

**OCEAN DUNES VILLAS II
HOMEOWNERS ASSOCIATION, INC.
MYRTLE BEACH, SOUTH CAROLINA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2008

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT.....	2
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Revenues and Expenses, and Changes in Fund Balances.....	4 - 5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7 - 9
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements.....	11

AARON WILSON HARRISON, III
CERTIFIED PUBLIC ACCOUNTANT

POST OFFICE BOX 15746
SURFSIDE BEACH, SC 29587
OFFICE (843) 626-4050 FAX. (843) 903-5451

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Ocean Dunes Villas II Homeowners Association, Inc.

I have audited the accompanying balance sheet of Ocean Dunes Villas II Homeowners Association, Inc. as of December 31, 2008, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year 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 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 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 audit provides 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 Ocean Dunes Villas II Homeowners Association, Inc. as of December 31, 2008, 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.

Information for the year ended December 31, 2007, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which I expressed an unqualified opinion in my report dated July 28, 2008.

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements of Ocean Dunes Villas II Homeowners Association, Inc. 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.



Surfside Beach, South Carolina
November 4, 2009

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
 Myrtle Beach, South Carolina
 Balance Sheet
 December 31

	2008		2007	
	Operating Fund	Replacement Fund	2008 Totals	Totals (For Comparative Purposes Only)
ASSETS				
Cash	\$ 19,340	\$ 45,421	\$ 64,761	\$ 41,391
Assessments Receivable - Members (Net of Allowance for Doubtful Accounts of \$8,556 and \$ -0- at December 31, 2008 and 2007, Respectively)	401	-	401	2,651
Prepaid Insurance	9,584	-	9,584	11,620
Other Prepaid Expenses	307	-	307	-
Utility Deposit	340	-	340	340
TOTAL ASSETS	\$ 29,972	\$ 45,421	\$ 75,393	\$ 56,002
LIABILITIES AND FUND BALANCES				
Accrued Expenses	\$ 300	\$ -	\$ 300	\$ 300
Assessments Paid in Advance	2,759	-	2,759	1,924
Deferred Insurance Assessment Revenue	9,584	-	9,584	11,620
TOTAL LIABILITIES	12,643	-	12,643	13,844
FUND BALANCES				
Fund Balances	17,329	45,421	62,750	42,158
TOTAL FUND BALANCES	17,329	45,421	62,750	42,158
TOTAL LIABILITIES AND FUND BALANCES	\$ 29,972	\$ 45,421	\$ 75,393	\$ 56,002

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
 Myrtle Beach, South Carolina
 Statement of Revenues and Expenses, and Changes in Fund Balances
 For the Year Ended December 31

	2008		2007	
	Operating Fund	Replacement Fund	2008 Totals	Totals (For Comparative Purposes Only)
REVENUES				
Regular Assessments	\$ 94,752	\$ -	\$ 94,752	\$ 94,752
Insurance Assessments	26,186	-	26,186	19,412
Special Assessments	46,200	-	46,200	19,950
Interest Income	150	-	150	65
Late Fees	350	-	350	100
Vending and Miscellaneous Income	480	-	480	424
TOTAL REVENUES	<u>168,118</u>	<u>-</u>	<u>168,118</u>	<u>134,703</u>
EXPENSES				
Repairs and Maintenance Expenses				
Maintenance - Contracted	1,330	-	1,330	1,295
Maintenance - Uncontracted	3,988	-	3,988	5,573
Pool Supplies - Contracted	2,400	-	2,400	2,400
Pool Maintenance - Uncontracted	4,644	-	4,644	229
Contract Pool Maintenance	8,628	-	8,628	8,292
Common Area Cleaning	12,923	-	12,923	12,577
Landscape Maintenance - Contracted	6,816	-	6,816	6,552
Other Landscape	1,667	-	1,667	1,592
Pest Control	931	-	931	906
Termite Control	773	-	773	773
Elevator Service - Contracted	4,078	-	4,078	2,481
Total Repairs and Maintenance Expense	<u>48,178</u>	<u>-</u>	<u>48,178</u>	<u>42,670</u>
General and Administrative Expenses				
Telephone	190	-	190	185
Postage	72	-	72	229
Accounting Services	1,000	-	1,000	1,150
Taxes and License Fees	43	-	43	18
Insurance Expense	27,556	-	27,556	30,988
Office Supplies	228	-	228	228
Interest Expense	-	-	-	18
Bad Debt Expense	8,556	-	8,556	-
Miscellaneous Expense	345	-	345	265
Property Management Services	6,000	-	6,000	5,772
Total General and Administrative Expenses	<u>43,990</u>	<u>-</u>	<u>43,990</u>	<u>38,853</u>

See accountant's report and notes to financial statements.

