

**SOUTH HAMPTON
PROPERTY OWNERS ASSOCIATION, INC.**

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2005 and 2004

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to Financial Statements	5-7
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements	8

TAYLOR, GRUBER & WICKER, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Licensed in NC & SC:

Thomas T. Taylor, CPA
Kirk H. Gruber, CPA

239 Business Center Drive • Pawleys Island, SC 29585

Phone 843.237.7447 Fax 843.237.0270

tgwcpa.com

Licensed in SC:

Rex E. Wicker, CPA

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
South Hampton Property Owners Association, Inc.
Myrtle Beach, South Carolina

We have audited the accompanying balance sheets of South Hampton Property Owners Association, Inc. as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years 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 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 South Hampton Property Owners Association, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years 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 8 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 the information and express no opinion on it.

Pawleys Island, South Carolina
May 3, 2006

Taylor, Gruber & Wicker, LLC

Taylor, Gruber & Wicker, LLC

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Cash	\$ 3,031	\$ 60,908
Cash - Money Market Reserve	70,067	0
Certificate of deposit	100,000	0
Marketable securities- designated for future major repairs and replacements	0	278,332
Member assessments receivable	3,001	7,257
Prepaid insurance	77,384	67,634
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 255,043</u>	<u>\$ 415,691</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 8,194	\$ 13,125
Prepaid member assessments	37,938	30,683
Note payable- Wachovia Bank	166,798	0
TOTAL LIABILITIES	<u>212,930</u>	<u>43,808</u>
FUND BALANCES		
Fund balance- undesignated	(127,954)	93,551
Fund balance- designated for future major repairs and replacements	170,067	278,332
TOTAL FUND BALANCES	<u>42,113</u>	<u>371,883</u>
	<u>\$ 255,043</u>	<u>\$ 415,691</u>

See accompanying notes and auditors' report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
 Years Ended December 31, 2005 and 2004

	Operating Fund	Reserve Fund	2005 Total	2004 Total
REVENUES				
Regular assessments	\$ 545,520	436,969	\$ 982,489	\$ 982,489
Investment income	0	3,102	3,102	7,583
Storage room rentals	4,750	0	4,750	2,250
Other income	3,254	0	3,254	4,035
	<u>553,524</u>	<u>440,071</u>	<u>993,595</u>	<u>996,357</u>
EXPENSES				
Contract maintenance staff	113,100	0	113,100	107,700
Pool maintenance and supplies	6,760	0	6,760	6,386
General maintenance and repairs	24,304	0	24,304	18,103
Pest control	4,920	0	4,920	4,510
Termite treatment	1,771	0	1,771	1,610
Elevator maintenance	17,697	0	17,697	21,132
Security & fire system	10,552	0	10,552	7,930
Janitorial supplies	4,327	0	4,327	5,309
Office supplies and expenses	3,030	0	3,030	2,761
Legal services	0	0	0	200
Accounting and auditing services	1,950	0	1,950	2,067
Management services	17,712	0	17,712	17,712
Director travel	6,655	0	6,655	4,950
Insurance expense	203,380	0	203,380	210,777
Electricity	55,920	0	55,920	55,990
Water & sewer	92,663	0	92,663	89,206
Fuel	11,127	0	11,127	10,469
Waste removal	9,609	0	9,609	9,028
Cable television	33,086	0	33,086	32,503
Telephone and communications	4,810	0	4,810	3,431
Master association fee	140,160	0	140,160	142,572
Storm damage repairs	1,130	0	1,130	55,519
Major repairs and replacements	0	534,284	534,284	229,812
Interest expense	10,366	0	10,366	2,675
	<u>775,029</u>	<u>534,284</u>	<u>1,309,313</u>	<u>1,042,352</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(221,505)	(94,213)	(315,718)	(45,995)
Unrealized gains on investments in marketable securities	0	0	0	8,262
Loss on sale of investments	0	(14,052)	(14,052)	0
BEGINNING FUND BALANCES	93,551	278,332	371,883	409,616
ENDING FUND BALANCES	<u>\$ (127,954)</u>	<u>\$ 170,067</u>	<u>\$ 42,113</u>	<u>\$ 371,883</u>

See accompanying notes and auditors' report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ (315,718)	\$ (45,995)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	4,256	11,109
Prepaid insurance	(9,750)	14,524
Prepaid income taxes	0	(1,120)
Prepaid expenses	0	1,170
Increase (decrease) in liabilities:		
Accounts payable	(4,931)	(47,405)
Income taxes payable	0	(1,089)
Prepaid member assessments	7,255	189
	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(318,888)</u>	<u>(68,617)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	225,000	0
Principal payments on debt	(58,202)	0
	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>166,798</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	264,280	132,337
Purchases of marketable securities	0	(76,917)
	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>264,280</u>	<u>55,420</u>
NET INCREASE (DECREASE) IN CASH	112,190	(13,197)
CASH AT BEGINNING OF YEAR	<u>60,908</u>	<u>74,105</u>
CASH AT END OF YEAR	<u>\$ 173,098</u>	<u>\$ 60,908</u>

