

Sandpiper Cay Condominium Owners Association, Inc.

Financial Statements

December 31, 2008

Sandpiper Cay Condominium Owners Association, Inc.

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BURGESS, LOWMAN & LAY, PA

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Sandpiper Cay Condominium Owners Association, Inc.
Kitty Hawk, North Carolina 27959

We have audited the accompanying balance sheet of Sandpiper Cay Condominium Owners Association, Inc. as of December 31, 2008, and the related statements of revenues, 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audit provides 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 Sandpiper Cay Condominium Owners Association, Inc. as of December 31, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sandpiper Cay Condominium Owners Association, Inc. has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented a schedule of future estimated repair and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

Burgess, Lowman & Lay, PA

March 16, 2009

Sandpiper Cay Condominium Owners Association, Inc.
Balance Sheet
December 31, 2008

Assets:

Cash	\$	146,332
Accounts receivable from Unit Owners		50,932
Net unexpired insurance premiums		160,152
Property and equipment, net		29,727
		<hr/>
<u>Total Assets</u>	<u>\$</u>	<u>387,143</u>

Liabilities:

Deferred revenue - Unit Owner dues paid in advance	\$	42,091
Accounts payable and accrued expenses		17,888
Income taxes payable		944
		<hr/>
<u>Total Liabilities</u>	<u>\$</u>	<u>60,923</u>

Fund Balance:

Fund balance	\$	326,220
		<hr/>
	<u>\$</u>	<u>326,220</u>
		<hr/>
<u>Total Liabilities and Fund Balance</u>	<u>\$</u>	<u>387,143</u>

Sandpiper Cay Condominium Owners Association, Inc.
Statement of Revenue and Expenses
Year Ended December 31, 2008

Revenue:

Unit Owner dues	\$	823,200
Interest		2,994
Late charges and other income		4,100
		830,294
<u>Total Revenue</u>		830,294

Operating and Administrative Expenses:

Accounting		3,532
Insurance		216,721
Legal		24,642
Management fees		47,832
Office expenses		6,181
Telephone		7,317
		306,225
<u>Total Operating and Administrative Expenses</u>		306,225

Buildings, Grounds and Pool Maintenance:

Building and grounds maintenance		284,127
Roof replacement		31,197
Utilities		20,288
Lawn service and sprinkler system		66,795
Pool maintenance and chemicals		2,881
Pool monitors		8,705
		413,993
<u>Total Buildings, Grounds and Pool Maintenance Expenses</u>		413,993

		720,218
<u>Total Expenses</u>		720,218
Excess of revenues over expenses		110,076
Income taxes on interest income		944
		109,132
<u>Net excess of revenues over expenses</u>	\$	109,132

Sandpiper Cay Condominium Owners Association, Inc.
Statement of Changes in Fund Balance
Year Ended December 31, 2008

Fund Balance, January 1, 2008	\$ 217,088
Net excess of revenues over expenses	109,132
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Fund Balance, December 31, 2008	<u>\$ 326,220</u>

Sandpiper Cay Condominium Owners Association, Inc.
Statement of Cash Flows
December 31, 2008

Cash Flows from Operating Activities:

Net excess of revenues over expenses	\$	109,132
Adjustments to reconcile net excess of revenues over expenses to net cash provided by operating activities:		
Depreciation		3,991
(Increase) decrease in:		
Accounts receivable from Unit Owners		72,835
Net unexpired insurance premiums		(81,597)
Increase (decrease) in:		
Accounts payable and accrued expenses		(14,156)
Deferred revenue - Unit Owner dues		26,541
Income taxes payable		944
<u>Net cash provided by operating activities</u>		<u>117,690</u>

Cash Flows from Investing Activities:

Purchases of equipment		<u>(2,537)</u>
Net cash used in investment activities		<u>(2,537)</u>
Net increase in cash		115,153
Total cash, beginning of year		<u>31,179</u>
<u>Total cash, end of year</u>	\$	<u><u>146,332</u></u>

Supplemental Disclosures:

Income taxes paid during the year	\$	<u><u>296</u></u>
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Sandpiper Cay Condominium Owners Association, Inc.
Notes to Financial Statements

Note A – Nature of Organization

Sandpiper Cay Condominium Owners Association, Inc., a statutory condominium association, was incorporated on October 1, 1987 in the state of North Carolina. The Association is responsible for the operation and maintenance of the common property of Sandpiper Cay Condominiums. The development consists of 280 residential units located in Kitty Hawk, North Carolina.

Note B – Summary of Significant Accounting Policies

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. As assessments are due monthly, the assessments receivable consist of varying aged outstanding accounts. The Association's policy is to accrue service charges on properties whose assessments are thirty days or more delinquent. The Association can also retain legal counsel and place liens on the properties of owners whose assessments are delinquent. The Association retains any excess assessments for use in future years.

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 that 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 consisted of earned interest income, is taxed at 30% by the federal government and at 6.9% by the State of North Carolina.

Property and Equipment

Real property and common area 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. Such related improvements include a clubhouse, swimming pool, play areas, streets, sidewalks and landscaping. The Association capitalizes all property and equipment to which it has title or other evidence of ownership at cost.

Depreciation

Capitalized property is depreciated over its estimated useful life using the straight-line and declining balance methods.

Cash equivalents

For purposes of the statements of cash flows, the Association considers all certificates of deposit with maturity of three months or less to be cash equivalents. The Association had no certificates of deposit as of December 31, 2008.

Sandpiper Cay Condominium Owners Association, Inc.
Notes to Financial Statements

Note B – Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with U.S. 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 reporting period. Actual results could differ from those estimates.

Note C – Property and Equipment

Property and equipment consisted of the following at December 31, 2008:

Exterior building equipment	\$ 16,034
Furniture and fixtures	15,732
Office Equipment	10,027
Pool and buildings	4,077
Storage and work shed	<u>36,484</u>
	82,354
Less accumulated depreciation	<u>(52,627)</u>
	<u>\$ 29,727</u>

Depreciation charged to expense for the year ended December 31 2008 was \$3,991.

Note D – Uninsured Balances

The Association maintains its cash balances at a financial institution located on the Outer Banks of North Carolina. Legislation was passed during 2008 that increased the federal depository insurance from \$100,000 to \$250,000. As of December 31, 2008, the Association had no uninsured funds.

Note E – Future Major Repairs and Replacements

The Association's governing documents require reasonable reserves for operations, contingencies, major repairs and replacements. In prior years, the Association had funded actual major repair and replacement expenditures from current operating assessments as expenditures were incurred and reserves had not been accumulated. During 2008, an inspection of the common properties was completed and major repair and maintenance projects were prioritized. The operating budget was revised to allow necessary repair projects to be started during 2008 and funds to be set aside to continue those projects during 2009. The Board has provided funding in the 2009 budget for a comprehensive study of the remaining useful lives and the replacement costs of the common property components.