

Audited Financial Statements

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

Year ended December 31, 2020

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2020

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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 financial statements of South Hampton Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of revenues and expenses and changes in fund balances and cash flows for the year 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 accounting principles generally accepted in the United States of America; 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 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 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 the audit opinion.

(continued on next page)

INDEPENDENT AUDITOR'S REPORT (Continued)

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, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by the missing information.

Wayne E. Fussaro, CPA

Surfside Beach, South Carolina

October 5, 2021

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2020

	Operating Fund	Reserve Fund	Totals
<u>ASSETS</u>			
Cash & cash equivalents	\$ 108,752	\$ 3,540	\$ 112,292
Assessments receivable	5,469	-	5,469
Prepaid insurance	18,642	-	18,642
Construction deposit	-	2,500	2,500
	<hr/>	<hr/>	<hr/>
Total assets	\$ 132,863	\$ 6,040	\$ 138,903
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 14,983	\$ -	\$ 14,983
Bank loan payable	-	600,000	600,000
Assessments received in advance - operating	40,175	-	40,175
	<hr/>	<hr/>	<hr/>
Total liabilities	55,158	600,000	655,158
Fund balances	<hr/> 77,705	<hr/> (593,960)	<hr/> (516,255)
	<hr/>	<hr/>	<hr/>
Total liabilities & fund balances	\$ 132,863	\$ 6,040	\$ 138,903
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The accompanying notes are an integral part of these financial statements.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

For the year ended December 31, 2020

	Operating Fund	Reserve Fund	Totals
<u>Revenues</u>			
Regular assessments	\$ 1,362,528	\$ -	\$ 1,362,528
Inter-fund transfers, net	(9,824)	9,824	-
FASB ASC 606	-	977,137	977,137
Interest income	-	315	315
Vending	370	-	370
Common area rental	6,000	-	6,000
Fines, late fees & other revenues	745	-	745
	<hr/>	<hr/>	<hr/>
Total revenues	1,359,819	987,276	2,347,095
	<hr/>	<hr/>	<hr/>
<u>Expenses</u>			
Repairs & maintenance			
Contract maintenance staff	168,045	-	168,045
Cooling tower maintenance	3,135	-	3,135
Elevator maintenance	18,188	-	18,188
Fire system maintenance	14,518	-	14,518
General maintenance & supplies	39,280	-	39,280
Generator contract	17,185	-	17,185
Janitorial supplies	16,487	-	16,487
Pest control	5,252	-	5,252
Pool maintenance, supplies & license	1,947	-	1,947
	<hr/>	<hr/>	<hr/>
Total repairs & maintenance	284,037	-	284,037
	<hr/>	<hr/>	<hr/>
General & administrative			
Management services	25,000	-	25,000
Accounting & auditing services	3,200	-	3,200
Legal & professional services	17,893	3,450	21,343
Insurance expense	242,675	-	242,675
Office supplies & administrative	4,475	729	5,204
	<hr/>	<hr/>	<hr/>
Total general & administrative	293,243	4,179	297,422

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The accompanying notes are an integral part of these financial statements.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

(continued)

For the year ended December 31, 2020

	Operating Fund	Reserve Fund	Totals
<u>Expenses (continued)</u>			
Utilities			
Electricity	47,797	-	47,797
Fuel	2,638	-	2,638
Water & sewer	61,930	-	61,930
Trash removal	15,942	-	15,942
Cable television services	32,862	-	32,862
Telephone & internet services	7,656	-	7,656
Total utilities	168,825	-	168,825
Major repairs and replacements			
Building and other common property repairs & replacements	245,100	1,571,709	1,816,809
Total major repairs and replacements	245,100	1,571,709	1,816,809
Other (income) expenses			
Interest expense	17,298	5,348	22,646
Master association assessments	227,815	-	227,815
Insurance claim damage repairs, net	2,900	-	2,900
Taxes & licenses	10	-	10
Total other (income) expenses	248,023	5,348	253,371
Total expenses	1,239,228	1,581,236	2,820,464
Excess (deficiency) of revenues over expenses	120,591	(593,960)	(473,369)
Beginning fund balances	(42,886)	-	(42,886)
Ending fund balances	<u>\$ 77,705</u>	<u>\$ (593,960)</u>	<u>\$ (516,255)</u>

The accompanying notes are an integral part of these financial statements.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

