

**Audited Financial Statements and  
Supplementary Information**

**KINGSTON PLANTATION  
MASTER ASSOCIATION, INC.**

**Years Ended December 31, 2014 and 2013**

**KINGSTON PLANTATION MASTER ASSOCIATION, INC.**  
**AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**Years Ended December 31, 2014 and 2013**

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**Wayne E. Fussaro**  
*Certified Public Accountant*  
1015 Surf Pine Drive, Suite A  
Surfside Beach, SC 29575  
(843) 712-2704  
[wfussaro@hotmail.com](mailto:wfussaro@hotmail.com)  
[www.wefcpa.com](http://www.wefcpa.com)

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Kingston Plantation Master Association, Inc.  
Myrtle Beach, South Carolina

I have audited the accompanying financial statements of Kingston Plantation Master Association, Inc., which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of revenues and expenses and changes in fund balances and cash flows for the years 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 audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 Kingston Plantation Master Association, Inc. as of December 31, 2014 and 2013, 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.

### Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Wayne E. Fussaro, CPA*

Surfside Beach, South Carolina

April 12, 2015

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2014 and 2013

	Operating Fund	Reserve Fund	2014 Totals	2013 Totals
<b><u>ASSETS</u></b>				
Cash & cash equivalents	\$ 298,923	\$ 1,244,558	\$ 1,543,481	\$ 1,421,818
Assessments receivable	17,161	-	17,161	626
Prepaid insurance	26,920	-	26,920	19,053
Inter-fund receivable / (payable)	172	(172)	-	-
Utility deposits	220	-	220	220
<b>Total assets</b>	<b>\$ 343,396</b>	<b>\$ 1,244,386</b>	<b>\$ 1,587,782</b>	<b>\$ 1,441,717</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Accounts payable	\$ 72,718	\$ -	\$ 72,718	\$ 129,417
Income taxes payable	1,585	-	1,585	2,739
Construction deposits	10,000	-	10,000	22,492
Deferred revenue	3,778	-	3,778	191
<b>Total liabilities</b>	<b>88,081</b>	<b>-</b>	<b>88,081</b>	<b>154,839</b>
<b>Fund balances</b>	<b>255,315</b>	<b>1,244,386</b>	<b>1,499,701</b>	<b>1,286,878</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 343,396</b>	<b>\$ 1,244,386</b>	<b>\$ 1,587,782</b>	<b>\$ 1,441,717</b>

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

Years Ended December 31, 2014 and 2013

	Operating Fund	Reserve Fund	2014 Totals	2013 Totals
<b><u>Revenues</u></b>				
Regular assessments	\$ 2,139,540	\$ 274,500	\$ 2,414,040	\$ 2,405,346
Cable TV assessments	246,914	-	246,914	235,156
Cable TV disconnect fees	(525)	-	(525)	825
Interest income	1,021	2,561	3,582	3,706
Rental income	18,900	-	18,900	18,900
Decal / sticker revenues	9,485	-	9,485	7,885
Miscellaneous income	15	-	15	400
<b>Total revenue</b>	<b>2,415,350</b>	<b>277,061</b>	<b>2,692,411</b>	<b>2,672,218</b>
<b><u>Expenses</u></b>				
<b>Repairs &amp; maintenance</b>				
General maintenance materials	92,649	-	92,649	82,412
Irrigation maintenance	15,259	-	15,259	17,318
Janitorial supplies	809	-	809	1,255
Lake maintenance	6,999	-	6,999	5,767
Landscape contract	833,844	-	833,844	816,120
Landscape maintenance & supplies	87,137	-	87,137	125,997
Maintenance staff	213,397	-	213,397	191,783
Parking area maintenance	1,856	-	1,856	1,746
Pest control	23,455	-	23,455	23,702
Pool maintenance, supplies, & equipment	16,035	-	16,035	15,776
Tree maintenance	27,169	-	27,169	17,250
<b>Total repairs &amp; maintenance</b>	<b>1,318,609</b>	<b>-</b>	<b>1,318,609</b>	<b>1,299,126</b>
<b>General &amp; administrative</b>				
Management services	198,908	-	198,908	194,057
Accounting services	4,500	-	4,500	5,000
Legal services	22,276	-	22,276	23,098
Insurance expense	59,712	-	59,712	50,786
Office supplies & expense	28,475	-	28,475	20,272
<b>Total general &amp; administrative</b>	<b>313,871</b>	<b>-</b>	<b>313,871</b>	<b>293,213</b>

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES (continued)

