment in Welcome Center joint venture	(33,600)	(30,591)
Purchase of property and equipment	(151,533)	(34,098)
	(185,133)	(64,689)
Net cash used by investing activities		
Cash flows from financing activities:		
Principal payments on notes payable	(38,322)	(35,847)
Proceeds from issuance of notes payable	50,000	-
	11,678	(35,847)
Net cash provided (used) for financing activities		
Net increase (decrease) in cash	(519,873)	316,747
Cash at beginning year	1,370,392	1,053,645
Cash at end of year	\$ 850,519	\$ 1,370,392
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 54,711	\$ 56,747

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2011 AND 2010

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES:

The Hilton Head Island - Bluffton Chamber of Commerce (the “Chamber”) is a not-for-profit organization established February 5, 1957, to represent, serve and promote the common interests of its membership and the business community and to contribute to the preservation and prudent economic growth of southern Beaufort County of South Carolina area as a healthy place to live and do business.

Date of Management’s Review:

Subsequent events were evaluated through October 25, 2011 which is the date the financial statements were available to be issued.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting. The Chamber’s activities and net assets are classified in the financial statements as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. These classifications are described below:

Unrestricted net assets - resources not subject to donor-imposed restrictions.

Temporarily restricted net assets - resources that can be expended subject to donor-imposed restrictions as to use and timing. The Chamber has no temporarily restricted net assets.

Permanently restricted net assets - resources that a donor requires to be retained in perpetuity. Generally, the donor of these assets permits the use of all or part of the income and gains earned on the gifted assets. The Chamber has no permanently restricted net assets.

The statement of activities presents expenses categorized in accordance with the overall mission of the Chamber. Accordingly, no allocation has been made between categories.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED):

Basis of Presentation (Continued):

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Cash and cash equivalents:

For purposes of the Statement of Cash Flows, the Chamber considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Welcome Center Joint Venture:

Investment in the Welcome Center joint venture (see Note 8) is accounted for under the equity method.

Property and equipment:

Land donated to the Chamber is recorded at fair value on the date of donation. All other property and equipment is recorded at cost, less accumulated depreciation, computed by using the straight-line method. Estimated useful lives range from three to ten years for furniture, equipment, and capital improvements, three to five years for computer software, and thirty years for the building.

The Chamber generally capitalizes all expenditures for property and equipment in excess of \$1,000.

Membership dues:

Membership dues are recognized as revenue ratably over the periods which members are entitled to services.

Visitor and Convention Bureau (V&CB):

The V&CB is a division of the Chamber. Funding for the V&CB is provided by membership investment, the state of South Carolina and the Town of Hilton Head Island and Town of Bluffton through accommodations taxes (ATAX) and the Department of Parks, Recreation and Tourism (PRT) funds. Revenue is recognized as services are performed.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED):

Membership Projects:

The Chamber conducts various training, educational seminars and promotions for its members. Tickets and sponsorships are sold to cover the expenses of conducting these functions. Project revenue is recognized on an accrual basis as earned.

Advertising Revenue:

Advertising revenue is collected in advance and is deferred and recognized over the period the advertisement runs.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 from those estimates.

Income taxes:

The Chamber has received a determination letter from the Internal Revenue Service (IRS) indicating it is a not-for-profit corporation organized under Section 501(c)(6) of the Internal Revenue Code and is subject to federal income tax only on net unrelated business income. Management has determined that the Chamber has no current obligations for unrelated business income tax. Accordingly, no provisions for federal and state income taxes are required. The Chamber is not classified as a private foundation.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Chamber and recognize a tax liability (or asset) if the Chamber has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Chamber, and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Chamber is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations prior to 2008.

NOTE 2 - BANK DEPOSITS:

During the year, the Chamber's bank balances were in excess of federal depository insurance coverage. Management believes the credit risk associated with exceeding the insurance coverage is balanced by the stability of the financial institution involved.

