

Audited Financial Statements and  
Supplementary Information

**SAND DUNES OCEANFRONT TOWER  
HOMEOWNERS ASSOCIATION, INC.**

Years Ended December 31, 2009 and 2008

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.  
AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2009 and 2008

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Revenues, Expenses, and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to Financial Statements	5-7
Supplementary Information on Future Major Repairs and Replacements	8

907 45<sup>th</sup> Avenue South  
North Myrtle Beach, SC 29582  
(843) 272-4433  
(843) 272-4423 fax  
www.DSmithCPA.com

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Sand Dunes Oceanfront Tower Homeowners Association, Inc.  
Myrtle Beach, South Carolina

We have audited the accompanying balance sheets of Sand Dunes Oceanfront Tower Homeowners Association, Inc. (the Association) as of December 31, 2009 and 2008, 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. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sand Dunes Oceanfront Tower Homeowners Association, Inc. as of December 31, 2009 and 2008 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 supplementary information on future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



June 25, 2010



SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2009 and 2008

	Operating Fund	Replacement Fund	2009 Total	2008 Total
<b><u>ASSETS</u></b>				
Cash	\$ 251,364	\$ 149,312	\$ 400,676	\$ 557,710
Investments held to maturity	-	205,561	205,561	102,946
Prepaid insurance & expenses	4,540	-	4,540	15,325
Assessments receivable less allowance for doubtful accounts (see Note 1)	50,878	-	50,878	19,982
Accrued interest receivable	-	-	-	69
Investment in spa	62,000	-	62,000	-
Other receivable	30,000	-	30,000	-
Interfund receivable (payable)	(73,894)	73,894	-	-
	<u>\$ 324,888</u>	<u>\$ 428,767</u>	<u>\$ 753,655</u>	<u>\$ 696,032</u>
Total assets				
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Accounts payable	\$ 13,500	\$ -	\$ 13,500	\$ 11,100
Income tax payable	590	-	590	2,329
Deferred revenue	9,714	-	9,714	5,102
	<u>23,804</u>	<u>-</u>	<u>23,804</u>	<u>18,531</u>
Total liabilities				
Fund balances	<u>301,084</u>	<u>428,767</u>	<u>729,851</u>	<u>677,501</u>
Total liabilities & fund balances	<u>\$ 324,888</u>	<u>\$ 428,767</u>	<u>\$ 753,655</u>	<u>\$ 696,032</u>

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

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	2009 Total	2008 Total
<b>Revenues:</b>				
Assessments	\$ 1,112,849	\$ 128,607	\$ 1,241,456	\$ 1,240,972
Working capital assessments	1,103	-	1,103	837
Fines & late charges	13,002	-	13,002	7,720
Interest income	-	3,830	3,830	9,553
Other income	30,500	-	30,500	447
<b>Total revenue</b>	<b>1,157,454</b>	<b>132,437</b>	<b>1,289,891</b>	<b>1,259,529</b>
<b>Expenses:</b>				
Administrative & general expenses:				
Bank service charges	42	-	42	443
Office supplies, telephone, & postage	3,649	-	3,649	2,274
Professional fees	4,800	-	4,800	5,622
Taxes & licenses	6,228	-	6,228	7,751
Management services	34,524	-	34,524	33,350
Insurance	151,503	-	151,503	141,050
Meeting expense	729	-	729	-
Repairs & maintenance expenses:				
Bulk services contract:				
Hallway & corridor care	156,103	-	156,103	68,983
Grounds maintenance	84,096	-	84,096	18,876
Security	35,080	-	35,080	42,401
General maintenance	6,964	-	6,964	6,778
Pest control	6,795	-	6,795	6,613
Elevator telephone	781	-	781	760
Locking devices	11,322	-	11,322	8,235
Waste removal	25,007	-	25,007	24,337
Cable television	20,307	-	20,307	19,764
Internet	6,214	-	6,214	2,520
General maintenance & materials	136,984	-	136,984	101,203
Pool supplies & maintenance	78,762	-	78,762	76,317
Elevator maintenance	54,022	-	54,022	41,831
Utilities:				
Electricity	198,670	-	198,670	195,927
Water & sewer	46,971	-	46,971	56,957
Natural gas	43,261	-	43,261	57,347
Trash removal	14,495	-	14,495	-
Fire protection services	14,086	-	14,086	8,081
Bad debt expense	15,000	-	15,000	73,844
Major repairs & replacements	-	81,146	81,146	193,843
<b>Total expenses</b>	<b>1,156,395</b>	<b>81,146</b>	<b>1,237,541</b>	<b>1,195,107</b>
Excess (deficiency) of revenues over expenses	1,059	51,291	52,350	64,422
Beginning fund balances	300,025	377,476	677,501	613,079
Ending fund balances	\$ 301,084	\$ 428,767	\$ 729,851	\$ 677,501

