

PALMETTO HALL PLANTATION
OWNERS' ASSOCIATION, INC.
Financial Statements
For the year ended
December 31, 2007

Palmetto Hall Plantation Owners' Association, Inc.

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Report of Independent Certified Public Accountants

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, 2007, 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. 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 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, 2007 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.

The supplementary information on future major repairs and replacements

on page 10 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 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 this information and express no opinion on it.
Hilton Head Island, South Carolina
February 28, 2008

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Palmetto Hall Plantation Owners' Association, Inc.
Balance Sheet
December 31, 2007

ASSETS

Cash-operations \$ 12,846
Cash-future major repairs and replacements 348,171
Cash-architectural review board 16,923
Accounts receivable 18
Investments 375,000
Prepaid expense 8,199
TOTAL ASSETS \$ 761,157

LIABILITIES AND MEMBERS' EQUITY

Accounts payable \$ 24,742

Architectural review board 37,500

TOTAL LIABILITIES 62,242

MEMBERS' EQUITY 698,915

TOTAL LIABILITIES AND MEMBERS EQUITY \$ 761,157

The accompanying notes are an integral part of the financial statements.

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Palmetto Hall Plantation Owners' Association, Inc.
Statement of Revenues and Expenses

REVENUES

Community service \$ 384,235
Golf course community service 28,440
Closing fees 4,000
Decal fees 150,105
Late charges 1,221
Architectural review board fees 13,216
Interest 37,842
Miscellaneous 55,912
TOTAL REVENUES 674,971

EXPENSES

Insurance 9,019
Operating supplies 3,862
Newsletter 6,506
Postage 1,257
Electricity 15,868
Water and sewer 16,559
Repair and maintenance - gates 24,974
Signage 2,548
Lighting 1,098
Security 282,370
Ground maintenance and improvements 157,516
Entrance cost 20,412
Telephone 6,606
Architectural review board 5,887

Legal and professional 15,749
 Property manager fee 83,973
 Accounting fee 3,352
 Repairs and maintenance 6,000
 Income taxes -
 Security decals 774
 Property taxes 932
 Miscellaneous 6,556
 TOTAL EXPENSES 671,818
 EXCESS OF EXPENSES OVER REVENUES \$ 3,153
 For the Year Ended December 31, 2007
 The accompanying notes are an integral part of the financial statements.

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 Palmetto Hall Plantation Owners' Association, Inc.
 Statement of Changes in Members' Equity
 Year ended December 31, 2007
 Future
 Major Total
 Repairs and Retained Members'
 Replacements Earnings Equity
 Members' Equity-
 \$ 624,730 \$ 71,032 \$ 695,762
 Excess of revenues over expenses - 3,153 3,153
 Transfer between retained earnings
 and future major repairs and
 replacements 73,441 (73,441) -
 Members' Equity-
 December 31, 2007 \$ 698,171 \$ 744 \$ 698,915
 January 1, 2007
 The accompanying notes are an integral part of the financial statements.

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 Cash flows used by operating activities:
 Excess of expenses over revenues \$ 3,153
 Adjustments to reconcile excess
 (deficit) of expenses over revenues to net cash provided by
 operating activities:
 (Increase) decrease in:
 Accounts receivable 23,555
 Investments (25,000)
 Prepaid expenses (2,796)
 Increase (decrease) in:
 Accounts payable (13,851)
 Architectural review board deposits (11,500)
 Net cash provided (used) by operating activities (26,439)
 Net decrease in cash (26,439)
 Cash at beginning of year 404,379
 Cash at end of year \$ 377,940
 Palmetto Hall Plantation Owners' Association, Inc.
 Statement of Cash Flows
 For the Year Ended December 31, 2007
 The accompanying notes are an integral part of the financial statements.

Palmetto Hall Plantation Owners' Association, Inc.
Notes to the Financial Statements
December 31, 2007

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Note 1 - Organization

Palmetto Hall Plantation Owners' Association, Inc. 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 right of ways, a lagoon, and maintenance storage area.

Note 2 - Summary of Significant Accounting Principles

Basis of accounting

The accounts of the Association are maintained on the accrual basis of accounting.

Cash and Cash Equivalents

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

Investments

Long term investments consist of tax-advantaged municipal bonds 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.

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 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

For the year ended December 31, 2007, the Association elected to file its income tax returns in accordance with Internal Revenue Code Section 528, incurring no income tax liability.

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.

Palmetto Hall Plantation Owners' Association, Inc.
Notes to the Financial Statements
December 31, 2007

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Note 3 - Credit Risk

The bank balance as of December 31, 2007 was \$770,565. At December 31, 2007, the Association's cash balances exceeded insurance limits by \$268,397. The Association has not experienced any losses in these accounts and believes no significant concentration of credit risk exists with respect to these accounts.

Note 4 - Commitments and Contingencies

The Association is under contract for various services including landscaping, lagoon maintenance, property management and security. Most of these contracts are for terms of one year, renewable for additional terms, and have various expiration dates. In November 2007 the Association signed a new lease for the property management office for a four year term.

Administrative

Year	Office	Landscaping	Copier	Total
2008	\$ 12,650	\$ 123,582	\$ 960	\$ 137,192
2009	12,950	-	960	13,910
2010	13,250	-	320	13,570
2011	11,250	-	-	11,250
	\$ 50,100	\$ 123,582	\$ 2,240	\$ 175,922

Note 5 - 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. Thomas & Hutton Engineering Co. conducted a study in 1997 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 \$25,000 has been set aside during 2007 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.

Palmetto Hall Plantation Owners' Association, Inc.
Notes to the Financial Statements
December 31, 2007

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Note 6 - Receivables/Unearned Income

In December of each year, the Association bills the member assessments for the next year. The assessments are recorded on the books as of January 1st. Member assessments for 2008 paid prior to January 1st are not posted until the first of the year. No allowance for doubtful accounts has been recorded on the books as all receivables are considered collectible by management.

Note 7 - Supplemental cash flow information

Cash paid for income taxes during 2007 consist of \$3,297 that was paid as estimates for 2007.

Palmetto Hall Plantation Owners' Association, Inc.

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Supplementary Information on Future Major
Repairs and Replacements
December 31, 2007

(Unaudited)

The Board of Directors hired Thomas & Hutton Engineering Co. to perform a study to estimate the remaining useful lives and replacement costs of components of common property. This study was done in 1997 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.

Estimated

Components

Remaining Estimated of Members

Useful Current Equity at

Lives in Replacement December 31,

Years Costs 2007

Roadways/ improvements 10-20 \$ 684,186 \$ 654,954

Drainage maintenance/repairs 1-20 45,152 43,217

\$ 729,338 \$ 698,171