NOTE 3 - PROPERTY AND EQUIPMENT:

Components of property and equipment were as follows:

	JUNE 30,	
	<u>2011</u>	<u>2010</u>
Land	\$ 364,230	\$ 364,230
Building	1,769,222	1,758,131
Furniture and equipment	620,980	611,522
Capital improvements	50,936	44,063
Computer software	67,169	61,653
Construction in progress	145,896	27,300
Total	<u>3,018,433</u>	<u>2,866,899</u>
Less: Accumulated depreciation	<u>(1,813,997)</u>	<u>(1,705,355)</u>
Property and equipment, net	<u>\$ 1,204,436</u>	<u>\$ 1,161,544</u>

Depreciation expense for the year ended June 30, 2011 was \$108,642.

NOTE 4 - DEFERRED REVENUE:

Components of deferred revenue were as follows:

	JUNE 30,	
	<u>2011</u>	<u>2010</u>
Membership dues	\$ 281,298	\$ 270,549
Visitor and Convention Bureau revenue	(37,290)	42,071
Chamber Champion program	9,975	28,450
Leadership Hilton Head revenue	21,134	16,356
Other	8,303	56,297
Internet sales	97,036	119,399
Welcome Center sales	4,500	5,146
Totals	<u>\$ 384,956</u>	<u>\$ 538,268</u>

NOTE 5 - NOTES PAYABLE AND LONG-TERM DEBT:

Notes payable and long-term debt consists of the following:

	JUNE 30,	
	<u>2011</u>	<u>2010</u>
Operating line of credit, Bank of America, collateralized by land and building, interest due monthly, interest rate is based on bank's prime rate plus 5%, and expires October 20, 2011. The line of credit is \$200,000.	\$ 50,000	\$ -
Mortgage note payable, bank, secured by land and building, 6.6%, interest and fixed principal payment of \$7,706 due monthly, note matures February 20, 2024.	788,134	826,455
Total notes payable and long-term debt	<u>838,134</u>	<u>826,455</u>
Less, current portion	<u>90,824</u>	<u>38,322</u>
Total, long-term portion	<u>\$ 747,310</u>	<u>\$ 788,133</u>

Maturities of long-term debt are as follows:

YEAR ENDING	AMOUNT
<u>JUNE 30,</u>	
2012	\$ 90,824
2013	43,783
2014	46,805
2015	50,034
2016	53,470
2017 and later	<u>553,218</u>
Total	<u>\$ 838,134</u>

Interest paid during the years ending June 30, 2011 and 2010 amounted to \$54,711 and \$56,747, respectively.

NOTE 6 - LEASE COMMITMENTS:

The Chamber leases certain office equipment under noncancelable operating lease agreements. Lease expense charged to operations under lease agreements was approximately \$11,094 and \$10,322 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments under these leases are as follows:

YEAR ENDING	
<u>JUNE 30,</u>	<u>AMOUNT</u>
2012	\$ 4,788
2013	4,788
2014	4,788
2015	<u>4,788</u>
Total	<u>\$ 19,152</u>

The Chamber is lessor under a rental agreement for office space in the Chamber's building. The lease expires on June 30, 2017. Future minimum lease payments receivable under the new lease agreement total approximately \$568,477. The lessee is responsible for its direct utilities and maintenance expenses.

The Chamber had an operating lease on its Bluffton office space that expired effective February 28, 2011.

Rent expense (including charges for operating expense, insurance and taxes of \$9,052) was \$17,052.

NOTE 7 - EMPLOYEE BENEFITS:

The Chamber is a participant in the American Chamber of Commerce 401(k) Retirement/Savings Plan (the Plan). The Chamber contributes a percentage of each eligible employee's salary and matches each employee's contribution to a fixed maximum percentage. The Plan covers employees who have one or more years of service with the Chamber. The Chamber contributed \$69,270 and \$72,149 to the Plan for the years ended June 30, 2011 and 2010, respectively.

NOTE 8 - WELCOME CENTER JOINT VENTURE:

During October 1993, the Chamber and the Environmental and Historical Museum of Hilton Head Island (the Museum), a not-for-profit organization, formed a joint venture for the purpose of acquiring, developing, and improving certain land and building located on Hilton Head Island. The intentions of the joint venture partners are that such use and occupancy of the building should be conducted in partnership form for the shared use as a Welcome Center of the Chamber and as an exhibition, retail and administrative center for the Museum with each party to share in operating and maintenance expenses and in the joint venture's gains/losses.