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

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	2009 Total	2008 Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash flows from operating activities:				
Excess (deficiency) of revenues over expenses	\$ 1,059	\$ 51,291	\$ 52,350	\$ 64,422
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash flows provided (used) by operating activities:				
Bad debt expense	15,000	-	15,000	73,844
Decrease (increase) in receivables	(75,827)	-	(75,827)	50,181
Decrease (increase) in prepaid insurance & expenses	10,785	-	10,785	1,939
Increase (decrease) in payables	661	-	661	(24,616)
Increase (decrease) in deferred revenue	4,612	-	4,612	(2,757)
Interfund payable (receivable)	73,894	(73,894)	-	-
	<u>30,184</u>	<u>(22,603)</u>	<u>7,581</u>	<u>163,013</u>
Net cash flows provided (used) by operating activities				
Cash flows from investing activities:				
Investment in spa	(62,000)	-	(62,000)	-
Increase in certificates of deposit	-	(102,615)	(102,615)	(102,946)
	<u>(62,000)</u>	<u>(102,615)</u>	<u>(164,615)</u>	<u>(102,946)</u>
Net cash flows provided (used) by investing activities				
Net increase (decrease) in cash & cash equivalents	(31,816)	(125,218)	(157,034)	60,067
Cash & cash equivalents, beginning of year	174,683	383,027	557,710	497,643
Transfers to operating fund	108,497	(108,497)	-	-
	<u>108,497</u>	<u>(108,497)</u>	<u>-</u>	<u>-</u>
Cash & cash equivalents, end of year	<u>\$ 251,364</u>	<u>\$ 149,312</u>	<u>\$ 400,676</u>	<u>\$ 557,710</u>
Supplemental disclosure:				
Income taxes paid			<u>\$ 4,842</u>	<u>\$ 3,651</u>

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

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Sand Dunes Oceanfront Tower Homeowners Association, Inc. was incorporated January 11, 2005 in South Carolina as a not-for-profit organization to provide for the maintenance, preservation, and administration of the common property of Sand Dunes Oceanfront Tower Homeowners Association, Inc. The common property consists of land, buildings, improvements, and furniture and fixtures, which are not specifically deeded to the individual unit owners.

The Association consists of one hundred seventy four (174) completed residential units and one (1) commercial unit located in Myrtle Beach, South Carolina.

Financial Statement Presentation

The Association uses fund accounting, which requires that funds, such as operating funds and replacement funds, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Cash & Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits and highly liquid investments with an original maturity of three (3) months or less.

Cash and cash equivalents are deposited with local financial institutions and occasionally exceed the federal depository insurance limit of \$100,000. As of October 2008, the federal depository insurance limit was increased to \$250,000. To limit risk, the Association considers the financial condition of the institution in which cash and cash equivalents are deposited.

Investments – Held to Maturity

At December 31, 2009 and 2008, the Association held certificates of deposit with maturity dates greater than 3 months. The fair value of these certificates is equivalent to the net carrying amount of \$205,561 and \$102,946.

Replacement Fund

Replacement fund represents funds which have been set aside by the Board of Directors to provide for future major repairs and replacements of common property.

Property & 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.

Furniture and equipment acquired by the Association for the benefit of its members have not been capitalized. These assets are also owned by the individual property owners in common, thus, not considered assets of the Association. These assets are expensed as purchased by the Association.

Deferred Revenue

Deferred revenue at December 31, 2009 and 2008 represents payments received in advance for homeowners' assessments. These advance payments will be recognized as revenue in the months in which they are earned.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and future major repairs and replacements. Assessment revenues remaining at year-end are retained by the Association for use in future years.

