



Cherry, Bekaert & Holland, L.L.P.
The Firm of Choice.

www.ebh.com

P.O. Box 1999
Bluffton, South Carolina 29910
phone 843.706.8440
fax 843.706.8441

March 18, 2011

To the Board of Directors
Palmetto Hall Plantation Owners' Association, Inc.

We have audited the financial statements of Palmetto Hall Plantation Owners' Association, Inc. for the year ended December 31, 2010 and have issued our report thereon dated February 16, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 16, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Palmetto Hall Plantation Owners' Association, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical experience with foreclosures. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Recorded and Unrecorded Adjusting Journal Entries

Professional standards require us to accumulate all known and likely adjusting journal entries identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all such adjusting journal entries. In addition, none of the adjusting journal entries detected as a result of audit procedures and recorded by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested and management has made certain representations from management that are included in the management representation letter dated March 10, 2011.

Management Consultations with Other Independent Accountants

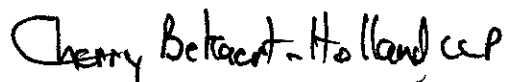
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Palmetto Hall Plantation Owners' Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Handwritten signature of Cherry Betancourt-Holland, CPA.

Bluffton, South Carolina

**PALMETTO HALL PLANTATION
OWNERS' ASSOCIATION, INC.**

Financial Statements
and Supplementary Information
For the Year Ended
December 31, 2010

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Contents

	<u>Page</u>
Independent Auditors' Report	2
Balance Sheet	3
Statement of Revenues and Expenses	4 – 5
Statement of Changes in Members' Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 – 11
Supplementary Information	
Independent Auditors' Report on Supplementary Information	12
Supplementary Information on Future Major Repairs and Replacements	13



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Palmetto Hall Plantation Owners' Association, Inc.
Hilton Head Island, South Carolina

We have audited the accompanying balance sheet of Palmetto Hall Plantation Owners' Association, Inc. as of December 31, 2010, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 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 audit provides 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 Palmetto Hall Plantation Owners' Association, Inc. as of December 31, 2010, 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.

Cherry Bekaert & Holland CP

Bluffton, South Carolina
February 16, 2011

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Balance Sheet
December 31, 2010

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total Funds</u>
Assets			
Cash - operations	\$ 65,190	\$ -	\$ 65,190
Cash - future major repairs and replacements	-	840,460	840,460
Cash - architectural review board	23,019	-	23,019
Accounts receivable	10,836	-	10,836
Allowance for doubtful accounts	(3,757)	-	(3,757)
Investments	-	106,094	106,094
Prepaid expenses	4,338	-	4,338
Total assets	<u>\$ 99,626</u>	<u>\$ 946,554</u>	<u>\$ 1,046,180</u>
Liabilities and members' equity			
Liabilities			
Architectural review board deposits	\$ 23,000	\$ -	\$ 23,000
Total liabilities	23,000	-	23,000
Members' equity	<u>76,626</u>	<u>946,554</u>	<u>1,023,180</u>
Total liabilities and members' equity	<u>\$ 99,626</u>	<u>\$ 946,554</u>	<u>\$ 1,046,180</u>

See notes to the financial statements.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Statement of Revenues and Expenses
For the Year Ended December 31, 2010

	Operating Fund	Capital Fund	Total Funds
Revenues			
Community service	\$ 586,797	\$ -	\$ 586,797
Closing fees	3,375	-	3,375
Decal fees	122,278	-	122,278
Architectural review board fees	5,583	-	5,583
Advertising	8,850	-	8,850
Road impact fees	1,900	-	1,900
Fines	200	-	200
Tree removal fee	400	-	400
Golf course community service	43,175	-	43,175
Heritage maintenance reimbursement	9,964	-	9,964
Interest	1,971	15,214	17,185
Late charges	4,561	-	4,561
Franchise fee	5,744	-	5,744
Miscellaneous	114	-	114
Legal rebillable	700	-	700
Total revenues	<u>795,612</u>	<u>15,214</u>	<u>810,826</u>

See notes to the financial statements.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Statement of Revenues and Expenses (concluded)
For the Year Ended December 31, 2010

	Operating Fund	Capital Fund	Total Funds
	<u> </u>	<u> </u>	<u> </u>
Expenses			
Street Repairs	\$ 723	\$ -	\$ 723
Repairs and maintenance - gates	1,446	-	1,446
Repairs and maintenance - gatehouse	1,076	-	1,076
Fence repairs	2,043	-	2,043
Signage	1,133	-	1,133
Lighting and electrical repairs	1,419	-	1,419
Irrigation repairs	3,057	-	3,057
Grounds maintenance	112,549	-	112,549
Heritage shared maintenance	9,798	-	9,798
Environmental lagoon management	942	-	942
Electricity	15,411	-	15,411
Water for irrigation	8,870	-	8,870
New owner package	124	-	124
Communications and newsletter	9,370	-	9,370
Grounds improvements	1,332	-	1,332
Plantation directory	3,830	-	3,830
Architectural review board	1,090	-	1,090
Holiday decorations	202	-	202
Meetings	4,840	-	4,840
Deer management	13,986	-	13,986
Security	286,906	-	286,906
Security decals	693	-	693
Gatehouse telephone	2,816	-	2,816
Security supplies	4,135	-	4,135
Personnel	81,707	-	81,707
Office	21,478	-	21,478
Supplies	1,429	-	1,429
Postage	2,413	-	2,413
Telephone	3,271	-	3,271
Insurance	9,890	-	9,890
Professional fees	15,506	-	15,506
Legal billable	1,000	-	1,000
Property tax	1,398	-	1,398
Bank charges	393	-	393
Bad debt	6,608	-	6,608
Total expenses	<u>632,884</u>	<u>-</u>	<u>632,884</u>
Excess of revenues over expenses	<u>\$ 162,728</u>	<u>\$ 15,214</u>	<u>\$ 177,942</u>

