

**Audited Financial Statements and  
Supplementary Information**

**KINGSTON PLANTATION  
MASTER ASSOCIATION, INC.**

**Years Ended December 31, 2015 and 2014**

**KINGSTON PLANTATION MASTER ASSOCIATION, INC.**  
**AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**Years Ended December 31, 2015 and 2014**

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**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, 2015 and 2014 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, 2015 and 2014, 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. Fusaro, CPA*

Surfside Beach, South Carolina

April 29, 2016

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2015 and 2014

	Operating Fund	Reserve Fund	2015 Totals	2014 Totals
<b><u>ASSETS</u></b>				
Cash & cash equivalents	\$ 131,629	\$ 218,994	\$ 350,623	\$ 1,543,481
Certificates of deposit	225,000	1,268,307	1,493,307	-
Assessments receivable	-	-	-	17,161
Prepaid insurance	27,490	-	27,490	26,920
Utility deposits	220	-	220	220
<b>Total assets</b>	<b>\$ 384,339</b>	<b>\$ 1,487,301</b>	<b>\$ 1,871,640</b>	<b>\$ 1,587,782</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Accounts payable	\$ 84,522	\$ -	\$ 84,522	\$ 72,718
Income taxes payable	1,147	-	1,147	1,585
Construction deposits	13,000	-	13,000	10,000
Deferred revenue	4,191	-	4,191	3,778
<b>Total liabilities</b>	<b>102,860</b>	<b>-</b>	<b>102,860</b>	<b>88,081</b>
<b>Fund balances</b>	<b>281,479</b>	<b>1,487,301</b>	<b>1,768,780</b>	<b>1,499,701</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 384,339</b>	<b>\$ 1,487,301</b>	<b>\$ 1,871,640</b>	<b>\$ 1,587,782</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, 2015 and 2014

	Operating Fund	Reserve Fund	2015 Totals	2014 Totals
<b>Revenues</b>				
Regular assessments	\$ 2,182,055	\$ 274,500	\$ 2,456,555	\$ 2,414,040
Cable TV assessments	260,699	-	260,699	246,914
Cable TV disconnect fees	755	-	755	(525)
Interest income	6,682	-	6,682	3,582
Rental income	18,900	-	18,900	18,900
Decal / sticker revenues	20,769	-	20,769	9,485
Miscellaneous income	3,284	-	3,284	15
<b>Total revenue</b>	<b>2,493,144</b>	<b>274,500</b>	<b>2,767,644</b>	<b>2,692,411</b>
<b>Expenses</b>				
<b>Repairs &amp; maintenance</b>				
General maintenance materials	90,888	-	90,888	92,649
Irrigation maintenance	14,460	-	14,460	15,259
Janitorial supplies	712	-	712	809
Lake maintenance	6,750	-	6,750	6,999
Landscape contract	846,360	-	846,360	833,844
Landscape maintenance & supplies	88,206	-	88,206	87,137
Maintenance staff	213,118	-	213,118	213,397
Parking area maintenance	951	-	951	1,856
Pest control	23,755	-	23,755	23,455
Pool maintenance, supplies, & equipment	13,006	-	13,006	16,035
Tree maintenance	32,528	-	32,528	27,169
<b>Total repairs &amp; maintenance</b>	<b>1,330,734</b>	<b>-</b>	<b>1,330,734</b>	<b>1,318,609</b>
<b>General &amp; administrative</b>				
Management services	187,000	-	187,000	198,908
Accounting services	4,500	-	4,500	4,500
Legal services	36,298	-	36,298	22,276
Insurance expense	75,301	-	75,301	59,712
Office supplies & expense	39,985	-	39,985	28,475
<b>Total general &amp; administrative</b>	<b>343,084</b>	<b>-</b>	<b>343,084</b>	<b>313,871</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, 2015 and 2014

	Operating Fund	Reserve Fund	2015 Totals	2014 Totals
<b><u>Expenses (continued)</u></b>				
<b>Utilities</b>				
Electricity	71,106	-	71,106	71,456
Water & sewer	11,097	-	11,097	10,970
Trash removal	16,410	-	16,410	17,309
Telephone	5,655	-	5,655	5,527
High speed internet access	394	-	394	669
Cable television	250,131	-	250,131	243,120
<b>Total utilities</b>	<b>354,793</b>	<b>-</b>	<b>354,793</b>	<b>349,051</b>
<b>Other expenses</b>				
Contract security	427,672	-	427,672	423,083
Operating contingency	7,555	-	7,555	-
Income taxes & licenses	3,142	-	3,142	2,042
<b>Total other expenses</b>	<b>438,369</b>	<b>-</b>	<b>438,369</b>	<b>425,125</b>
<b>Major repairs &amp; replacements</b>				
Building and other common property repairs and replacements	-	31,585	31,585	72,932
<b>Total major repairs &amp; replacements</b>	<b>-</b>	<b>31,585</b>	<b>31,585</b>	<b>72,932</b>
<b>Total expenses</b>	<b>2,466,980</b>	<b>31,585</b>	<b>2,498,565</b>	<b>2,479,588</b>
<b>Excess of revenues over expenses</b>	<b>26,164</b>	<b>242,915</b>	<b>269,079</b>	<b>212,823</b>
<b>Beginning fund balances</b>	<b>255,315</b>	<b>1,244,386</b>	<b>1,499,701</b>	<b>1,286,878</b>
<b>Ending fund balances</b>	<b>\$ 281,479</b>	<b>\$ 1,487,301</b>	<b>\$ 1,768,780</b>	<b>\$ 1,499,701</b>