Years Ended December 31, 2014 and 2013

	Operating Fund	Reserve Fund	2014 Totals	2013 Totals
<b><u>Expenses (continued)</u></b>				
<b>Utilities</b>				
Electricity	71,456	-	71,456	66,313
Water & sewer	10,970	-	10,970	15,308
Trash removal	17,309	-	17,309	16,454
Telephone	5,527	-	5,527	6,041
High speed internet access	669	-	669	200
Cable television	243,120	-	243,120	235,228
<b>Total utilities</b>	<u>349,051</u>	<u>-</u>	<u>349,051</u>	<u>339,544</u>
<b>Other expenses</b>				
Contract security	423,083	-	423,083	405,937
Bad debt expense	-	-	-	4,945
Insurance claim repairs / deductibles	-	-	-	650
Operating contingency	-	-	-	8,900
Income taxes & licenses	2,042	-	2,042	4,434
<b>Total other expenses</b>	<u>425,125</u>	<u>-</u>	<u>425,125</u>	<u>424,866</u>
<b>Major repairs &amp; replacements</b>				
Building and other common property repairs and replacements	-	72,932	72,932	95,126
<b>Total major repairs &amp; replacements</b>	-	72,932	72,932	95,126
<b>Total expenses</b>	<u>2,406,656</u>	<u>72,932</u>	<u>2,479,588</u>	<u>2,451,875</u>
<b>Excess of revenues over expenses</b>	8,694	204,129	212,823	220,343
<b>Beginning fund balances</b>	<u>246,621</u>	<u>1,040,257</u>	<u>1,286,878</u>	<u>1,066,535</u>
<b>Ending fund balances</b>	<u>\$ 255,315</u>	<u>\$ 1,244,386</u>	<u>\$ 1,499,701</u>	<u>\$ 1,286,878</u>

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	Operating Fund	Reserve Fund	2014 Totals	2013 Totals
<b>Cash flows from operating activities:</b>				
Excess of revenues over expenses	\$ 8,694	\$ 204,129	\$ 212,823	\$ 220,343
Adjustments to reconcile excess of revenues over expenses to net cash (used in) provided by operating activities:				
(Increase) decrease in:				
Assessments receivable, net	(16,535)	-	(16,535)	14,487
Due to operating from reserve	(172)	172		
Prepaid insurance	(7,867)	-	(7,867)	(77)
Prepaid expenses	-	-	-	-
Increase (decrease) in:				
Accounts payable	(36,150)	(20,549)	(56,699)	33,560
Construction deposits	(12,492)	-	(12,492)	2,500
Income taxes payable	(1,154)	-	(1,154)	937
Deferred revenue	3,587	-	3,587	126
<b>Net cash (used in) provided by operating activities</b>	<b>(62,089)</b>	<b>183,752</b>	<b>121,663</b>	<b>271,876</b>
Cash & cash equivalents, beginning of year	361,012	1,060,806	1,421,818	1,149,942
<b>Cash &amp; cash equivalents, end of year</b>	<b>\$ 298,923</b>	<b>\$ 1,244,558</b>	<b>\$ 1,543,481</b>	<b>\$ 1,421,818</b>
<b>Supplementary cash flow information</b>				
Cash paid during the year for:				
Income taxes	\$ 2,739	\$ -	\$ 2,739	\$ 1,900

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

## KINGSTON PLANTATION MASTER ASSOCIATION, INC.

### NOTES TO FINANCIAL STATEMENTS

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

##### Organization

Kingston Plantation Master 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 the Kingston Plantation. The Association is the master association for the fourteen (14) subordinate regimes located within the Kingston Plantation, a resort development in Myrtle Beach, South Carolina, consisting of 1,643 residential and commercial units. The Association began its operation in 1986.

##### Financial Statement Presentation

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.

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 & 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.

##### 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.

##### 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. 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 certain building and landscaping common areas.

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Deferred Revenue

Deferred revenue at December 31, 2014 and 2013 represents payments received in advance from subordinate regimes for regular assessments. These advance payments will be recognized as revenue in the months in which they are earned.

Member Assessments

Regular monthly and cable television assessments are charged to each of the subordinate regimes on a per unit basis. The Association's annual budget and regimes' 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.

**2 - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 12, 2015, the date that the financial statements were available to be issued.

**3 - MANAGEMENT COMPANY**

Maintenance personnel employed by the management company provide contract building, grounds and other maintenance services to the Association. Payments to the management company for these services amounted to \$213,036 for the year ended December 31, 2014 and \$189,302 (including accounts payable of \$18,553) for the year ended December 31, 2013.

The Association reimburses the Association management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$20,857 and \$14,912 for the years ended December 31, 2014 and 2013, respectively.

Effective January 1, 2015, the Association ended its contract with its former management company and hired LITUS\* To Let, as their new management company.

**4 - 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. See Note 8 for information regarding lawsuits the Association was involved in.

**5 - CONCENTRATIONS OF CREDIT RISK**

Cash and cash equivalent balances on deposit at financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2014 and 2013, all of the Association funds were insured under the FDIC.