Association members are also assessed .25% of sales price as a working capital contribution on all units sold during the year.

Assessments receivable at the balance sheet date represent fees due from unit owners. The Board of Directors periodically reviews delinquent accounts and will retain legal counsel as necessary. At December 31, 2009 and 2008, the allowance for doubtful accounts was \$79,903 and \$83,250, respectively.

Estimates

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

**2 - INCOME TAXES**

For the years ended December 31, 2009 and 2008, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its net nonexempt function income, such as interest earnings and revenues received from nonmembers, 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.

**3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$354,873 and \$383,027 at December 31, 2009 and 2008, respectively, are held in separate accounts and are 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.

The Association's board of directors conducts an ongoing study to estimate the remaining useful lives and replacement costs of the common property components. The Association is funding for such future 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 designated for future major repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated 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 to increase regular assessments, levy a special assessment, or it may delay future major repairs and replacements until funds are available. For the years ended December 31, 2009 and 2008, budgeted assessments allocated for future major repairs and replacements were \$128,607 and \$311,940, respectively.

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**4 - RELATED PARTY TRANSACTIONS**

As of December 31, 2009 and 2008, there was one (1) residential unit and one (1) commercial unit owned by the developer for which the developer paid the monthly assessments. At December 31, 2009 and 2008, the developer had no balance due included in accounts receivable on the balance sheet.

For the years ended December 31, 2009 and 2008, a company owned by the developer provided landscaping, general maintenance, waste removal, pest control, cable television, internet, security, and emergency telephone services totaling \$352,669 and \$199,267, respectively, to the Association under a bulk services agreement. The Association also shared in a joint investment in an on premises spa with the company owned by the developer for \$62,000. During the years ended December 31, 2009 and 2008, the Association also reimbursed the developer owned company for the following:

<u>Account</u>	<u>2009</u>	<u>2008</u>
Pool supplies & maintenance	\$ 1,274	\$ 16,763
Elevator maintenance	7,361	15,183
General maintenance & materials	27,489	29,605
Security	-	4,394
Meeting expense	729	-
Natural gas	1,184	11,173
Fire protection services	-	2,752
Trash removal	14,495	-
Insurance expenses	1,403	-
Telephone	408	-
Major repairs & replacements	<u>10,913</u>	<u>123,321</u>
Total	<u>\$ 65,256</u>	<u>\$203,191</u>

**5 - 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.

SAND DUNES OCEANFRONT TOWER HOMEOWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS  
(UNAUDITED)

Year Ended December 31, 2009

The following information is based on the study conducted by the Board of Directors and presents significant information about the components of common property (See Note 3).

Component	Estimated Remaining Useful Lives(years)	Estimated Current Replacement Costs	Annual Funding Requirement	Components of Balance at 12/31/2009
Roofs	10	\$ 200,000	\$ 13,333	\$ 30,303
Building exterior - painting & caulking	4	200,000	101,333	121,066
Hot water boiler	5	60,000	7,000	15,833
Water booster pumps	5	15,000	1,500	3,750
Parking lot - paving & striping	1	-	750	-
Corridor trim painting	2	-	3,333	-
Balcony railings	4	85,000	75,000	77,000
Corridor railings	19	100,000	-	5,000
Pools:				
Indoor pool - repainting	-	-	4,000	-
Indoor pool - decking	4	6,000	1,200	-
Indoor pool - doors, ceiling & lighting	4	10,000	2,000	3,600
Sauna room	-	5,000	1,000	5,000
Steam room	-	5,000	1,000	5,000
Bathrooms	9	10,000	3,333	4,000
Outdoor pool - decking	-	20,000	1,200	20,000
Outdoor pool - resurfacing	1	12,000	4,000	8,000
Lazy river - resurfacing	1	18,000	4,000	11,000
Lazy river - decking	-	20,000	1,200	20,000
Corridor carpeting	1	35,000	23,750	29,375
General contingency	-	-	10,000	4,510
Ice makers	1	20,000	3,000	11,500
Elevators	9	600,000	50,000	50,000
Other capital expenditures	-	-	8	3,830
		\$ 1,421,000	\$ 311,940	\$ 428,767