

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

**FINANCIAL STATEMENTS
Years Ended December 31, 2012 and 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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 American Institute of Certified Public Accountants has determined that supplementary information about future major repairs and replacements is required to supplement, but not required to be a part of, the basic financial statements. South Hampton Property Owners Association, Inc. has not presented this supplementary information.


Myrtle Beach, South Carolina

April 30, 2013

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Cash- Operating	\$ 75,212	\$ 43,932
Cash- Reserves	382,675	457,310
Cash- Project account	14,169	41,361
Member assessments receivable, less allowance for doubtful accounts	14,749	21,359
Prepaid insurance	36,863	38,339
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 525,228</u>	<u>\$ 603,861</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 8,913	\$ 7,368
Prepaid member assessments	34,679	39,551
Note payable	300,000	400,000
TOTAL LIABILITIES	<u>343,592</u>	<u>446,919</u>
FUND BALANCES		
Fund balance- undesignated (Deficit)	(201,039)	(300,368)
Fund balance- designated for future major repairs and replacements	382,675	457,310
TOTAL FUND BALANCES	<u>181,636</u>	<u>156,942</u>
	<u>\$ 525,228</u>	<u>\$ 603,861</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, 2012 and 2011

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>2012 Total</u>	<u>2011 Total</u>
REVENUES				
Regular assessments	\$ 923,466	\$ 249,846	\$ 1,173,312	\$ 1,120,608
Interest income	0	4	4	63
Other income	17,158	0	17,158	6,295
	<u>940,624</u>	<u>249,850</u>	<u>1,190,474</u>	<u>1,126,966</u>
EXPENSES				
Contract maintenance staff	156,800	0	156,800	152,250
Pool maintenance and supplies	4,640	0	4,640	5,336
General maintenance and repairs	31,850	0	31,850	36,311
Pest control	3,336	0	3,336	5,107
Elevator maintenance	0	0	0	19,152
Security & fire system	6,240	0	6,240	13,839
Janitorial supplies	5,143	0	5,143	5,778
Office supplies and expenses	4,079	0	4,079	5,334
Professional services	3,310	0	3,310	2,300
Management services	25,000	0	25,000	25,000
Insurance expense	179,147	0	179,147	209,193
Electricity	62,396	0	62,396	64,851
Water & sewer	71,857	0	71,857	64,170
Fuel and generator	16,413	0	16,413	20,948
Sanitation	10,677	0	10,677	10,144
Cable television	23,668	0	23,668	22,851
Telephone and communications	7,062	0	7,062	7,100
Taxes and licenses	185	0	185	170
Master association fee	211,485	0	211,485	212,439
Interest expense	18,007	0	18,007	23,157
Lawsuit expense	0	0	0	7,150
Major repairs and replacements	0	324,485	324,485	817,417
	<u>841,295</u>	<u>324,485</u>	<u>1,165,780</u>	<u>1,729,997</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	99,329	(74,635)	24,694	(603,031)
BEGINNING FUND BALANCES (DEFICIT)	<u>(300,368)</u>	<u>457,310</u>	<u>156,942</u>	<u>759,973</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$ (201,039)</u>	<u>\$ 382,675</u>	<u>\$ 181,636</u>	<u>\$ 156,942</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 24,694	\$ (603,031)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	6,610	45,607
Prepaid insurance	1,476	(9,442)
Increase (decrease) in liabilities:		
Accounts payable	1,545	(4,009)
Prepaid member assessments	(4,872)	3,893
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	29,453	(566,982)
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds borrowed on long-term note	0	0
Principal payments on long-term debt	(100,000)	(99,982)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(100,000)	(99,982)
NET INCREASE (DECREASE) IN CASH	(70,547)	(666,964)
CASH AT BEGINNING OF YEAR	542,603	1,209,567
CASH AT END OF YEAR	\$ 472,056	\$ 542,603
 Summary of Cash Accounts		
Undesignated	\$ 75,212	\$ 43,932
Designated for future repairs and replacements	382,675	457,310
Cash in project account	14,169	41,361
	\$ 472,056	\$ 542,603

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, 2012 and 2011 of \$14,749 and \$21,359, respectively, are net of a reserve for doubtful accounts. Total assessments receivable at December 31, 2012 and 2011 were \$48,749 and \$62,359, 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 possible 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, 2012 and 2011 were \$34,000 and \$41,000, 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, 2012 and 2011, the Association recorded prepaid expenses in the amounts of \$38,423 and \$39,899 respectively, which consisted of prepaid insurance in the amounts of \$36,863 and \$38,339 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, 2012 and 2011, 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, 2012 and 2011.

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 May 2, 2013, 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 \$300,000 and \$400,000 at December 31, 2012 and 2011, respectively. Interest expense of \$18,007 and \$23,157 was incurred during the years ended December 31, 2012 and 2011, respectively. The following principal payments are due:

2013	\$100,000
2014	100,000
2015	<u>100,000</u>
	\$300,000
	=====

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 year ended December 31, 2011 \$700,133 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, 2012 and 2011, the Association had accumulated funds for future major repairs and replacements of \$382,675 and \$457,310, 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, 2012, \$324,485 was expended for major repairs and replacements, including elevator upgrades, air conditioning, pool furniture, and other property maintenance and improvements.

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.

NOTE G- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2012 and 2011, no funds were expended for Federal or State corporate income taxes, and \$18,007 and \$23,157, 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.