See accompanying notes and auditors' report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A- NATURE OF ORGANIZATION

South Hampton Property Owners Association was incorporated on March 4, 1986, in the State of South Carolina. The Association is responsible for the operation and maintenance of the common property within the development. The Association is a subordinate regime of the Kingston Plantation Master Association, which is the master association for Kingston Plantation, a residential resort development of which South Hampton is a part. South Hampton consists of 144 residential condominium units and related common property located in Myrtle Beach, South Carolina.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association employs the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Fund Accounting

To ensure observance 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.

Reserve fund- This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Prepaid dues at the balance sheet date represent fees paid in advance from unit owners. Any excess assessments at year end are retained by the Association for use in future years.

Marketable Securities

The Association's marketable securities are classified as available-for-sale securities, and are accordingly recorded at fair market value. Changes in fair market value during the year are reported within the Association's Statements of Revenues, Expenses and Changes in Fund Balances. During the year ended December 31, 2005 the Association liquidated its marketable securities and received proceeds in the amount of \$264,280.

Allowance for Doubtful Accounts

The Association does not provide an allowance for doubtful collection of dues. Legal counsel is retained once liens have been placed on the properties of owners whose assessments are delinquent, thereby making collections probable in the event of foreclosure. Write-offs are made as assessments are determined to be uncollectible, usually at foreclosure. Generally accepted accounting principles require bad debts to be accounted for under an allowance for doubtful accounts method, but based on industry practice and the amount of write-offs, the departure does not materially affect the fair presentation of the financial statements.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Prepaid Expenses

Prepaid expenses at the balance sheet date represent expenditures made in one year for services which will be provided to the Association in the following year. At December 31, 2005 and 2004 the Association had prepaid expenses in the amounts of \$78,944 and \$69,194 respectively, which consisted of prepaid insurance in the amounts of \$77,384 and \$67,634 respectively, and prepaid Federal income taxes in the amount of \$1,160, and prepaid State income taxes in the amount of \$400.

Income Taxes

Homeowners' associations may elect under provisions of the Internal Revenue Code and state income tax statutes to be excluded from taxes on exempt function income. However, the Association is subject to taxes on non-exempt function income in excess of non-exempt function expenses. For the years ended December 31, 2005 and 2004, the Association elected to file as an ordinary taxable corporation in order to minimize income taxes. The Association had no Federal or State income tax liabilities for the years ended December 31, 2005 and 2004.

Property and Equipment

Real property owned by individual unit owners in common and improvements made by the Association to such property are not capitalized in the financial statements. All expenditures for real property common elements and improvements are reflected as an expense in the period incurred. Common property elements not recognized as assets in the financial statements consist primarily of building common areas and a swimming pool facility.

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 reported period. Actual results could differ from those estimates.

NOTE C- MASTER ASSOCIATION FEES

The Association is a subordinate regime of the Kingston Plantation Master Association. As such, the Association pays the Master Association monthly fees in support of the operations of the Master Association's common properties. These monthly fees are assessed on a per unit basis. These fees are shown as an expense within the Association's Statements of Revenues, Expenses, and Changes in Fund Balances.

NOTE D- MARKETABLE SECURITIES

Marketable securities are allocated to the Reserve Fund. At December 31, 2004, these securities consisted of the following:

	Cost Basis	Fair Value	Unrealized Gain
	-----	-----	-----
Mutual funds (debt and equity securities)	\$270,070	\$278,332	\$8,262
	=====	=====	=====

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE E- NOTE PAYABLE

During the year ended December 31, 2005 the Association secured a loan from Wachovia Bank in the amount of \$225,000. The note is payable over 60 months beginning March, 2005 in monthly installments of \$4,357, with interest accrued at 5.99%. At December 31, 2005 the outstanding balance on the note was \$166,798. This debt is scheduled to be retired according to the following schedule:

2006	\$ 42,079
2007	45,980
2008	48,849
2009	<u>29,890</u>
	\$166,798
	=====

NOTE F- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association accumulates funds for estimated future major repairs and replacements. The funding program was based on a study performed by the Association's management that estimated the remaining useful lives and the replacement costs of the common property components. As of December 31, 2005 and 2004 the Association had accumulated funds for future major repairs and replacements of \$170,067 and \$278,332, respectively. 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 accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

During the year ended December 31, 2005 \$534,284 was expended for major repairs and replacements, principally for exterior painting and waterproofing and interior corridor upgrading. During the year ended December 31, 2004, \$229,812 was expended for major repairs and replacements, including roof repair, corridor and lobby improvements, and elevator upgrades.