NOTE 8 - WELCOME CENTER JOINT VENTURE (CONTINUED):

Unaudited financial information related to the joint venture is as follows:

	JUNE 30,	
	<u>2011</u>	<u>2010</u>
Property and equipment - net	\$ -	\$ -
Other assets	<u>22,557</u>	<u>21,258</u>
Total assets	<u>22,557</u>	<u>21,258</u>
Debt and other liabilities	<u>(4,557)</u>	<u>(4,339)</u>
Net assets	<u>\$ 18,000</u>	<u>\$ 16,919</u>
Revenues	\$ 208	\$ 238
Expenses	<u>(66,328)</u>	<u>(61,400)</u>
Net gain (loss)	<u>\$ (66,120)</u>	<u>\$ (61,162)</u>

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors and Members
of Hilton Head Island - Bluffton
Chamber of Commerce

Our report on our audits of the basic financial statements of Hilton Head Island - Bluffton Chamber of Commerce, for the years ended June 30, 2011 and 2010 appears on page 2. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information presented on pages 14 through 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

J.W. Hunt and Company, LLP

October 25, 2011

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

HILTON HEAD ISLAND VISITOR AND CONVENTION BUREAU
 SCHEDULE OF FUNCTIONAL REVENUES AND EXPENDITURES,
 YEAR ENDING JUNE 30, 2011

	ACCOMMODATIONS <u>TAX</u>
Revenues - Town of Hilton Head Island - DMO	\$ 1,040,935
Town of Hilton Head Island - Supplemental Grant 2011	273,007
Town of Hilton Head Island - Heritage Marketing	24,791
Total revenue	1,338,733
 Expenses:	
Direct marketing:	
Leisure:	
Print media	11,067
Fulfillment	78,143
Golf marketing	86,255
Culinary marketing	57,483
Biking/Cycling marketing	1,712
Leisure Insider, festivals and event promotions	63,900
Arts promotions	6,762
800 Toll-free number	4,810
Sports promotions	500
Digital media and promotions	168,250
Calendar of events	656
Vacation Planner	49,489
Total leisure	529,027
Heritage promotion/marketing	24,791
 Public relations:	
Public relations firm	81,281
Contingency	12,412
Special projects/photography	7,206
Total public relations	100,899
 Meetings and group:	
Trade shows	16,595
Sales blitz and site inspections	609
Giveaways	517
Trade sponsorships	28,350
HHI Difference	23,242
Select Service Co-op	2,166
Lead Prospecting Program	18,900
Total meetings and group	90,379

(Continued) - 1.

HILTON HEAD ISLAND - BLUFFTON CHAMBER OF COMMERCE
HILTON HEAD ISLAND VISITOR AND CONVENTION BUREAU
SCHEDULE OF FUNCTIONAL REVENUES AND EXPENDITURES,
YEAR ENDING JUNE 30, 2011

	ACCOMMODATIONS <u>TAX</u>
Expenses (continued):	
Direct marketing (continued):	
International:	
Coastal South Carolina	\$ 37,444
Coastal South Carolina - staff	3,607
Pow Wow International	9,064
Total international	<u>50,115</u>
Contingency:	
Research and strategic planning	64,490
General contingency	7,357
Total contingency	<u>71,847</u>
Group tour marketing:	
Group tour trade shows	5,861
Group tour co-op advertising	4,385
Total group tour marketing	<u>10,246</u>
Ad agency fees and expenses	<u>22,686</u>
Total direct marketing expenses	<u>899,990</u>
Sales, marketing, visitor services, and administration:	
Salaries and payroll taxes	272,021
Operations	131,623
Employee benefits	35,099
Total sales, marketing, visitor services, and administration	<u>438,743</u>
Total expenses	<u>1,338,733</u>
Excess of revenues over expenses	<u>\$ -</u>

(Concluded) - 2.