See notes to the financial statements.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Statement of Changes in Members' Equity
For the Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total Funds</u>
Beginning members' equity	\$ 23,145	\$ 822,093	\$ 845,238
Excess of revenues over expenses	162,728	15,214	177,942
Transfer between funds	<u>(109,247)</u>	<u>109,247</u>	<u>-</u>
Ending members' equity	<u>\$ 76,626</u>	<u>\$ 946,554</u>	<u>\$ 1,023,180</u>

See notes to the financial statements.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Statement of Cash Flows
For the Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total Funds</u>
Cash flows from operating activities			
Excess of revenues over expenses	\$ 162,728	\$ 15,214	\$ 177,942
Adjustments to reconcile excess of revenues over expenses to net cash flows			
(Increase) decrease in:			
Accounts receivable	(5,089)	-	(5,089)
Prepaid expenses	8	-	8
Increase (decrease) in:			
Accounts payable	(7,332)	-	(7,332)
Architectural review board deposits	(9,000)	-	(9,000)
Net cash provided by operating activities	<u>141,315</u>	<u>15,214</u>	<u>156,529</u>
Cash flows from investing activities			
Transfer between funds	(109,247)	109,247	-
Sale of investments	-	(2,081)	(2,081)
Net cash provided by (used) in investing activities	<u>(109,247)</u>	<u>107,166</u>	<u>(2,081)</u>
Net increase in cash and cash equivalents	32,068	122,380	154,448
Beginning cash and cash equivalents	56,141	718,080	774,221
Ending cash and cash equivalents	<u>\$ 88,209</u>	<u>\$ 840,460</u>	<u>\$ 928,669</u>
Reconciliation of cash balances:			
Cash - operations	\$ 65,190	\$ -	\$ 65,190
Cash - future major repairs and replacements	-	840,460	840,460
Cash - architectural review board	23,019	-	23,019
Total cash	<u>\$ 88,209</u>	<u>\$ 840,460</u>	<u>\$ 928,669</u>
Supplemental disclosures			
Cash paid for income taxes	<u>\$ 2,830</u>	<u>\$ -</u>	<u>\$ 2,830</u>

See notes to the financial statements.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2010

Note 1. Organization

Palmetto Hall Plantation Owners' Association, Inc. (the "Association") is a statutory association incorporated under the laws of the State of South Carolina in February 1991. The Association was formed to own, manage, and maintain the real and personal properties for, and furnish services to the members of the Association, who are the owners of the property in Palmetto Hall Plantation located on Hilton Head Island, South Carolina. The Association consists of five hundred twenty three (523) residential lots, occupying a site of approximately seven hundred twenty (720) acres. The common property of the Association includes security gatehouse, recreational area, roads and rights of way, a lagoon, and maintenance storage area.

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.

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.

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 twelve months or less to be cash equivalents.

Restricted and Reserved Cash

The Board of Directors of the Association has specified certain amounts of cash and cash equivalents to be used for either specific projects or set aside for future needs. These reserved amounts may be used only for those purposes, unless the Board acts to redirect the funds for another use.

Assessments Receivable

Association members are subject to an annual association fee to provide funds for the Association's operating expenses and major repairs and replacements. The assessment receivable balances at December 31, 2010 represent past due assessments.

Allowance for Doubtful Accounts

The Association's policy is to retain legal counsel and place liens on the properties of those members whose assessments are in arrears. The allowance for doubtful accounts is the Association's best estimate of the balances due that will not be collected.

Investments

Investments consist of short and long-term certificates of deposit. The certificates of deposits are classified as held to maturity – debt securities. Debt securities for which the Association has both the positive intent and ability to hold to maturity are carried in the balance sheet at cost and realized gains and losses are reported in the statement of revenues and expenses in the period they are earned.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2010

Note 2. Summary of Significant Accounting Policies (concluded)

Property and Equipment

The Association has not recorded the real and personal property transferred at no cost from the developer. Such assets owned by the Association, but not recorded in these financial statements include furniture, fixtures and equipment, the common areas, roadways, security gatehouse, recreational area, lagoon, and maintenance storage area. Major repairs and replacements are expensed as incurred.

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 period. Actual results could differ from those estimates.

