

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2011 and 2010**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S 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

James W. Watkins, CPA, PA

1310 Azalea Court, Suite M
Myrtle Beach, South Carolina 29577

Post Office Box 16456
Surfside Beach, South Carolina 29587
Telephone (843) 497-5689
Facsimile (843) 449-1018

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, 2011 and 2010, 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, 2011 and 2010, 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 24, 2012

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2011 and 2010

ASSETS	2011	2010
Cash- Operating	\$ 43,932	\$ 67,692
Cash- Reserves	457,310	406,297
Cash- Project account	41,361	735,578
Member assessments receivable, less allowance for doubtful accounts	21,359	66,966
Prepaid insurance	38,339	28,897
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	\$ 603,861	\$ 1,306,990
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 7,368	\$ 11,377
Prepaid member assessments	39,551	35,658
Note payable	400,000	499,982
TOTAL LIABILITIES	446,919	547,017
FUND BALANCES		
Fund balance- undesignated (Deficit)	(300,368)	353,676
Fund balance- designated for future major repairs and replacements	457,310	406,297
TOTAL FUND BALANCES	156,942	759,973
	\$ 603,861	\$ 1,306,990

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, 2011 and 2010

	Operating Fund	Reserve Fund	2011 Total	2010 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
Regular assessments	\$ 1,069,658	\$ 50,950	\$ 1,120,608	\$ 1,120,608
Special assessments	0	0	0	858,643
Interest income	0	63	63	377
Storage room rentals	600	0	600	5,050
Other income	5,695	0	5,695	3,589
	<u>1,075,953</u>	<u>51,013</u>	<u>1,126,966</u>	<u>1,988,267</u>
EXPENSES				
Contract maintenance staff	152,250	0	152,250	145,000
Pool maintenance and supplies	5,336	0	5,336	5,784
General maintenance and repairs	36,311	0	36,311	28,241
Pest control	3,336	0	3,336	3,711
Termite treatment	1,771	0	1,771	1,771
Elevator maintenance	19,152	0	19,152	18,417
Security & fire system	13,839	0	13,839	17,241
Janitorial supplies	5,778	0	5,778	7,879
Office supplies and expenses	5,334	0	5,334	5,202
Professional services	2,300	0	2,300	3,460
Management services	25,000	0	25,000	25,000
Insurance expense	209,193	0	209,193	245,280
Electricity	64,851	0	64,851	62,142
Water & sewer	64,170	0	64,170	68,413
Fuel and generator	20,948	0	20,948	27,814
Sanitation	10,144	0	10,144	10,038
Cable television	22,851	0	22,851	34,269
Telephone and communications	7,100	0	7,100	6,718
Taxes and licenses	170	0	170	161
Bad debt expense	0	0	0	60,000
Master association fee	212,439	0	212,439	206,748
Interest expense	23,157	0	23,157	2,292
Lawsuit expense	7,150	0	7,150	11,169
Major repairs and replacements	817,417	0	817,417	599,113
	<u>1,729,997</u>	<u>0</u>	<u>1,729,997</u>	<u>1,595,863</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENSES	(654,044)	51,013	(603,031)	392,404
BEGINNING FUND BALANCES	<u>353,676</u>	<u>406,297</u>	<u>759,973</u>	<u>367,569</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$ (300,368)</u>	<u>\$ 457,310</u>	<u>\$ 156,942</u>	<u>\$ 759,973</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ (603,031)	\$ 392,404
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	45,607	(23,306)
Prepaid insurance	(9,442)	7,438
Increase (decrease) in liabilities:		
Accounts payable	(4,009)	(3,431)
Prepaid member assessments	3,893	1,874
	<u> </u>	<u> </u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(566,982)</u>	<u>374,979</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds borrowed on long-term note	0	499,982
Principal payments on long-term debt	(99,982)	0
	<u> </u>	<u> </u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(99,982)</u>	<u>499,982</u>
NET INCREASE (DECREASE) IN CASH	(666,964)	874,961
CASH AT BEGINNING OF YEAR	<u>1,209,567</u>	<u>334,606</u>
CASH AT END OF YEAR	<u>\$ 542,603</u>	<u>\$ 1,209,567</u>
 Summary of Cash Accounts		
Undesignated	\$ 43,932	\$ 67,692
Designated for future repairs and replacements	457,310	406,297
Cash in project account	41,361	735,578
	<u>\$ 542,603</u>	<u>\$ 1,209,567</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, 2011 and 2010 of \$21,359 and \$66,966, respectively, are net of a reserve for doubtful accounts. Total assessments receivable at December 31, 2011 and 2010 were \$62,359 and \$126,966, 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, 2011 and 2010 were \$41,000 and \$60,000, 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, 2011 and 2010, the Association recorded prepaid expenses in the amounts of \$39,899 and \$30,457 respectively, which consisted of prepaid insurance in the amounts of \$38,339 and \$28,897 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, 2011 and 2010, 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, 2011 and 2010.

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.

Subsequent Events

These financial statements considered subsequent events through April 25, 2012, the date the financial statements were available to be issued.

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 \$400,000 and \$499,982 at December 31, 2011 and 2010, respectively. Interest expense of \$23,157 and \$2,292 was incurred during the years ended December 31, 2011 and 2010, respectively. The following principal payments are due:

2012	\$100,000
2013	100,000
2014	100,000
2015	<u>100,000</u>
	\$400,000
	=====

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 Association borrowed \$500,000 toward this project, with the remainder of funds to come from Special Assessments. During the years ended December 31, 2011 and 2010 \$700,133 and \$539,148, respectively, was expended on this 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, 2011 and 2010, the Association had accumulated funds for future major repairs and replacements of \$457,310 and \$406,297, 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, 2011, excluding expenses for the roofing and waterproofing project, \$117,284 was expended for major repairs and replacements, including elevator and lobby upgrades, and other property maintenance and improvements.

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.

NOTE G- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2011 and 2010, no funds were expended for Federal or State corporate income taxes, and \$23,157 and \$2,292, respectively, was expended for interest payments.

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.

Supplementary Information

**SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 December 31, 2011**

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Fund Balance 12/31/11</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>234,335</u>
		<u>\$ 222,975</u>	<u>\$ 457,310</u>

See Independent Auditor's Report.