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6 - 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 homeowners association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. The elections are made on an annual basis and are determined based upon the more favorable tax treatment for that particular year. For the year ended December 31, 2014, the Association elected to be taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed on its non-membership income, such as interest earnings, at regular federal and state corporate rates. Due to a carryover of excess membership income for the year ended December 31, 2012, the Association elected to be taxed as a homeowners association for the year ended December 31, 2013. 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.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns dating back to 2011 remain open to examination by the Internal Revenue Service and the South Carolina Department of Revenue. In evaluating the Association's tax calculations, the Association believes that its estimates are appropriate based on current facts and circumstances.

**7 - MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated cash funds, which aggregate \$1,244,386 (including \$172 due to the operating fund) at December 31, 2014 and \$1,040,257 at December 31, 2013 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. During the year ended December 31, 2013, the Association's Board of Directors' approved a permanent equity transfer of \$22,000 from the operating fund to the reserve fund.

The Association's Board of Directors estimates the remaining useful lives and replacement costs of the common property components. These numbers are derived from industry standards, engineering reports and other factors. The Association is funding for such 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 repairs and replacements. The estimates for current replacement costs include no provision for the future effects of inflation. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to board approval, to increase regular assessments or to levy a special assessment to supplement previously budgeted funds.

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8 - LAWSUIT INFORMATION**

During 2014 and 2013, the Association was involved in the following civil lawsuits.

The first lawsuit, in which the Association is named as one (1) of the defendants, was brought on by a group of unit owners within the subordinate regimes of the Association. The plaintiffs were seeking an unspecified amount of actual and punitive damages based on allegations of breach of fiduciary duty, civil conspiracy and conversion. This matter was resolved by way of settlement agreement and mutual general release executed on June 18, 2014.

The second lawsuit was also brought on by a group of unit owners and concerns the developer control of the Association. The plaintiffs were seeking an accounting, a finding of breach of declaration and an unspecified amount of damages and attorneys' fees based on allegations that the Association mishandled funds and a declaratory judgment that the developer no longer owns 10% of the real estate within the development, and accordingly, does not have the right to control the Association. That matter was stricken from the court docket pursuant to South Carolina Rules of Civil Procedure (40j). The plaintiff filed a motion for the matter to be restored to the active docket in October 2012 and the Court granted this motion. However, the plaintiffs never re-filed their complaint and the Public Index reflects the matter as dismissed pursuant to the South Carolina Rules of Civil Procedure. Because the case has been reflected as dismissed for over three (3) years, this matter is considered to be resolved and attempts to restore by the Plaintiffs are unlikely. For the years ended December 31, 2014 and 2013, no loss contingency has been reflected in the financial statements as it relates to this lawsuit.

Additionally, during 2013, the Association had a lawsuit, in which they were named as a defendant, dropped by a subordinate regime of the Association. The lawsuit dismissed by the subordinate regime was in the form of a counterclaim filed against the Association. This lawsuit dealt with various compliance matters and the plaintiff was seeking an unspecified amount of damages and attorneys' fees.

Finally, during 2013, the Association dismissed a lawsuit they had filed against the same subordinate regime, described in the paragraph above. The lawsuit dealt with failure to comply with rules and regulations of the Association and was seeking compliance and the payment of fines levied. For the years ended December 31, 2013, the Association elected not to pursue the collection of fines levied against the subordinate regime in the amounts of \$4,945.

**9 - RECLASSIFICATIONS**

Certain reclassifications may have been made to the prior year financial statements in order for them to be in conformity with current year presentation. Any reclassifications made would have had no effect on previously reported operations and cash flows.

**SUPPLEMENTARY INFORMATION**

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS  
(Un-audited)

December 31, 2014

The following information is based on a reserve study prepared by an outside engineering firm in 2014 and presents significant information about the components of common property. The estimated remaining useful lives and estimated current replacement costs are based on estimates of market replacement and opinions from respective contractors and their industry standards. Actual amounts will vary based on the timing and need for the specific components.

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Year 2015 Approved Funding</u>	<u>Component Balance at 12/31/14</u>
Site and grounds	0 - 22	\$ 2,174,875	\$ 197,574	\$ 895,657
Bridges, bulkheads, etc	0 - 24	580,750	52,757	239,164
Mechanical, equipment	0 - 29	73,150	6,645	30,125
Beach pool area	0 - 14	116,425	10,576	47,946
St. James pool area	2 - 15	43,500	3,952	17,914
Laurel Court meeting building	2 - 5	32,975	2,996	13,580
		<u>\$ 3,021,675</u>	<u>\$ 274,500</u>	<u>\$ 1,244,386</u>

See independent auditor's report.