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
 Myrtle Beach, South Carolina
 Statement of Revenues and Expenses, and Changes in Fund Balances
 For the Year Ended December 31

	2008	2008	2007
	Operating Fund	Replacement Fund	Totals (For Comparative Purposes Only)
EXPENSES - (Continued)			
Utility Expenses			
Electric Power Expense	4,656	-	4,656
Water and Sewer Expense	6,609	-	6,609
Trash Removal Expense	823	-	823
Wireless Internet	2,016	-	-
Cable Television Expense	2,394	-	2,394
	16,498	-	16,498
Total Utility Expenses			
	16,498	-	16,498
Other Operating Expenses			
Fire Protections Services	976	-	976
Security Services	4,534	-	4,534
Major Repairs and Replacement Expense:			
Exterior Building Repairs	13,600	-	13,600
Railing Renovations	19,750	-	19,750
Roof Replacement	-	-	24,975
Building Repairs - Gables, Etc.	-	-	12,300
Building Repairs - Dormers	-	-	6,400
Elevator Refurbishment	-	-	7,535
	38,860	-	38,860
Total Other Operating Expenses			
	38,860	-	38,860
TOTAL EXPENSES			
	147,526	-	147,526
EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES			
	20,592	-	(18,272)
Beginning Fund Balances			
	12,058	30,100	42,158
Transfers Between Funds			
	(15,321)	15,321	-
ENDING FUND BALANCES			
	\$ 17,329	\$ 45,421	\$ 62,750
			\$ 42,158

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
 Myrtle Beach, South Carolina
 Statement of Cash Flows
 For the Year Ended December 31

	2008	2008	2007
	Operating Fund	Replacement Fund	Totals (For Comparative Purposes Only)
Cash Flows from Operating Activities			
Excess/(Deficit) of Revenues Over Expenses	\$ 20,592	\$ -	\$ 20,592 \$ (18,272)
Adjustments to Reconcile Excess/(Deficit) of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Decrease in Assessments Receivable - Members (Net of Allowance for Doubtful Accounts of \$8,556 and \$ -0- at December 31, 2008 and 2007, Respectively)	2,250	-	2,250 4,855
Decrease/(Increase) in Prepaid Insurance	2,036	-	2,036 (43)
Decrease in Prepaid Taxes	-	-	- 410
(Increase) in Other Prepaid Expenses	(307)	-	(307) -
Increase/(Decrease) in Deferred Insurance Assessment Revenue	(2,036)	-	(2,036) 11,620
Increase/(Decrease) in Assessments Received in Advance	835	-	835 (1,148)
(Decrease) in Note Payable - Insurance Financing	-	-	- (1,948)
Total Adjustments	2,778	-	2,778 13,746
Net Cash Provided/(Used) by Operating Activities	23,370	-	23,370 (4,526)
Cash Flow From Financing Activities:			
Interfund Transfers	(15,321)	15,321	- -
Net Cash Provided (Used) by Financing Activities	(15,321)	15,321	- -
Net Increase/(Decrease) in Cash and Cash	8,049	15,321	23,370 (4,526)
Cash, Beginning of Year	11,291	30,100	41,391 45,917
Cash, End of Year	\$ 19,340	\$ 45,421	\$ 64,761 \$ 41,391
Supplemental Disclosures of Cash flow Information:			
Cash Paid During the Year for:			
Interest	\$ -	\$ -	\$ - \$ 18

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008
(SEE AUDITOR'S REPORT)

NOTE A - NATURE OF ORGANIZATION

Ocean Dunes Villas II Homeowners Association, Inc. ("the Association") is a not-for-profit association incorporated and existing under the laws of the State of South Carolina. The purpose of the Association is the administration, maintenance, management, ownership and control of the common and limited common areas of the Ocean Dunes Villas II Condominium, a condominium development located in Myrtle Beach, South Carolina. At December 31, 2008, the development consisted of twenty-one (21) residential units. The Association began its principal operations in 1983.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized in the period in which they become due. Expenses are recognized in the period in which the related liability is incurred.