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	Operating Fund	Reserve Fund	2015 Totals	2014 Totals
<b>Cash flows from operating activities:</b>				
Excess of revenues over expenses	\$ 26,164	\$ 242,915	\$ 269,079	\$ 212,823
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Assessments receivable, net	17,161	-	17,161	(16,535)
Due to operating from reserve	172	(172)	-	-
Prepaid insurance	(570)	-	(570)	(7,867)
Increase (decrease) in:				
Accounts payable	11,804	-	11,804	(56,699)
Construction deposits	3,000	-	3,000	(12,492)
Income taxes payable	(438)	-	(438)	(1,154)
Deferred revenue	413	-	413	3,587
<b>Net cash provided by operating activities</b>	<u>57,706</u>	<u>242,743</u>	<u>300,449</u>	<u>121,663</u>
<b>Cash flows from investing activities:</b>				
Investments in certificates of deposit, net	<u>(225,000)</u>	<u>(1,268,307)</u>	<u>(1,493,307)</u>	<u>-</u>
<b>Net cash (used in) investing activities</b>	<u>(225,000)</u>	<u>(1,268,307)</u>	<u>(1,493,307)</u>	<u>-</u>
<b>Net (decrease) increase in cash</b>	(167,294)	(1,025,564)	(1,192,858)	121,663
Cash & cash equivalents, beginning of year	<u>298,923</u>	<u>1,244,558</u>	<u>1,543,481</u>	<u>1,421,818</u>
<b>Cash &amp; cash equivalents, end of year</b>	<u>\$ 131,629</u>	<u>\$ 218,994</u>	<u>\$ 350,623</u>	<u>\$ 1,543,481</u>
<b>Supplementary cash flow information</b>				
Cash paid during the year for:				
Income taxes	<u>\$ 1,725</u>	<u>\$ -</u>	<u>\$ 1,725</u>	<u>\$ 1,900</u>

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 pool amenities, 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, 2015 and 2014 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 29, 2016, the date that the financial statements were available to be issued.

**3 - 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.

**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.

**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, 2015, there was an uninsured balance of \$94,330. To limit the risk associated with uninsured balances, management reviews the financial condition of the institutions in which cash and cash equivalents are deposited. At December 31, 2014, all 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. Due to a carryover of excess membership income for the year ended December 31, 2014, the Association elected to be taxed as a homeowners association for the year ended December 31, 2015. 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. 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.

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 2012 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 \$1,487,301 at December 31, 2015 and \$1,244,386 (including \$172 due to the operating fund) at December 31, 2014 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 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**

In a prior year, the Association was named as one (1) of the defendants 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.

In a prior year, the Association was involved in a lawsuit brought on by a group of unit owners concerning 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.

**9 - MANAGEMENT COMPANY**

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

Maintenance personnel employed by the new management company provide contract building, grounds and other maintenance services to the Association. Payments to the new management company for these services amounted to \$213,118 for the year ended December 31, 2015.

The Association reimburses the new management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$34,039 (including accounts payable of \$1,774) for the year ended December 31, 2015.

Maintenance personnel employed by the former management company provide contract building, grounds and other maintenance services to the Association. Payments to the former management company for these services amounted to \$213,036 for the year ended December 31, 2014.

The Association reimbursed the former management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$20,857 for the year ended December 31, 2014.

**SUPPLEMENTARY INFORMATION**

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

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

December 31, 2015

The following information is based on a reserve study prepared by an outside engineering firm in 2015 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 2016 Approved Funding</u>	<u>Component Balance at 12/31/15</u>
Site and grounds	0 - 21	\$ 2,174,875	\$ 200,273	\$ 1,056,080
Bridges, bulkheads, etc	0 - 23	580,750	53,478	282,002
Building exteriors	0 - 28	73,150	6,736	35,520
Mechanical, equipment	0 - 13	116,425	10,721	56,534
Beach pool area	0 - 14	43,500	4,006	21,123
St. James pool area	1 - 14	41,250	3,799	20,030
Laurel Court meeting building	1 - 4	32,975	3,036	16,012
		<u>\$ 3,062,925</u>	<u>\$ 282,049</u>	<u>\$ 1,487,301</u>

See independent auditor's report.