

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

Post Office Drawer 9000
Myrtle Beach, S.C. 29578

May 5, 2011

James W. Watkins, CPA, PA
Post Office Box 16456
Surfside Beach, SC 29587

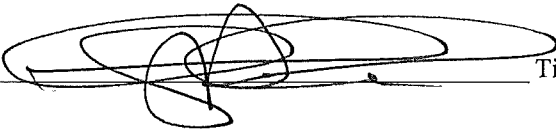
In connection with your audit of the balance sheet of the South Hampton Property Owners Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses, and changes in fund balances for the Year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the South Hampton Property Owners Association, Inc. in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of May 2, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We are responsible for the presentation of the supplemental information accompanying the financial statements about future major repairs and replacements.
3. We have made available to you all-
 - a. Financial records and related data.
 - b. Minutes of meetings of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
6. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Association involving:
 - a. management

- b. employees who have significant roles in internal control, or
 - c. others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, regulators, or others.
10. The Association has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
11. The following have been properly recorded or disclosed in the financial statements:
- a. Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - b. Guarantees, whether written or oral, under which the Association is contingently liable.
12. There are no estimates that may be subject to material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
13. There are no-
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - d. Transfers or designations of fund balance or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
14. South Hampton Property Owners Association, Inc. has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
16. The Board of Directors is collecting funds for future major repairs and replacements in conformity with South Hampton Property Owners Association, Inc.'s policy to fund for those needs based on a conducted study. The Board of Directors believes the funds will adequately provide for future major repairs and replacements.
17. The Association's allocation of expenses against membership and non-membership income conforms to IRS rules, which require that the allocation be made "on a reasonable and consistently applied basis." We have adequately documented such allocation.

18. The Association has excess membership income in the current year and for tax purposes has elected to offset it against next year's assessments. We have adequately documented such election in the current year.
19. We understand that management is responsible for the Association's choice of filing Form 1120 and the consequences thereof.
20. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustments to, or disclosure in, the financial statements.

Signature:  Title: Prop. Mgr.

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2010 and 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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 2, 2011

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash- Operating	\$ 67,692	\$ 5,288
Cash- Reserves	406,297	329,318
Cash- Project account	735,578	0
Member assessments receivable, less allowance for doubtful accounts	66,966	43,660
Prepaid insurance	28,897	36,335
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 1,306,990</u>	<u>\$ 416,161</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 11,377	\$ 14,808
Prepaid member assessments	35,658	33,784
Note payable	499,982	0
TOTAL LIABILITIES	<u>547,017</u>	<u>48,592</u>
FUND BALANCES		
Fund balance- undesignated	353,676	38,251
Fund balance- designated for future major repairs and replacements	406,297	329,318
TOTAL FUND BALANCES	<u>759,973</u>	<u>367,569</u>
	<u>\$ 1,306,990</u>	<u>\$ 416,161</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, 2010 and 2009

