

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2006 and 2005**

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INDEPENDENT AUDITOR'S REPORT

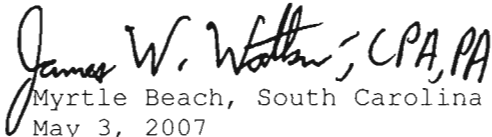
To The Board of Directors
South Hampton Property Owners Association, Inc.
Myrtle Beach, South Carolina

I have audited the accompanying balance sheets of South Hampton Property Owners Association, Inc. as of December 31, 2006 and 2005, 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. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my 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, 2006 and 2005, 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.


Myrtle Beach, South Carolina
May 3, 2007

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash- Operating	\$ 72,369	\$ 3,031
Cash- Reserves	162,550	70,067
Certificate of deposit	103,112	100,000
Accrued interest receivable	2,390	0
Member assessments receivable	33,602	3,001
Prepaid insurance	119,527	77,384
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 495,110</u>	<u>\$ 255,043</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 5,990	\$ 8,194
Prepaid member assessments	17,397	37,938
Note payable- Wachovia Bank	125,019	166,798
TOTAL LIABILITIES	<u>148,406</u>	<u>212,930</u>

FUND BALANCES

Fund balance- undesignated	203,671	38,844
Fund balance- designated for future major repairs and replacements	143,033	3,269
TOTAL FUND BALANCES	<u>346,704</u>	<u>42,113</u>
	<u>\$ 495,110</u>	<u>\$ 255,043</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
Years Ended December 31, 2006 and 2005

	<u>Operating</u> <u>Fund</u>	<u>Reserve</u> <u>Fund</u>	<u>2006</u> <u>Total</u>	<u>2005</u> <u>Total</u>
REVENUES				
Regular assessments	\$ 807,707	\$ 199,717	\$ 1,007,424	\$ 982,489
Special assessment- insurance	217,008	0	217,008	0
Investment income	0	9,054	9,054	3,102
Storage room rentals	3,510	0	3,510	4,750
Other income	1,213	0	1,213	3,254
	<u>1,029,438</u>	<u>208,771</u>	<u>1,238,209</u>	<u>993,595</u>
EXPENSES				
Contract maintenance staff	118,200	0	118,200	113,100
Pool maintenance and supplies	5,967	0	5,967	6,760
General maintenance and repairs	26,079	0	26,079	24,304
Pest control	3,380	0	3,380	4,920
Termite treatment	1,771	0	1,771	1,771
Elevator maintenance	19,092	0	19,092	17,697
Security & fire system	12,739	0	12,739	10,552
Janitorial supplies	8,188	0	8,188	4,327
Office supplies and expenses	3,077	0	3,077	3,030
Legal services	0	0	0	0
Accounting and auditing services	2,000	0	2,000	1,950
Management services	17,712	0	17,712	17,712
Director travel	10,963	0	10,963	6,655
Insurance expense	285,336	0	285,336	203,380
Electricity	56,051	0	56,051	55,920
Water & sewer	79,432	0	79,432	92,663
Fuel	7,188	0	7,188	11,127
Waste removal	9,364	0	9,364	9,609
Cable television	35,584	0	35,584	33,086
Telephone and communications	4,460	0	4,460	4,810
Master association fee	158,028	0	158,028	140,160
Storm damage repairs	0	0	0	1,130
Major repairs and replacements	0	58,505	58,505	534,284
Interest expense	0	10,502	10,502	10,366
	<u>864,611</u>	<u>69,007</u>	<u>933,618</u>	<u>1,309,313</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	164,827	139,764	304,591	(315,718)
Loss on sale of investments	0	0	0	(14,052)
BEGINNING FUND BALANCES	38,844	3,269	42,113	371,883
ENDING FUND BALANCES	<u>\$ 203,671</u>	<u>\$ 143,033</u>	<u>\$ 346,704</u>	<u>\$ 42,113</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 304,591	\$ (315,718)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Accrued interest receivable	(2,390)	0
(Increase) decrease in assets:		
Member assessments receivable	(30,601)	4,256
Prepaid insurance	(42,143)	(9,750)
Increase (decrease) in liabilities:		
Accounts payable	(2,204)	(4,931)
Prepaid member assessments	(20,541)	7,255
	<u>206,712</u>	<u>(318,888)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	0	225,000
Principal payments on debt	(41,779)	(58,202)
	<u>(41,779)</u>	<u>166,798</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	0	264,280
Purchase of certificate of deposit	0	(100,000)
Interest reinvested in certificate of deposit	(3,112)	0
	<u>(3,112)</u>	<u>164,280</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	161,821	12,190
CASH AT BEGINNING OF YEAR	<u>73,098</u>	<u>60,908</u>
CASH AT END OF YEAR	<u>\$ 234,919</u>	<u>\$ 73,098</u>

See accompanying notes and auditor's 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, 2006 and 2005 the Association recorded prepaid expenses in the amounts of \$121,087 and \$78,944 respectively, which consisted of prepaid insurance in the amounts of \$119,527 and \$77,384 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, 2006 and 2005, 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, 2006 and 2005.

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- SPECIAL ASSESSMENT

In order to offset rising insurance costs, members were levied a special assessment during the year ended December 31, 2006. This assessment consisted of a levy of \$1,370 for each two bedroom unit and \$1,644 for each three bedroom unit. The assessment totaled \$217,008.

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, 2006 and 2005 the outstanding balances on this note were \$125,019 and \$166,798, respectively. This debt was paid in its entirety in April, 2007.

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, 2006 and 2005 the Association had accumulated funds for future major repairs and replacements of \$143,033 and \$3,269, 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, 2006, \$58,505 was expended for major repairs and replacements, including exterior building repairs, corridor and sprinkler system improvements, and cooling tower repairs. 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.

NOTE G- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2006 and 2005, \$10,502 and \$10,366, respectively, was expended for interest payments. No cash was expended for Federal or State corporate income taxes.

Cash and Short-Term Investments

Cash consists of amounts on hand and on deposit, including interest-bearing deposits, with financial institutions. Certificates of Deposit with maturities of more than three months are not considered cash equivalents. All deposits up to \$100,000 are insured by the Federal Deposit Insurance Corporation (FDIC). There were uninsured balances of \$65,662 and \$0, respectively, at December 31, 2006 and 2005.

Supplementary Information

**SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 December 31, 2006**

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Fund Balance 12/31/06</u>
Roofs	7	\$ 150,000	\$ 92,520
Pool and pool equipment	7	12,975	8,000
Equipment	15	<u>60,000</u>	<u>42,513</u>
		<u>\$ 222,975</u>	<u>\$ 143,033</u>

See Independent Auditor's Report.