

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

**FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
South Hampton Property Owners Association, Inc.
Myrtle Beach, South Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of South Hampton Property Owners Association, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

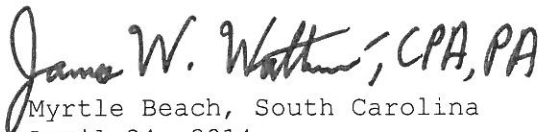
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

The Financial Accounting Standards Board 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 24, 2014

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Cash- Operating	\$ 36,678	\$ 75,212
Cash- Reserves	474,303	382,675
Cash- Project account	14,109	14,169
Member assessments receivable, less allowance for doubtful accounts	9,369	14,749
Prepaid insurance	37,448	36,863
Prepaid income taxes	1,560	1,560
TOTAL ASSETS	<u>\$ 573,467</u>	<u>\$ 525,228</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 6,583	\$ 8,913
Prepaid member assessments	34,459	34,679
Note payable	200,000	300,000
TOTAL LIABILITIES	<u>241,042</u>	<u>343,592</u>
FUND BALANCES		
Fund balance- undesignated (Deficit)	(141,878)	(201,039)
Fund balance- designated for future major repairs and replacements	474,303	382,675
TOTAL FUND BALANCES	<u>332,425</u>	<u>181,636</u>
	<u>\$ 573,467</u>	<u>\$ 525,228</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, 2013 and 2012

	Operating Fund	Reserve Fund	2013 Total	2012 Total
REVENUES				
Regular assessments	\$ 966,209	\$ 221,791	\$ 1,188,000	\$ 1,173,312
Special assessments	0	25,029	25,029	35,570
Other income	11,636	0	11,636	17,162
	<u>977,845</u>	<u>246,820</u>	<u>1,224,665</u>	<u>1,226,044</u>
EXPENSES				
Contract maintenance staff	161,504	0	161,504	156,800
Pool maintenance and supplies	5,543	0	5,543	4,640
General maintenance and repairs	22,925	0	22,925	22,471
Pest control	6,923	0	6,923	3,336
Elevator maintenance	5,834	0	5,834	0
Watchman and fire system	12,373	0	12,373	9,379
Summer security service	10,113	0	10,113	6,240
Janitorial supplies	8,503	0	8,503	5,143
Office supplies and expenses	7,337	0	7,337	4,079
Professional services	4,215	0	4,215	3,310
Management services	25,000	0	25,000	25,000
Insurance expense	178,468	0	178,468	179,147
Electricity	65,502	0	65,502	62,396
Water & sewer	76,255	0	76,255	71,857
Fuel and generator	18,386	0	18,386	16,413
Sanitation	9,946	0	9,946	10,677
Cable television	23,868	0	23,868	23,668
Telephone and communications	7,351	0	7,351	7,062
Taxes and licenses	160	0	160	186
Master association fee	211,484	0	211,484	211,484
Interest expense	12,887	0	12,887	18,007
Bad debt expense	44,107	0	44,107	22,815
Major repairs and replacements	0	155,192	155,192	337,240
	<u>918,684</u>	<u>155,192</u>	<u>1,073,876</u>	<u>1,201,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	59,161	91,628	150,789	24,694
BEGINNING FUND BALANCES (DEFICIT)	(201,039)	382,675	181,636	156,942
ENDING FUND BALANCES (DEFICIT)	<u>\$ (141,878)</u>	<u>\$ 474,303</u>	<u>\$ 332,425</u>	<u>\$ 181,636</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 150,789	\$ 24,694
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	5,380	6,610
Prepaid insurance	(585)	1,476
Increase (decrease) in liabilities:		
Accounts payable	(2,330)	1,545
Prepaid member assessments	(220)	(4,872)
	153,034	29,453
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	153,034	29,453
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds borrowed on long-term note	0	0
Principal payments on long-term debt	(100,000)	(100,000)
	(100,000)	(100,000)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(100,000)	(100,000)
NET INCREASE (DECREASE) IN CASH	53,034	(70,547)
CASH AT BEGINNING OF YEAR	472,056	542,603
CASH AT END OF YEAR	\$ 525,090	\$ 472,056
 Summary of Cash Accounts		
Undesignated	\$ 36,678	\$ 75,212
Designated for future repairs and replacements	474,303	382,675
Cash in project account	14,109	14,169
	\$ 525,090	\$ 472,056

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, 2013 and 2012 of \$9,369 and \$14,749, respectively, are net of a reserve for doubtful accounts. Total assessments receivable at December 31, 2013 and 2012 were \$9,369 and \$48,749, 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, 2013 and 2012 were \$0 and \$34,000, 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, 2013 and 2012, the Association recorded prepaid expenses in the amounts of \$39,008 and \$38,423 respectively, which consisted of prepaid insurance in the amounts of \$37,448 and \$36,863 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, 2013 and 2012, 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, 2013 and 2012.

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 28, 2014, 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 \$200,000 and \$300,000 at December 31, 2013 and 2012, respectively. Interest expense of \$12,887 and \$18,007 was incurred during the years ended December 31, 2013 and 2012, respectively. The following principal payments are due:

2014	\$100,000
2015	<u>100,000</u>
	\$200,000
	=====

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, 2013 and 2012, the Association had accumulated funds for future major repairs and replacements of \$474,303 and \$382,675, 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, 2013, \$155,192 was expended for major repairs and replacements, including hallway painting, hallway carpeting, and other property maintenance and improvements.

During the year ended December 31, 2012, \$337,240 was expended for major repairs and replacements, including elevator upgrades, air conditioning, pool furniture, and other property maintenance and improvements.

NOTE F- SUPPLEMENTARY INFORMATION

Cash Flows

During the years ended December 31, 2013 and 2012, no funds were expended for Federal or State corporate income taxes, and \$12,887 and \$18,007, 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.