	Operating Fund	Reserve Fund	Totals
Cash flows from operating activities:			
Excess (deficiency) of revenues over expenses	\$ 120,591	\$ (593,960)	\$ (473,369)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
(Increase) decrease in:			
Assessments receivable	(4,175)	-	(4,175)
Prepaid insurance	(18,642)	-	(18,642)
Construction deposit	-	(2,500)	(2,500)
Increase (decrease) in:			
Accounts payable	6,695	-	6,695
Income taxes payable	(6,888)	-	(6,888)
Assessments received in advance - operating	(1,504)	-	(1,504)
Contract liabilities (assessments received in advance - reserve fund)	-	(977,137)	(977,137)
Net cash provided by (used in) operating activities	96,077	(1,573,597)	(1,477,520)
Cash flows from investing activities:			
Redemptions of certificates of deposit	-	700,851	700,851
Interest income - certificates of deposit	-	(143)	(143)
Net cash provided by investing activities	-	700,708	700,708
Cash flows from financing activities:			
Proceeds from bank loan borrowing	-	600,000	600,000
Net cash provided by financing activities	-	600,000	600,000
Net increase (decrease) in cash	96,077	(272,889)	(176,812)
Cash & cash equivalents, beginning of year	12,675	276,429	289,104
Cash & cash equivalents, end of year	\$ 108,752	\$ 3,540	\$ 112,292
Supplementary cash flow information:			
Cash paid during the year for:			
Income taxes paid	\$ 6,888	\$ -	\$ 6,888

The accompanying notes are an integral part of these financial statements.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

1 - NATURE OF ORGANIZATION

South Hampton Property Owners Association, Inc. (the Association) is a statutory association incorporated and existing under the laws of the state of South Carolina. The Association is responsible for maintaining and preserving common property, enforcing rules for mutual benefit, and providing other common services to Association members. The Association is a subordinate regime of Kingston Plantation Master Association, which is the master association for Kingston Plantation, a residential resort development located in Myrtle Beach, South Carolina. The Association consists of one hundred forty-four (144) condominium units and related common property and began its operations in 1986.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association has elected to report its revenues and expenses on the accrual basis. Consequently, revenues and expenses are recognized when the revenues are earned rather than when received and when the expenses are incurred rather than when paid.

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 specific funds established according to their nature and purpose. The Association's funds are separated between operating funds and funds for future major repairs and replacements. Operating disbursements are made generally at the discretion of the Board of Directors and the Association's property management company. Replacement funds have been set aside for a specific purpose and are to be disbursed accordingly.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits and temporary, highly liquid investment accounts. The Association considers all certificates of deposit with original maturities of less than ninety (90) days to be cash equivalents.

Certificates of Deposit

The Association considers all certificates of deposit with original maturities of more than ninety (90) days to be an other asset presented separately on the balance sheet.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assessments Received in Advance – operating fund

Assessments received in advance in the operating fund at December 31, 2020 represents payments received in advance for homeowners' operating assessments. These advance payments will be recognized as revenue in the months in which they are earned.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract Liabilities (Assessments received in advance-reserve fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-reserve fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. At December 31, 2020, the Association's reserve fund had a negative balance and the Association does not recognize a contract liability.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and dedicated for the use of the entire community. These common areas cannot be sold separately and thus have no fair market value other than that related to their intended use. 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 a pool amenity, elevators and other common areas.

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. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable, at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners and other amounts owed to the Association. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has not recorded an allowance for doubtful accounts at December 31, 2020. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained included consideration of past experience and susceptibility to factors outside of the Association's control.

3 - COMMITMENTS & CONTINGENCIES

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

From time to time, the Association may enter into contracts with vendors, towards the end of the calendar year. Some of these contracts may call for a down-payment to begin the job and payments as the work progresses. The Association recognizes these expenses as the work is completed and billed by the contractor.

4 - CONCENTRATIONS OF CREDIT RISK

Cash, cash equivalent and certificates of deposit balances held at financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2020, all cash and cash equivalents were fully insured under the FDIC. To limit the risk associated with uninsured balances, the Association reviews the financial condition of the institutions in which certificates of deposit are deposited.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INCOME TAXES

Under the provisions of the Internal Revenue Code, the Association is allowed to elect each year to file as an eligible Section 528 homeowner's association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. For the year ended December 31, 2020, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its net nonexempt function income, which consists primarily of interest, rental and vending income, at a flat rate of 30% by the federal government and at 5% by the State of South Carolina. Income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property, is not taxable.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns generally remain open to examination by the Internal Revenue Service and the South Carolina Department of Revenue for three (3) years after they were filed. In evaluating the Association's tax calculations, the Association believes that its estimates are appropriate based on current facts and circumstances.

6 - MAJOR REPAIRS AND REPLACEMENTS

The Association has not presented the estimated remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that will be required in the future. Also, the Association has not developed a plan to fund those needs. When the reserve funds are needed for future major repairs and replacements the Association has the right, subject to board approval, to increase regular assessments, levy a special assessment, or to delay major repairs and replacements until funds are available.

