

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

Financial Statements  
For the Year Ended  
December 31, 2009

# PALMETTO HALL PLANTATION OWNERS' ASSOCIATION, INC.

## Contents

	<u>Page</u>
Accountants' Review 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 on Future Major Repairs and Replacements	12



## Accountants' Review Report

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

We have reviewed the accompanying balance sheet of Palmetto Hall Plantation Owners' Association, Inc. as of December 31, 2009, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Palmetto Hall Plantation Owners' Association, Inc.

A review consists principally of inquiries of association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The supplementary information about future repairs and replacements on page 12 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of Palmetto Hall Plantation Owners' Association, Inc., without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

*Cherry Bekaert - Holland/CPA*

Bluffton, South Carolina  
March 1, 2010

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

Balance Sheet  
December 31, 2009

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total Funds</u>
<b>Assets</b>			
Cash-operations	\$ 24,133	\$ -	\$ 24,133
Cash-future major repairs and replacements	-	718,080	718,080
Cash-architectural review board	32,008	-	32,008
Accounts receivable	11,077	-	11,077
Allowance for doubtful accounts	(9,087)	-	(9,087)
Investments	-	104,013	104,013
Prepaid expense	4,346	-	4,346
<b>Total assets</b>	<u>\$ 62,477</u>	<u>\$ 822,093</u>	<u>\$ 884,570</u>
<b>Liabilities and members' equity</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,006	\$ -	\$ 4,006
Accrued income taxes	3,326	-	3,326
Architectoral review board deposits	32,000	-	32,000
<b>Total liabilities</b>	<u>39,332</u>	<u>-</u>	<u>39,332</u>
<b>Members' equity</b>	<u>23,145</u>	<u>822,093</u>	<u>845,238</u>
<b>Total liabilities and members' equity</b>	<u>\$ 62,477</u>	<u>\$ 822,093</u>	<u>\$ 884,570</u>

See accompanying notes and accountants' report.

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

Statement of Revenues and Expenses  
For the Year Ended December 31, 2009

	Operating Fund	Capital Fund	Total Funds
<b>Revenues</b>			
Community service	\$ 513,535	\$ -	\$ 513,535
Closing fees	2,250	-	2,250
Decal fees	99,598	-	99,598
Architectural review board fees	6,770	-	6,770
Advertising	6,215	-	6,215
Bush hog	290	-	290
Road impact fees	4,250	-	4,250
Fines	225	-	225
Tree removal fee	374	-	374
Golf course community service	37,584	-	37,584
Heritage maintenance reimbursement	10,064	-	10,064
Interest	2,132	25,261	27,393
Late charges	2,728	-	2,728
Franchise fee	5,434	-	5,434
Unrealized gains	-	783	783
Miscellaneous	1,864	-	1,864
<b>Total revenues</b>	<u>693,313</u>	<u>26,044</u>	<u>719,357</u>

See accompanying notes and accountants' report.

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

Statement of Revenues and Expenses (continued)  
For the Year Ended December 31, 2009

	Operating Fund	Capital Fund	Total Funds
<b>Expenses</b>			
Repair and maintenance - gates	\$ 1,063	\$ -	\$ 1,063
Repair and maintenance - gatehouse	7,558	-	7,558
Fence repairs	841	-	841
Signage	1,553	-	1,553
Lighting and electrical repairs	1,368	-	1,368
Irrigation repairs	6,383	-	6,383
Grounds maintenance	112,549	-	112,549
Heritage shared maintenance	9,248	-	9,248
Environmental lagoon management	1,279	-	1,279
Electricity	16,670	-	16,670
Water for irrigation	10,396	-	10,396
New owner package	188	-	188
Communications and newsletter	7,008	-	7,008
Grounds improvements	3,200	-	3,200
Memorial fund	600	-	600
Plantation directory	1,311	-	1,311
Architectural review board	2,544	-	2,544
Holiday decorations	146	-	146
Meetings	4,084	-	4,084
Miscellaneous	2,452	-	2,452
Deer management	1,262	-	1,262
Security	288,424	-	288,424
Security decals	1,567	-	1,567
Gatehouse telephone	3,475	-	3,475
Security supplies	3,809	-	3,809
Personnel	78,349	-	78,349
Office	19,374	-	19,374
Supplies	2,333	-	2,333
Postage	1,524	-	1,524
Telephone	3,027	-	3,027
Insurance	9,602	-	9,602
Legal and professional	2,951	-	2,951
Accounting	1,219	-	1,219
Legal billable	3,581	-	3,581
Property tax	1,522	-	1,522
Bank charges	243	-	243
Provision for income taxes	4,237	-	4,237
Bad debt	9,087	-	9,087
<b>Total expenses</b>	<u>626,027</u>	<u>-</u>	<u>626,027</u>
<b>Excess of revenues over expenses</b>	<u>\$ 67,286</u>	<u>\$ 26,044</u>	<u>\$ 93,330</u>

See accompanying notes and accountants' report.

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

Statement of Changes in Members' Equity  
For the Year Ended December 31, 2009

	Operating Fund	Capital Fund	Total Funds
<b>Members' equity, beginning of year</b>	\$ (4,141)	\$ 756,049	\$ 751,908
Excess of revenues over expenses	67,286	26,044	93,330
Transfer between funds	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
<b>Members' equity, end of year</b>	<u>\$ 23,145</u>	<u>\$ 822,093</u>	<u>\$ 845,238</u>

See accompanying notes and accountants' report.