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 management company. Future major repairs and replacements funds have been set aside for a specific purpose and are to be disbursed accordingly.

Investments - Replacement Funds

Certain fees paid by unit owners are designated for the purposes of future major repairs and replacements. Investment balances represent cash received and invested but not yet spent for these stated purposes.

Cash Equivalents

Cash equivalents include cash on hand and in banks. The Association also considers all highly liquid investments such as certificates of deposits with original maturities of ninety days or less when purchased as cash equivalents.

Allowance for Doubtful Accounts and Bad Debts

The Association utilizes the allowance method of accounting for member assessments deemed potentially uncollectible. The Association's Allowance for Doubtful Accounts at December 31, 2008, and 2007 was approximately \$8,556, and \$ -0- respectively.

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008
(SEE AUDITOR'S REPORT)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Common Property

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. Real property and personal property acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. 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, access driveways, parking areas, and a swimming pool facility. The Association capitalizes personal property to which it has title at cost.

Assessments Receivable - Members

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital expenditures, and major repairs and replacements. Assessments Receivable - Members at the balance sheet date represent assessments due from members.

The Association's policy is to retain legal counsel and place liens on units of members whose assessments are more than 90 days delinquent.

The annual budget and owners' assessments are determined by the Board of Directors to provide for current operating expenditures and required funds for future major repairs and replacements. The Association retains excess operating funds at the end of the year, if any, for use in the subsequent year.

Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2008. Under the section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and 5% by the State of South Carolina.

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008
(SEE AUDITOR'S REPORT)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

NOTE C - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements, however, nothing prohibits the Board of Directors from applying these funds to meet other requirements of the Association in operating and managing the project.

At December 31, 2008, the Association had finalized a study updated during the year to estimate the remaining useful lives and the current replacement cost of the common property components. The Association intends to fund future major repairs and replacements over the estimated useful lives of the components based on the study's estimate of current replacement cost, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, if this occurs, the amounts designated at December 31, 2008, for future major repairs and replacements may not be adequate to meet future needs.

If additional funds are needed, however, the Association has the right, subject to a majority of Board of Directors' approval, to increase regular assessments, levy some special assessments, or it may delay major repairs and replacements until funds are available.

During the year ended December 31, 2008, funds required to be allocated to future major repairs and replacements based upon the results of the Association's reserve study totaled approximately \$61,284. At December 31, 2008, approximately 74% of this amount was funded.

NOTE D - SPECIAL ASSESSMENTS - RENOVATIONS

During the year ended December 31, 2008, the Board approved a special assessment to provide funds for the Association's replacement of fascia boards on the front of the building, removal of sliding glass doors, repainting, installation of pressure treated decking to common hallways, and repair of the eastside dormer. The special assessment is to be assessed in two phases. The first phase of the assessment was due September 15, 2008, in the amount of \$46,200. The second phase will be assessed in the spring of 2009, in an amount to be determined once the exact final cost of the project is ascertained.

SUPPLEMENTARY INFORMATION

OCEAN DUNES VILLAS II HOMEOWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 December 31, 2008

The Designated amounts for Repairs/Replacements at December 31, 2008, represent requirements for future major repairs and replacements. The following are the results of a study conducted by the Association on current replacement costs:

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Designated Requirements for Repairs/ Replacements 12/31/08</u>
Roof Replacement	18	\$ 55,000	\$ 5,495
Pool Finish	1	8,000	6,570
Pool Equipment	-	2,500	2,500
Pool Furniture	-	2,500	2,500
Parking Lot Resurfacing	3	6,000	4,759
Hallway Carpet and Repairs	-	12,000	12,000
Painting and Water Proofing	-	25,000	25,000
Other Mechanical	-	2,460	2,460
		<u>113,460</u>	<u>61,284</u>
Totals		<u>\$ 113,460</u>	<u>61,284</u>