

Sandpiper Cay Condominium Owners Association, Inc.

Financial Statements

December 31, 2009 and 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 27949

We have audited the accompanying balance sheets of Sandpiper Cay Condominium Owners Association, Inc. 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 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, 2009 and 2008, and the results of its operations and cash flows for the years 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

Burgess, Lowman & Lay, PA

April 7, 2010

Sandpiper Cay Condominium Owners Association, Inc.

Balance Sheets

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Cash	\$ 138,186	\$ 146,332
Accounts receivable from unit owners	67,316	50,932
Less allowance for doubtful collections	(40,000)	-
Net unexpired insurance premiums	160,970	160,152
Property and equipment, net	<u>27,045</u>	<u>29,727</u>
TOTAL ASSETS	<u>\$ 353,517</u>	<u>\$ 387,143</u>
 <u>Liabilities and Fund Balance</u>		
Deferred revenue - unit owner dues paid in advance	\$ 38,069	\$ 42,091
Accounts payable and accrued expenses	4,924	17,888
Income taxes payable	<u>619</u>	<u>944</u>
TOTAL LIABILITIES	43,612	60,923
Fund balance	<u>309,905</u>	<u>326,220</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 353,517</u>	<u>\$ 387,143</u>

Sandpiper Cay Condominium Owners Association, Inc.
Statements of Revenue, Expenses and Changes in Fund Balance
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Revenue</u>		
Unit owner dues	\$ 823,200	\$ 823,200
Interest	2,594	2,994
Late charges and other income	<u>5,549</u>	<u>4,100</u>
TOTAL REVENUE	831,343	830,294
<u>Operating and Administrative Expenses</u>		
Accounting	13,227	3,532
Owner dues loss reserve expense	40,000	-
Insurance	293,365	216,721
Legal	13,125	24,642
Management fees	50,400	47,832
Office expenses	6,272	6,181
Telephone	<u>3,538</u>	<u>7,317</u>
	419,927	306,225
<u>Buildings, Grounds and Pool Maintenance</u>		
Building and grounds maintenance	253,474	284,127
Roof replacement	78,855	31,197
Utilities	17,816	20,288
Lawn service and sprinkler system	62,316	66,795
Pool maintenance and chemicals	2,683	2,881
Pool monitors	<u>11,968</u>	<u>8,705</u>
	427,112	413,993
Income taxes on interest income	<u>619</u>	<u>944</u>
TOTAL EXPENSE	<u>847,658</u>	<u>721,162</u>
NET EXCESS REVENUES (EXPENSES)	(16,315)	109,132
BEGINNING FUND BALANCE	<u>326,220</u>	<u>217,088</u>
ENDING FUND BALANCE	<u>\$ 309,905</u>	<u>\$ 326,220</u>

Sandpiper Cay Condominium Owners Association, Inc.

Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Cash Flows from Operating Activities</u>		
Net excess revenues (expenses)	\$ (16,315)	\$ 109,132
Adjustments to reconcile net excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	2,682	3,991
(Increase) decrease in:		
Accounts receivable from unit owners	(16,384)	72,835
Allowance for doubtful collections	40,000	-
Net unexpired insurance premiums	(818)	(81,597)
Increase (decrease) in:		
Deferred revenue - unit owner dues	(4,022)	(14,156)
Accounts payable and accrued expense	(12,964)	26,541
Income taxes payable	(325)	944
	<u>(8,146)</u>	<u>117,690</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(8,146)	117,690
 <u>Cash Flows from Investing Activities</u>		
Purchases of equipment	<u>-</u>	<u>(2,537)</u>
	<u>-</u>	<u>(2,537)</u>
NET CASH USED IN INVESTMENT ACTIVITIES	-	(2,537)
	(8,146)	115,153
NET INCREASE (DECREASE) IN CASH	(8,146)	115,153
Total cash, beginning of year	<u>146,332</u>	<u>31,179</u>
	<u>\$ 138,186</u>	<u>\$ 146,332</u>
TOTAL CASH, END OF YEAR	\$ 138,186	\$ 146,332

Supplemental Disclosures

Income taxes paid during the year	<u>\$ 944</u>	<u>\$ 296</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 – Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 7, 2010, the date that the financial statements were available to be issued.

Note C – 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 dates 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. At December 31, 2009 and 2008 the Association had delinquent assessments of \$60,328 and \$45,057 respectively. It is the opinion of the board of directors that the Association will ultimately prevail against some homeowners with delinquent assessments but due to the decline in real estate values all may not be collected. Accordingly, a reserve for doubtful collections was established in the amount of \$40,000 in 2009.

Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the years ended December 31, 2009 and 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.

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

Note C – 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 D – Property and Equipment

Property and equipment consisted of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Exterior building equipment	\$ 16,034	\$ 16,034
Furniture and fixtures	15,732	15,732
Office Equipment	10,027	10,027
Pool and buildings	4,077	4,077
Storage and work shed	<u>36,484</u>	<u>36,484</u>
	82,354	82,354
Less accumulated depreciation	<u>(55,309)</u>	<u>(52,627)</u>
	<u>\$ 27,045</u>	<u>\$ 29,727</u>

Depreciation charged to expense for the years ended December 31, 2009 and 2008 was \$2,862 and \$3,991 respectively.

Note E – Uninsured Balances

The Association maintains its cash balances at an FDIC insured financial institution. Legislation was passed during 2008 that increased the federal depository insurance from \$100,000 to \$250,000. As of December 31, 2009 and 2008, the Association had no uninsured funds.

Note F – 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 funded actual major repair and replacement expenditures from current operating assessments as expenditures were incurred and reserves were not accumulated. During 2008, an inspection of the common properties was completed and major repair and maintenance projects were prioritized. The operating budgets were revised to allow necessary major repair projects to be completed on a prioritized basis in 2008 and 2009. During 2009, the Board commissioned a consulting firm to prepare a comprehensive study of the remaining useful lives and the replacement costs of the common property components. The 2010 budget will continue to provide for major repair projects and \$25 of the monthly assessment per unit will be set aside to start a reserve.

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

Note G – Litigation

The Association has filed suit against a former director and president of the Association and against the former property manager. The Association is seeking specified and unspecified financial damages in excess of \$10,000 plus attorney's fees and court costs. In accordance with Statement of Financial Accounting Standards No. 5, the amount of the gain, if any that may be ultimately realized has not been reflected in the accompanying financial statements. One defendant has filed counterclaims in amounts exceeding \$10,000. The Association evaluates this potential liability using the provisions of FASB Statement No. 5, *Accounting for Contingencies*, which provides that a loss contingency is recognized only when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The Board of Directors believes the Association will prevail against any such claims. Accordingly, no loss has been reflected in these financial statements.