HILTON HEAD ISLAND - BLUFFTON
CHAMBER OF COMMERCE

DESTINATION MARKETING ORGANIZATION OF THE TOWN OF BLUFFTON

HILTON HEAD ISLAND VISITOR AND CONVENTION BUREAU
 SCHEDULE OF FUNCTIONAL REVENUES AND EXPENDITURES,
 YEAR ENDING JUNE 30, 2011

	ACCOMMODATIONS TAX
Revenues - Town of Bluffton DMO	\$ 46,986
SCPRT DMO Grant	-
Total revenue	46,986
Expenses:	
Direct marketing:	
Leisure:	
Bluffton specific leisure/media	16,930
Select service sales blitz and promotions	1,642
Visitbluffton.org website and e-promos	5,351
Digital and print ad design and production	2,275
Bluffton group tour promotions	2,562
Bluffton fulfillment	6,479
Total leisure	35,239
Total direct marketing expenses	35,239
Administrative:	
Salaries and payroll taxes	7,283
Operations	3,524
Employee benefits	940
Total administrative	11,747
Total expenses	46,986
Excess of revenues over expenses	\$ -

HILTON HEAD ISLAND-BLUFFTON CHAMBER OF COMMERCE

HILTON HEAD ISLAND VISITOR AND CONVENTION BUREAU
SCHEDULE OF FUNCTIONAL REVENUES AND EXPENDITURES,
YEAR ENDING JUNE 30, 2011

	<u>ACCOMMODATIONS TAX</u>		<u>PARKS, RECREATION AND TOURISM</u>	<u>MARKETING</u>	<u>MEMBERSHIP</u>	<u>TOTAL</u>
	<u>TOWN OF HHI</u>	<u>BLUFFTON & B/C DMO</u>				
Revenues:						
Town of Hilton Head Island DMO	\$ 1,040,935	\$ -	\$ -	\$ -	\$ -	\$ 1,040,935
Town of Hilton Head Island Supplemental Grant (FY2011)	273,007	-	-	-	-	273,007
Town of Hilton Head Island - Heritage Marketing	24,791	-	-	-	-	24,791
Beaufort County DMO / Grants	-	291,899	-	-	-	291,899
Town of Bluffton DMO	-	46,986	-	-	-	46,986
SCPRT DMO Grants	-	-	353,027	-	-	353,027
SCPRT Co-op Grants	-	-	75,000	-	-	75,000
Member funding	-	-	-	617,172	1,821,331	2,438,503
Total revenues	<u>1,338,733</u>	<u>338,885</u>	<u>428,027</u>	<u>617,172</u>	<u>1,821,331</u>	<u>4,544,148</u>
Expenses:						
Leisure	529,027	90,539	130,096	121,820	-	871,482
Town of Hilton Head Island - Heritage Marketing	24,791	-	-	-	-	24,791
Town of Bluffton Marketing	-	20,215	-	-	-	20,215
Beaufort County Marketing - Bluffton	-	87,106	-	-	-	87,106
Beaufort County Marketing - Daufuskie	-	10,348	-	-	-	10,348
Meetings and group	90,379	-	7,457	15,138	-	112,974
Public relations	100,899	-	29,829	-	-	130,728
International	50,115	-	1,756	-	-	51,871
Market planning and research	64,490	-	6,097	-	-	70,587
Group tour marketing	10,246	10,247	-	-	-	20,493
Ad agency fees and expenses	22,686	-	-	-	-	22,686
Membership related expenses	-	-	-	-	340,877	340,877
General contingency	7,357	1,840	-	-	-	9,197
Marketing Co-op (CY 2011)	-	-	115,824	231,647	-	347,471
Sales, marketing, and administrative	438,743	118,590	136,968	248,567	1,649,857	2,592,725
Total expenses	<u>1,338,733</u>	<u>338,885</u>	<u>428,027</u>	<u>617,172</u>	<u>1,990,734</u>	<u>4,713,551</u>
Excess of revenues over expenses	\$ -	\$ -	\$ -	\$ -	\$ (169,403)	\$ (169,403)