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

Statement of Cash Flows  
For the Year Ended December 31, 2009

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total Funds</u>
<b>Cash flows provided by operating activities:</b>			
Excess of revenues over expenses	\$ 67,286	\$ 26,044	\$ 93,330
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Accounts receivable	1,599	-	1,599
Prepaid expenses	(548)	-	(548)
Increase (decrease) in:			
Accounts payable	(23,360)	-	(23,360)
Unearned revenue	(24,275)	-	(24,275)
Architectural review board deposits	15,000	-	15,000
<b>Net cash provided by operating activities</b>	<u>35,702</u>	<u>26,044</u>	<u>61,746</u>
<b>Cash flows provided by investing activities</b>			
Transfer between funds	(40,000)	40,000	-
Sale of investments	-	145,987	145,987
<b>Net cash provided by (used) in financing activities</b>	<u>(40,000)</u>	<u>185,987</u>	<u>145,987</u>
<b>Net increase (decrease) in cash</b>	(4,298)	212,031	207,733
<b>Cash and cash equivalents, beginning of year</b>	<u>60,439</u>	<u>506,049</u>	<u>566,488</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 56,141</u>	<u>\$ 718,080</u>	<u>\$ 774,221</u>
<b>Reconciliation of cash balances:</b>			
Cash - operations	\$ 24,133	\$ -	\$ 24,133
Cash - future major repairs and replacements	-	718,080	718,080
Cash - architectural review board	32,008	-	32,008
Total cash	<u>\$ 56,141</u>	<u>\$ 718,080</u>	<u>\$ 774,221</u>
<b>Supplementary cash flow information</b>			
Cash paid for income taxes	<u>\$ 911</u>	<u>\$ -</u>	<u>\$ 911</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and accountants' report.

Notes to the Financial Statements  
December 31, 2009

### 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 523 residential lots, occupying a site of approximately seven hundred and 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, 2009 represent past due assessments, which are balances thirty days past due.

Notes to the Financial Statements  
December 31, 2009

**Note 2. Summary of Significant Accounting Policies (concluded)**

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. The uncollectable balance at December 31, 2009 was estimated at \$9,087.

Investments

Long term investments consist of certificates of deposit with remaining maturities greater than one year, unless the investments are specifically identified to fund current operations, in which case they are classified as short term investments. 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.

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.

Federal and state income taxes

Not-for-profit corporations acting as homeowner associations can elect to be taxed as a homeowner association, if they qualify; otherwise they are taxed as regular corporations. For the year ended December 31, 2009 the Association computed its income 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. For the year ended December 31, 2009, the Association incurred an income tax liability of \$3,326.

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.

Notes to the Financial Statements  
December 31, 2009

**Note 3. Concentration of Credit Risks**

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. In October and November 2008 the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. The bank balance as of December 31, 2009 was \$884,118. At December 31, 2009 the Association's cash balances were fully insured.

**Note 4. 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 statement. 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 affect on the financial statements and determined the Association had no uncertain income tax positions at December 31, 2009.

**Note 5. Operating leases**

Future minimum lease payments under operating leases in effect as of December 31, 2009 are as follows:

Year	Administrative Office	Copier	Total
2010	\$ 13,250	\$ 320	\$ 13,570
2011	11,250	-	11,250
	<u>\$ 24,500</u>	<u>\$ 320</u>	<u>\$ 24,820</u>

Lease expense amounted to \$13,910 for the year ended December 31, 2009.

**Note 6. Line of Credit**

At December 31, 2009, 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. The agreements require the Association to make monthly installments of interest only. Interest will

Notes to the Financial Statements  
December 31, 2009

**Note 6. Line of Credit (concluded)**

accrue on unpaid principal and calculate at a variable rate of the SCBT prime rate plus ½% with a floor of 5%. There was no outstanding balance at December 31, 2009.

**Note 7. Related party transactions**

The Heritage Golf Group, LLC operates and maintains the golf course and club house at Palmetto Hall Plantation Owners' Association, Inc. The Association shares a portion of the costs of landscaping services provided by Ocean Woods Landscaping, Inc. The Association pays the landscaping expenses and is then reimbursed by The Heritage Golf Group for half of the expenses associated with landscaping the entrance and gatehouse.

**Note 8. Future major repairs and replacements**

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements. However, the Association is accumulating funds and holding them in separate accounts that generally are not available for expenditures for normal operations. Tim Johnson, C2 Associate, LLC conducted a study in 2007 to estimate the remaining useful lives and the replacement costs of the roadway and drainage systems in Palmetto Hall Plantation. The table included in the study is unaudited supplementary information on Future Major Repairs and Replacements and is based on this study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement accounts. Accordingly, the funding amount of \$40,000 has been set aside during 2009 for major repairs and replacements.

Funds are being accumulated in the replacement accounts based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement accounts may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**Note 9. Subsequent Events**

The Association has evaluated subsequent events through March 1, 2010, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

Supplementary Information on Future Major  
Repairs and Replacements  
December 31, 2009

The Board of Directors in conjunction with C2 Associates, LLC performed a study to estimate the remaining useful lives and replacement costs of components of common property. This study was performed during 2007 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 Lives in Years</u>	<u>Estimated Current Replacement Cost</u>
Roadways, drainage and security	1-12	<u>\$ 1,700,000</u>

See accountants' report.