

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

**FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to Financial Statements	6-8

James W. Watkins, CPA, PA

Floyd Center Executive Offices
839 Surfside Drive, Suite 104
Surfside Beach, South Carolina 29575

Post Office Box 16456
Surfside Beach, South Carolina 29587
Telephone (843) 712-1353

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, 2019 and 2018, 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, 2019 and 2018, 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.

James W. Waltham, CPA, PA
Myrtle Beach, South Carolina
March 20, 2020

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Cash- Operating	\$ 12,675	\$ 6,245
Cash- Reserves	276,429	553,146
Certificates of deposit	700,709	858,731
Member assessments receivable	1,294	3,239
TOTAL ASSETS	<u>\$ 991,107</u>	<u>\$ 1,421,361</u>
LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 8,288	\$ 22,151
Income taxes payable	6,888	2,908
Prepaid member assessments	41,679	38,924
TOTAL LIABILITIES	<u>56,855</u>	<u>63,983</u>
FUND BALANCES		
Fund balance- undesignated (Deficit)	(42,886)	(54,499)
Fund balance- designated for future major repairs and replacements	977,138	1,411,877
TOTAL FUND BALANCES	<u>934,252</u>	<u>1,357,378</u>
	<u>\$ 991,107</u>	<u>\$ 1,421,361</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, 2019 and 2018

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>2019 Total</u>	<u>2018 Total</u>
REVENUES				
Regular assessments	\$ 988,229	\$ 294,811	\$ 1,283,040	\$ 1,283,040
Interest income	0	20,662	20,662	8,782
Other income	7,364	0	7,364	7,065
	<u>995,593</u>	<u>315,473</u>	<u>1,311,066</u>	<u>1,298,887</u>
EXPENSES				
Contract maintenance staff	167,800	0	167,800	154,383
Pool maintenance and supplies	3,776	0	3,776	7,540
General maintenance and repairs	44,579	0	44,579	43,388
Pest control	5,529	0	5,529	5,107
Elevator maintenance	17,438	0	17,438	16,858
Watchman and fire system	19,101	0	19,101	16,535
Janitorial supplies	7,137	0	7,137	8,263
Office supplies and expenses	7,286	0	7,286	6,219
Professional services	3,200	0	3,200	3,669
Management services	25,000	0	25,000	25,000
Insurance expense	239,652	0	239,652	260,276
Electricity	51,936	0	51,936	51,077
Water & sewer	103,032	0	103,032	98,324
Fuel and generator	21,124	0	21,124	22,202
Sanitation	13,954	0	13,954	13,436
Cable television	32,013	0	32,013	29,664
Telephone and communications	6,903	0	6,903	7,092
Taxes and licenses	136	0	136	136
Master association fee	214,384	0	214,384	214,610
Income tax expense	0	6,888	6,888	2,908
Major repairs and replacements	0	743,324	743,324	38,520
	<u>983,980</u>	<u>750,212</u>	<u>1,734,192</u>	<u>1,025,207</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	11,613	(434,739)	(423,126)	273,680
BEGINNING FUND BALANCES (DEFICIT)	<u>(54,499)</u>	<u>1,411,877</u>	<u>1,357,378</u>	<u>1,083,698</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$ (42,886)</u>	<u>\$ 977,138</u>	<u>\$ 934,252</u>	<u>\$ 1,357,378</u>

See accompanying notes and auditor's report.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ (423,126)	\$ 273,680
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in assets:		
Member assessments receivable	1,945	(265)
Prepaid insurance	0	138,363
Increase (decrease) in liabilities:		
Accounts payable	(13,863)	16,682
Income taxes payable	3,980	2,908
Prepaid member assessments	2,755	18,591
 NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	 (428,309)	 449,959
 NET INCREASE (DECREASE) IN CASH	 (428,309)	 449,959
 CASH AT BEGINNING OF YEAR	 1,418,122	 968,163
 CASH AT END OF YEAR	 \$ 989,813	 \$ 1,418,122
 Summary of Cash Accounts		
Undesignated	\$ 12,675	\$ 6,245
Designated for future repairs and replacements	977,138	1,411,877
	\$ 989,813	\$ 1,418,122

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.

Revenue Recognition

Assessments, including regular, insurance, and special, as well as other charges such as late fees, are recognized as income in the period in which they are assessed.

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.

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. There was no provision made for an allowance for doubtful accounts at December 31, 2019 and 2018.

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. The Association incurred Federal and State income tax liabilities of \$5,860 and \$1,028, respectively, for the year ended December 31, 2019. The Association incurred Federal and State income tax liabilities of \$2,474 and \$434, respectively, for the year ended December 31, 2018.

As of December 31, 2019, the tax years that remain subject to examination by taxing authorities begin with 2016.

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 March 23, 2020, the date the financial statements were available to be issued.

Going Concern

The accompanying financial statements have been prepared assuming the Association will continue as a going concern.

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, 2019 and 2018, the Association had accumulated funds for future major repairs and replacements of \$977,138 and \$1,411,877, respectively.

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

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 may 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, 2019, \$743,324 was expended for major repairs and replacements, including waterproofing, roofing anchors, insulation, cooling tower renovation, and other property maintenance and improvements.

During the year ended December 31, 2018, \$38,520 was expended for major repairs and replacements, including lobby improvements and pool furniture replacement.

NOTE E- SUPPLEMENTARY INFORMATION

Cash Flows

During the year ended December 31, 2019, \$2,908 was expended for Federal and State income taxes. During the years ended December 31, 2019 and 2018, no funds were 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.