Note 3. Concentration of Credit Risks

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Association from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2010, the Association's cash balances were fully insured.

Note 4. Operating Leases

Future minimum lease payments under operating leases in effect as of December 31, 2010 are as follows:

Year	Administrative Office	Copier	Total
2011	\$ 19,200	\$ 888	\$ 20,088
2012	19,500	888	20,388
2013	19,800	296	20,096
	\$ 58,500	\$ 2,072	\$ 60,572

The Association has entered into lease agreements for their administrative office and office equipment, these lease terms range from three to four years and are not renewable. The office lease was amended as of January 1, 2011 to increase the space being rented. The future payments under this lease are shown above. Rent expense amounted to \$14,222 for the year ended December 31, 2010.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.Notes to the Financial Statements
December 31, 2010**Note 5. Line of Credit**

At December 31, 2010, the Association had a line of credit with a financial institution providing borrowings up to \$500,000 that may be utilized to fund emergency repairs or in the event of a catastrophic loss. The loan is secured by an assignment of the annual operating dues and assessments from the Palmetto Hall Plantation Owners' Association, Inc. The agreements require the Association to make monthly installments of interest only. Interest will accrue on unpaid principal and calculate at a variable rate of the South Carolina Bank and Trust prime rate plus ½% with a floor of 5%. There was no outstanding balance at December 31, 2010.

Note 6. Related Party Transactions

The Heritage Golf Group, LLC (the "Heritage") operates and maintains the golf course and clubhouse at Palmetto Hall Plantation Owners' Association, Inc.. The Association receives assessment revenues from Heritage and shares a portion of the costs of maintenance services for the entrance and gatehouse. For the year ended December 31, 2010, the Association received \$43,175 in assessment revenues and \$9,964 for maintenance reimbursements. At December 31, 2010, the amount due from Heritage was \$726.

Note 7. Commitments and Concentrations

The Association has a five year contract with Ocean Woods Landscaping Company, Inc., which commenced on January 1, 2009. With this contract, the Association outsourced the groundskeeping functions dedicated to the maintenance of the grounds and common areas that are operated by the Association. For the year ended December 31, 2010, the Association made payments to Ocean Woods Landscaping Company, Inc. that totaled \$112,549, which was classified as grounds maintenance expenses. This contract is cancellable upon sixty days notice by either party to the contract.

The Association is also under contract for various services, including security. These contracts are for varying terms and have various expiration dates.

Due to the Association being located in Hilton Head Island, South Carolina, and the Association's dependence upon its assessments and fees on owners for funding, a significant economic dependency exists on the area's ability to remain an attractive location to reside as well as the owners personal financial conditions.

Note 8. Income Taxes

The Association may be taxed either as a homeowners' association or as a regular corporation. For 2010, 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. There were no income taxes for the years ending December 31, 2010.

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.**Notes to the Financial Statements
December 31, 2010****Note 9. Accounting for Uncertainty in Income Taxes**

The Financial Accounting Standards Board (the FASB) issued an interpretation regarding Accounting for Uncertainty in Income Taxes. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The Association has evaluated the effect of the guidance provided by United States generally accepted accounting principles on Accounting for Uncertainty in Income Taxes that became effective this year. 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, 2010.

Note 10. Future Major Repairs and Replacements

The Association's governing documents do not require funding for future major repairs and replacements. The Association budgets funds for future major repairs and replacements and is accumulating funds. Those funds are held in separate accounts that generally are not available for expenditures for normal operations. The Board of Directors assesses the adequacy of the replacement reserves on a semi-annual basis to estimate the replacement costs of the components of the common property. The estimates were based on current estimated replacement costs. The table on page 13, which is included in the unaudited supplementary information on Future Major Repairs and Replacements, is based on the Board's assessment of annual reserve expenditures.

Funds will be budgeted for spending based on estimates of future needs for repairs and replacements of common property components, and on the availability of funds. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. 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. The Association has restricted funds for future major repairs and replacements amounting to \$946,554 as of December 31, 2010.

Note 11. Subsequent Events

The Association has evaluated subsequent events through February 16, 2011, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.



**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Directors
Palmetto Hall Plantation Owners' Association, Inc.
Hilton Head Island, South Carolina

The supplementary information on future major repairs and replacements on page 13 is not a required part of the basic financial statements of Palmetto Hall Plantation Owners' Association, Inc. but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information, and express no opinion on it.

Cherry Bekaert & Holland CP

Bluffton, South Carolina
February 16, 2011

PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

Supplementary Information on Future Major
Repairs and Replacements
December 31, 2010
(Unaudited)

The Board of Directors conducts a study on a semi-annual basis to estimate the remaining useful lives and replacement costs of components of common property. The estimates were obtained by physically inspecting the property and estimating the remaining useful lives of such property and estimating the current replacement costs of the property.

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

	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Cost of Replacement</u>
Roadways, drainage and security	1-12	<u>\$ 1,500,000</u>

The component represents an aggregation of multiple assets within the category. This range of useful lives reflects the various ages of the assets.