NOTE G- SUPPLEMENTARY INFORMATION

Cash Flows

During the year ended December 31, 2005, \$10,366 was expended for interest payments. No cash was expended for Federal or State corporate income taxes. During the year ended December 31, 2004 \$2,675 was expended for interest payments, and \$2,739 was expended for Federal and State corporate income taxes.

Cash and Short-Term Investments

Cash consists of amounts on hand and on deposit, including interest-bearing deposits, and Certificates of Deposit with maturities of six months or less, with a financial institution. All deposits up to \$100,000 are insured by the Federal Deposit Insurance Corporation (FDIC). There were no uninsured balances at December 31, 2005 and 2004.

Reserve Study Funding Plan

South Hampton POA
Queens Way, Kingston Plantation
Myrtle Beach, SC 29572

Number of Units: 144

January 1, 2006

Prepared By

LITUS* To Let
Post Office Drawer 9000
Myrtle Beach, SC 29578-9000
843.448.9000

Worksheet

January 1, 2006

Sorted Alphabetically
South Hampton POA

Item Description	Group	Sub-Group	Number Of Items	Item Type	Item Cost	%	Total Item Cost	Year Built	Useful Life	Life Adj	Year Replace	One Time?
Building Deck Coatings	30	0	1	Total	100,000,000	100	100,000,000	2004	7	0	2011	5 no
Building Waterproofing	30	0	1	Total	240,000,000	100	240,000,000	2004	7	0	2011	5 no
Hallway Carpeting	70	0	3,900	Square Yard	18,000	100	70,200	2004	7	0	2011	5 no
Hallway Wallcoverings	70	0	1	Total	75,000,000	100	75,000,000	2004	10	0	2014	8 no
HVAC Cooling Tower	80	0	1	Total	60,000,000	100	60,000,000	2001	20	0	2021	15 no
Lobby Furniture Upgrading	70	0	1	(none)	20,000,000	100	20,000,000	2004	7	0	2011	5 no
Pool Furniture	60	0	35	(none)	85,000	100	2,975	2005	5	0	2010	4 no
Pool Replastering	60	0	1	Total	16,000,000	100	16,000,000	2003	10	0	2013	7 no
Roof Replacement	20	0	1	Total	150,000,000	100	150,000,000	2003	10	0	2013	7 no

Total 9 items

Funding Plan Summary

January 1, 2006

South Hampton POA

Year	Percent Funded	Unadjusted Ideal Balance	Inflation Adjusted Ideal Balance	Starting Balance	Annual Contribution	Interest Income	Tax Liability	Inflation Adjusted Expenditures	Unadjusted Expenditures
2006	93%	203,309	203,309	190,067	90,035	9,403	0	0	0
2007	96%	292,461	301,235	289,505	92,665	13,434	0	0	0
2008	98%	381,614	404,854	395,603	95,293	17,730	0	0	0
2009	99%	470,766	514,418	508,626	97,902	22,303	0	0	0
2010	100%	559,918	630,193	628,831	100,465	27,029	0	(3,348)	(2,975)
2011	101%	646,095	749,001	752,977	101,364	12,198	0	(498,720)	(430,200)
2012	101%	305,047	364,242	367,819	102,876	16,770	0	0	0
2013	101%	394,199	484,815	487,465	106,997	13,472	0	(204,159)	(166,000)
2014	100%	317,351	402,011	403,774	111,929	14,589	0	(95,008)	(75,000)
2015	101%	331,504	432,537	435,285	115,407	19,564	0	(3,882)	(2,975)
2016	101%	417,681	561,328	566,375	117,289	25,001	0	0	0
2017	101%	506,833	701,575	708,665	116,318	30,673	0	0	0
2018	101%	595,985	849,732	855,656	124,852	12,189	0	(613,362)	(430,200)
2019	101%	254,937	374,384	379,334	128,011	17,734	0	0	0
2020	101%	344,089	520,466	525,079	130,288	23,429	0	(4,500)	(2,975)
2021	101%	430,266	670,341	674,296	136,919	25,971	0	(93,478)	(60,000)
2022	101%	459,418	737,232	743,707	136,587	32,480	0	0	0
2023	101%	548,571	906,704	912,775	141,284	28,362	0	(274,373)	(166,000)
2024	101%	471,723	803,077	808,048	146,804	30,151	0	(127,682)	(75,000)
2025	101%	485,875	851,985	857,320	155,662	7,023	0	(759,575)	(433,175)
Total					2,348,947	399,504	0	(2,678,087)	(1,844,500)
Average				574,560	117,447	19,975	0	(133,904)	(92,225)
Maximum			906,704	912,775	155,662	32,480	0	(759,575)	(433,175)
Minimum			203,309	190,067	90,035	7,023	0	0	0

4.00% Investment Rate
 0.00% Tax Rate
 3.00% Inflation Rate
 0.00% Contingency Rate

2006 Contributions
 52.10 Monthly Per Unit
 625.24 Annually Per Unit
 7,502.91 Association Monthly