	Operating Fund	Reserve Fund	2010 Total	2009 Total
REVENUES				
Regular assessments	\$ 984,041	\$ 136,567	\$ 1,120,608	\$ 1,095,467
Special assessments	858,643	0	858,643	0
Interest income	0	377	377	880
Storage room rentals	5,050	0	5,050	4,950
Other income	3,589	0	3,589	2,847
	<u>1,851,323</u>	<u>136,944</u>	<u>1,988,267</u>	<u>1,104,144</u>
EXPENSES				
Contract maintenance staff	145,000	0	145,000	134,236
Pool maintenance and supplies	5,784	0	5,784	5,595
General maintenance and repairs	28,241	0	28,241	22,064
Pest control	3,711	0	3,711	3,336
Termite treatment	1,771	0	1,771	1,771
Elevator maintenance	18,417	0	18,417	24,234
Security & fire system	17,241	0	17,241	17,358
Janitorial supplies	7,879	0	7,879	8,133
Office supplies and expenses	5,202	0	5,202	4,884
Professional services	14,629	0	14,629	5,180
Management services	25,000	0	25,000	21,168
Director travel	0	0	0	52
Insurance expense	245,280	0	245,280	294,202
Electricity	62,142	0	62,142	58,408
Water & sewer	68,413	0	68,413	74,966
Fuel and generator	27,814	0	27,814	12,071
Sanitation	10,038	0	10,038	8,571
Cable television	34,269	0	34,269	38,916
Telephone and communications	6,718	0	6,718	6,686
Taxes and licenses	161	0	161	186
Bad debt expense	60,000	0	60,000	48,989
Master association fee	206,748	0	206,748	195,037
Interest expense	2,292	0	2,292	0
Major repairs and replacements	539,148	59,965	599,113	28,763
	<u>1,535,898</u>	<u>59,965</u>	<u>1,595,863</u>	<u>1,014,806</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	315,425	76,979	392,404	89,338
BEGINNING FUND BALANCES	38,251	329,318	367,569	278,231
ENDING FUND BALANCES	\$ <u>353,676</u>	\$ <u>406,297</u>	\$ <u>759,973</u>	\$ <u>367,569</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 392,404	\$ 89,338
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	(23,306)	10,958
Prepaid insurance	7,438	(5,224)
Increase (decrease) in liabilities:		
Accounts payable	(3,431)	7,671
Prepaid member assessments	1,874	(6,936)
	374,979	95,807
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	374,979	95,807
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds borrowed on long-term note	499,982	0
	499,982	0
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	499,982	0
NET INCREASE (DECREASE) IN CASH	874,961	95,807
CASH AT BEGINNING OF YEAR	334,606	238,799
CASH AT END OF YEAR	\$ 1,209,567	\$ 334,606
Summary of Cash Accounts		
Undesignated	\$ 67,692	\$ 5,288
Designated for future repairs and replacements	406,297	329,318
Cash in project account	735,578	0
	\$ 1,209,567	\$ 334,606

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, 2010 and 2009 of \$66,966 and \$43,660, respectively, are net of a reserve for doubtful accounts. Total assessments receivable at December 31, 2010 and 2009 were \$126,966 and \$80,910, respectively.

Allowance for Doubtful Accounts

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, 2010 and 2009 were \$60,000 and \$37,250, respectively.

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, 2010 and 2009, the Association recorded prepaid expenses in the amounts of \$30,457 and \$37,895 respectively, which consisted of prepaid insurance in the amounts of \$28,897 and \$36,335 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, 2010 and 2009, 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, 2010 and 2009.

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, 2010, the Association borrowed \$500,000 to be used for the roofing and waterproofing project. The terms of the arrangement provide for monthly payments of \$8,333, plus interest at 1 point over the prime rate, not to be less than 5%, for a period of sixty (60) months. The arrangement matures December 2015. The outstanding balance on this arrangement was \$499,982 at December 31, 2010. Accrued interest charges were \$2,292 at December 31, 2010. The following principal payments are due:

2011	\$100,000
2012	100,000
2013	100,000
2014	100,000
2015	<u>99,982</u>
	\$499,982
	=====

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

NOTE E- ROOFING AND WATERPROOFING PROJECT

During the year ended December 31, 2010 the Association began a maintenance project to re-roof and waterproof the property. The total anticipated cost of this project is \$1,000,000. The Association borrowed \$500,000 toward this project, with the remainder of funds to come from Special Assessments. During the year ended December 31, 2010 \$539,148 was expended on the project. \$735,578 was on deposit at December 31, 2010 for the completion of the project.

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, 2010 and 2009, the Association had accumulated funds for future major repairs and replacements of \$406,297 and \$329,318, 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, 2010, excluding expenses for the roofing and waterproofing project, \$59,965 was expended for major repairs and replacements, including lobby renovations, sprinkler line repairs, and other property maintenance and improvements.

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

NOTE G- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2010 and 2009, 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.

Supplementary Information

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
December 31, 2010

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Fund Balance 12/31/10</u>
Roofs	0	\$ 150,000	\$ 150,000
Pool and pool equipment	6	12,975	12,975
Equipment	15	60,000	60,000
Contingency	-	<u>0</u>	<u>183,322</u>
		<u>\$ 222,975</u>	<u>\$ 406,297</u>

See Independent Auditor's Report.