

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2009 and 2008**

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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, 2009 and 2008, 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, 2009 and 2008, 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 27, 2010

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Cash- Operating	\$ 5,288	\$ 35,079
Cash- Reserves	329,318	203,720
Member assessments receivable, less allowance for doubtful accounts	43,660	54,618
Prepaid insurance	36,335	31,111
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 416,161</u>	<u>\$ 326,088</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 14,808	\$ 7,137
Prepaid member assessments	33,784	40,720
TOTAL LIABILITIES	<u>48,592</u>	<u>47,857</u>
FUND BALANCES		
Fund balance- undesignated	38,251	74,511
Fund balance- designated for future major repairs and replacements	329,318	203,720
TOTAL FUND BALANCES	<u>367,569</u>	<u>278,231</u>
	<u>\$ 416,161</u>	<u>\$ 326,088</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, 2009 and 2008

	Operating Fund	Reserve Fund	2009 Total	2008 Total
REVENUES				
Regular assessments	\$ 941,986	\$ 153,481	\$ 1,095,467	\$ 1,081,084
Interest income	0	880	880	4,628
Storage room rentals	4,950	0	4,950	5,050
Other income	2,847	0	2,847	1,613
	<u>949,783</u>	<u>154,361</u>	<u>1,104,144</u>	<u>1,092,375</u>
EXPENSES				
Contract maintenance staff	134,236	0	134,236	127,844
Pool maintenance and supplies	5,595	0	5,595	3,949
General maintenance and repairs	22,064	0	22,064	27,642
Pest control	3,336	0	3,336	3,240
Termite treatment	1,771	0	1,771	1,771
Elevator maintenance	24,234	0	24,234	27,328
Security & fire system	17,358	0	17,358	19,762
Janitorial supplies	8,133	0	8,133	6,598
Office supplies and expenses	4,884	0	4,884	3,620
Professional services	5,180	0	5,180	2,200
Management services	21,168	0	21,168	20,160
Director travel	52	0	52	96
Insurance expense	294,202	0	294,202	301,218
Electricity	58,408	0	58,408	55,777
Water & sewer	74,966	0	74,966	77,862
Fuel and generator	12,071	0	12,071	14,245
Sanitation	8,571	0	8,571	10,049
Cable television	38,916	0	38,916	37,712
Telephone and communications	6,686	0	6,686	5,695
Taxes and licenses	186	0	186	150
Bad debt expense	48,989	0	48,989	0
Master association fee	195,037	0	195,037	198,872
Major repairs and replacements	0	28,763	28,763	144,769
	<u>986,043</u>	<u>28,763</u>	<u>1,014,806</u>	<u>1,090,559</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(36,260)	125,598	89,338	1,816
BEGINNING FUND BALANCES	74,511	203,720	278,231	276,415
ENDING FUND BALANCES	<u>\$ 38,251</u>	<u>\$ 329,318</u>	<u>\$ 367,569</u>	<u>\$ 278,231</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 89,338	\$ 1,816
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Accrued interest receivable	0	3,375
(Increase) decrease in assets:		
Member assessments receivable	10,958	(46,174)
Prepaid insurance	(5,224)	48,728
Increase (decrease) in liabilities:		
Accounts payable	7,671	950
Prepaid member assessments	(6,936)	2,765
	<u>95,807</u>	<u>11,460</u>
NET INCREASE (DECREASE) IN CASH		
CASH AT BEGINNING OF YEAR	<u>238,799</u>	<u>227,339</u>
CASH AT END OF YEAR	<u>\$ 334,606</u>	<u>\$ 238,799</u>
Summary of Cash Accounts		
Undesignated	\$ 5,288	\$ 35,079
Designated for future repairs and replacements	<u>329,318</u>	<u>203,720</u>
	<u>\$ 334,606</u>	<u>\$ 238,799</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 assessments 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. The balance sheet amounts at December 31, 2009 and 2008 of \$43,660 and \$54,618, respectively, are net of a reserve for doubtful accounts. Total assessments receivable at December 31, 2009 and 2008 were \$80,910 and \$54,618, respectively.

Allowance for Doubtful Accounts

Beginning with the year ended December 31, 2009, the Association provides an allowance for doubtful collection of assessments. 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. The allowance for doubtful accounts at December 31, 2009 was \$37,250.

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, 2009 and 2008, the Association recorded prepaid expenses in the amounts of \$37,895 and \$32,671 respectively, which consisted of prepaid insurance in the amounts of \$36,335 and \$31,111 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, 2009 and 2008, 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, 2009 and 2008.

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- 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, 2009 and 2008, the Association had accumulated funds for future major repairs and replacements of \$329,318 and \$203,720, 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.

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

NOTE D- FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

During the year ended December 31, 2009 \$28,763 was expended for major repairs and replacements, including generator repairs and interior corridor upgrading.

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.

NOTE E- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2009 and 2008, no funds were expended for interest payments or 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. The Federal Deposit Insurance Corporation (FDIC) insures all deposits up to \$250,000. There were uninsured balances of \$79,318 and \$0, respectively, at December 31, 2009 and 2008.

Supplementary Information

**SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 December 31, 2009**

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Fund Balance 12/31/09</u>
Roofs	6	\$ 150,000	\$ 150,000
Pool and pool equipment	6	12,975	12,975
Equipment	15	60,000	60,000
Contingency	-	<u>0</u>	<u>106,343</u>
		<u>\$ 222,975</u>	<u>\$ 329,318</u>

See Independent Auditor's Report.