

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2008 and 2007**

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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, 2008 and 2007, 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, 2008 and 2007, 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
April 30, 2009

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SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash- Operating	\$ 35,079	\$ 23,984
Cash- Reserves	203,720	96,803
Certificate of deposit	0	106,552
Accrued interest receivable	0	3,375
Member assessments receivable	54,618	8,444
Prepaid insurance	31,111	79,839
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 326,088</u>	<u>\$ 320,557</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 7,137	\$ 6,187
Prepaid member assessments	40,720	37,955
TOTAL LIABILITIES	<u>47,857</u>	<u>44,142</u>
FUND BALANCES		
Fund balance- undesignated	74,511	73,059
Fund balance- designated for future major repairs and replacements	<u>203,720</u>	<u>203,356</u>
TOTAL FUND BALANCES	<u>278,231</u>	<u>276,415</u>
	<u>\$ 326,088</u>	<u>\$ 320,557</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, 2008 and 2007

	Operating Fund	Reserve Fund	2008 Total	2007 Total
REVENUES				
Regular assessments	\$ 940,579	\$ 140,505	\$ 1,081,084	\$ 1,026,432
Interest income	0	4,628	4,628	11,189
Storage room rentals	5,050	0	5,050	5,400
Other income	1,613	0	1,613	1,481
	<u>947,242</u>	<u>145,133</u>	<u>1,092,375</u>	<u>1,044,502</u>
EXPENSES				
Contract maintenance staff	127,844	0	127,844	122,708
Pool maintenance and supplies	3,949	0	3,949	4,812
General maintenance and repairs	27,642	0	27,642	35,352
Pest control	3,240	0	3,240	3,440
Termite treatment	1,771	0	1,771	1,771
Elevator maintenance	27,328	0	27,328	25,817
Security & fire system	19,762	0	19,762	18,874
Janitorial supplies	6,598	0	6,598	8,364
Office supplies and expenses	3,620	0	3,620	2,876
Professional services	2,200	0	2,200	2,250
Management services	20,160	0	20,160	17,712
Director travel	96	0	96	7,411
Insurance expense	301,218	0	301,218	387,712
Electricity	55,777	0	55,777	61,639
Water & sewer	77,862	0	77,862	83,571
Fuel and generator	14,245	0	14,245	15,328
Sanitation	10,049	0	10,049	9,710
Cable television	37,712	0	37,712	37,848
Telephone and communications	5,695	0	5,695	5,700
Taxes and licenses	150	0	150	0
Master association fee	198,872	0	198,872	171,336
Major repairs and replacements	0	144,769	144,769	89,303
Interest expense	0	0	0	1,257
	<u>945,790</u>	<u>144,769</u>	<u>1,090,559</u>	<u>1,114,791</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	1,452	364	1,816	(70,289)
BEGINNING FUND BALANCES	<u>73,059</u>	<u>203,356</u>	<u>276,415</u>	<u>346,704</u>
ENDING FUND BALANCES	<u>\$ 74,511</u>	<u>\$ 203,720</u>	<u>\$ 278,231</u>	<u>\$ 276,415</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 1,816	\$ (70,289)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Accrued interest receivable	3,375	(985)
(Increase) decrease in assets:		
Member assessments receivable	(46,174)	25,158
Prepaid insurance	48,728	39,688
Increase (decrease) in liabilities:		
Accounts payable	950	197
Prepaid member assessments	2,765	20,558
	<u>11,460</u>	<u>14,327</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on debt	<u>0</u>	<u>(125,019)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>0</u>	<u>(125,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reclassification of certificate of deposit with short maturity	0	106,552
Interest reinvested in certificate of deposit	<u>0</u>	<u>(3,440)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>0</u>	<u>103,112</u>
NET INCREASE (DECREASE) IN CASH	11,460	(7,580)
CASH AT BEGINNING OF YEAR	<u>227,339</u>	<u>234,919</u>
CASH AT END OF YEAR	<u>\$ 238,799</u>	<u>\$ 227,339</u>
Summary of Cash Accounts		
Undesignated	\$ 35,079	\$ 23,984
Designated for future repairs and replacements	203,720	96,803
Certificate of Deposit with maturity of less than three months	0	106,552
	<u>\$ 238,799</u>	<u>\$ 227,339</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.

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.

Prepaid Expenses

Prepaid expenses at the balance sheet date represent expenditures made in one year for services that will be provided to the Association in the following year. At December 31, 2008 and 2007, the Association recorded prepaid expenses in the amounts of \$32,671 and \$81,399 respectively, which consisted of prepaid insurance in the amounts of \$31,111 and \$79,839 respectively, prepaid Federal income taxes in the amount of \$1,160, and prepaid State income taxes in the amount of \$400.

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

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, 2008 and 2007, 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, 2008 and 2007.

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- 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 was payable over 60 months beginning March, 2005 in monthly installments of \$4,357, with interest accrued at 5.99%. At December 31, 2006, the outstanding balance on this note was \$125,019. This debt was paid in its entirety in April 2007.

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

NOTE E- 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, 2008 and 2007, the Association had accumulated funds for future major repairs and replacements of \$203,720 and \$203,356, 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, 2008, \$144,769 was expended for major repairs and replacements, including air conditioning system maintenance and fire system improvements.

During the year ended December 31, 2007 \$89,303 was expended for major repairs and replacements, including exterior painting and waterproofing, roof repairs, pool equipment, and interior corridor upgrading.

NOTE F- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2008 and 2007, \$0 and \$1,257, 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. At December 31, 2008 and 2007, the Federal Deposit Insurance Corporation (FDIC) insured all deposits up to \$250,000 and \$100,000, respectively. There were uninsured balances of \$0 and \$6,552, respectively, at December 31, 2008 and 2007.

Supplementary Information

**SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 December 31, 2008**

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Fund Balance 12/31/08</u>
Roofs	6	\$ 150,000	\$ 150,000
Pool and pool equipment	6	12,975	12,975
Equipment	15	<u>60,000</u>	<u>40,745</u>
		<u>\$ 222,975</u>	<u>\$ 203,720</u>

See Independent Auditor's Report.