The Association's governing documents require funds to be accumulated for future major repairs and replacements. At December 31, 2020, the Association's reserve fund had a deficit balance of \$593,960. The Association's reserve fund cash and cash equivalents are held in separate accounts and generally not available for operating purposes. However, these funds may be used, as needed, for any Association purpose at the discretion of the Board of Directors.

7 - ASSESSMENTS & ALLOWANCE FOR DOUBTFUL ACCOUNTS

Regular monthly assessments to residential unit owners ranged from \$717 to \$860 in 2020.

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. At December 31, 2020, all assessments receivable are considered to be fully collectible and the Association does not recognize an allowance for doubtful accounts or bad debt expense for the year then ended. Management's policy is to aggressively pursue collection of all amounts due to the Association and any subsequent collections of amounts considered to be bad debts will be recognized as bad debt recoveries in the year the recovery occurs.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - MASTER ASSOCIATION FEES

As described in Note 1, the Association is a subordinate regime of the Kingston Plantation Master Association (the Master Association). As such, the Association pays the Master Association monthly assessments in support of the operations of the Master Association common properties. These monthly fees are assessed on a per-unit basis. The total regular assessments paid to the Master Association in 2020 was \$227,815 and is shown as an expense within the association's statements of revenues and expenses. The Association also incurs charges from the Master Association for cable television services. The total paid to the Master Association for cable television services was \$32,727 for the year ended December 31, 2020 and is included in cable television services on the statements of revenues and expenses and changes in fund balances. In addition, in 2020, the Association submitted \$2,500 to the Master Association's Architectural Standards Committee (ASC), as a construction deposit for major repairs and replacements within the common areas of the Association. Upon completion of the projects and approval of the Master Association's ASC, this amount will be returned to the Association. At December 31, 2020, the Association recognizes \$2,500 on the balance sheet as a construction deposit.

9 - LAWSUIT INFORMATION

In 2020, the Association was named as one (1) of the defendants in a civil lawsuit filed by a subcontractor involved in the waterproofing project within the Association. The lawsuit involved a claim by the contractor that they were not paid in full for work performed. In March 2021, the lawsuit was dismissed.

10 - BANK LOAN PAYABLE

During 2020, the Association obtained a bank loan line of credit totaling \$600,000. The proceeds of the loan were used to fund waterproofing and other capital maintenance projects within the common areas of the Association. At December 31, 2020, the bank loan payable carried an interest rate of 4.85% and the Association was subject to interest only payments, which totaled \$22,646 for the year ended December 31, 2020. In 2021, this bank loan payable was modified and is detailed in Note 11 below.

11 - DATE OF MANAGEMENT'S REVIEW - SUBSEQUENT EVENT

In preparing the financial statements, the Association evaluates events and transactions for potential recognition or disclosure in the financial statements. Management has evaluated subsequent events through October 5, 2021, the date that the financial statements were available to be issued. Subsequent events are events that take place after the financial statements' balance sheet date, which if recognized as subsequent events, provide additional evidence about conditions and estimates that existed at the date of the balance sheet and retroactively revise those amounts reflected in the financial statements. Other subsequent events, not recognized as subsequent events or transactions, did not exist at the date of the balance sheet but instead arose after that date and are reported as additional disclosures in the notes to the financial statements.

Effective January 1, 2021, the Association levied a special assessment to the unit owners in order to provide funds needed to repay the bank loan detailed in Note 10 (and the paragraph below) and to replenish the Association's reserve fund bank account. The total special assessment amounted to \$1,316,018 and ranged from \$8,309 to \$9,969 to the residential unit owners.

In February 2021, the bank loan payable detailed in Note 10 above was modified to become a promissory note payable with a principal amount owed by the Association to the bank in the amount of \$1,316,318. The note payable calls for monthly payments of \$24,787, including interest at 4.85% and is set to mature in February 2026. The note payable is secured by assessments levied to the unit owners.

SOUTH HAMPTON PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the reserve fund, as previously described.

The effect of the adoption is an increase in 2020 revenue by \$977,137. The effect of the adoption did not have an effect on the balance sheet as of December 31, 2020 due to the Association's reserve fund having a negative balance. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The following are the line items from the statements of revenues, expenses and changes in fund balances and the statements of cash flow for the year ended December 31, 2020, that were effected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance.

For the year ended December 31, 2020	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
<u>Revenue:</u>			
Total revenues	\$ 1,369,958	\$ 977,137	\$ 2,347,095
(Deficiency) excess of revenues over expenses	(1,450,506)	977,137	(473,369)
<u>Cash Flows</u>			
(Deficiency) excess of revenues over expenses	(1,450,506)	977,137	(473,369)
(Decrease) in contract liabilities (Assessments received in advance - reserve fund)	-	(977,137)	(977,137)