

**Audited Financial Statements and
Supplementary Information**

**KINGSTON PLANTATION
MASTER ASSOCIATION, INC.**

Years Ended December 31, 2016 and 2015

KINGSTON PLANTATION MASTER ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2016 and 2015

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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, 2016 and 2015 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, 2016 and 2015, 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. Furraro, CPA

Surfside Beach, South Carolina

April 25, 2017

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2016 and 2015

	Operating Fund	Reserve Fund	2016 Totals	2015 Totals
<u>ASSETS</u>				
Cash & cash equivalents	\$ 354,770	\$ 1,647,981	\$ 2,002,751	\$ 350,623
Certificates of deposit	-	135,417	135,417	1,493,307
Prepaid insurance	30,670	-	30,670	27,490
Utility deposits	220	-	220	220
Total assets	\$ 385,660	\$ 1,783,398	\$ 2,169,058	\$ 1,871,640
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 62,847	\$ -	\$ 62,847	\$ 84,522
Income taxes payable	1,352	-	1,352	1,147
Construction deposits	13,000	-	13,000	13,000
Deferred revenue	3,523	-	3,523	4,191
Total liabilities	80,722	-	80,722	102,860
Fund balances	304,938	1,783,398	2,088,336	1,768,780
Total liabilities & fund balances	\$ 385,660	\$ 1,783,398	\$ 2,169,058	\$ 1,871,640

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, 2016 and 2015

	Operating Fund	Reserve Fund	2016 Totals	2015 Totals
Revenues				
Regular assessments	\$ 2,139,200	\$ 311,288	\$ 2,450,488	\$ 2,456,555
Cable TV assessments	265,818	-	265,818	260,699
Cable TV disconnect fees	340	-	340	755
Interest income	70	8,302	8,372	6,682
Rental income	18,900	-	18,900	18,900
Decal / sticker revenues	24,486	-	24,486	20,769
Miscellaneous income	4,185	-	4,185	3,284
Total revenue	2,452,999	319,590	2,772,589	2,767,644
Expenses				
Repairs & maintenance				
General maintenance materials	90,502	-	90,502	90,888
Irrigation maintenance	11,650	-	11,650	14,460
Janitorial supplies	820	-	820	712
Lake maintenance	7,165	-	7,165	6,750
Landscape contract	858,855	-	858,855	846,360
Landscape maintenance & supplies	22,423	-	22,423	88,206
Maintenance staff	223,907	-	223,907	213,118
Parking area maintenance	-	-	-	951
Pest control	24,914	-	24,914	23,755
Pool maintenance, supplies, & equipment	13,980	-	13,980	13,006
Tree maintenance	29,910	-	29,910	32,528
Total repairs & maintenance	1,284,126	-	1,284,126	1,330,734
General & administrative				
Management services	187,000	-	187,000	187,000
Accounting services	4,500	-	4,500	4,500
Legal services	12,434	-	12,434	36,298
Insurance expense	78,447	-	78,447	75,301
Office supplies & expense	27,075	-	27,075	39,985
Total general & administrative	309,456	-	309,456	343,084

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, 2016 and 2015

	Operating Fund	Reserve Fund	2016 Totals	2015 Totals
<u>Expenses (continued)</u>				
Utilities				
Electricity	71,584	-	71,584	71,106
Water & sewer	9,341	-	9,341	11,097
Trash removal	17,179	-	17,179	16,410
Telephone	5,676	-	5,676	5,655
High speed internet access	394	-	394	394
Cable television	256,116	-	256,116	250,131
Total utilities	360,290	-	360,290	354,793
Other expenses				
Contract security	412,270	-	412,270	427,672
Hurricane Matthew damages and repairs	57,024	-	57,024	-
Operating contingency	-	-	-	7,555
Income taxes & licenses	6,374	-	6,374	3,142
Total other expenses	475,668	-	475,668	438,369
Major repairs & replacements				
Building and other common property repairs and replacements	-	23,493	23,493	31,585
Total major repairs & replacements	-	23,493	23,493	31,585
Total expenses	2,429,540	23,493	2,453,033	2,498,565
Excess of revenues over expenses	23,459	296,097	319,556	269,079
Beginning fund balances	281,479	1,487,301	1,768,780	1,499,701
Ending fund balances	\$ 304,938	\$ 1,783,398	\$ 2,088,336	\$ 1,768,780

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	Operating Fund	Reserve Fund	2016 Totals	2015 Totals
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 23,459	\$ 296,097	\$ 319,556	\$ 269,079
Adjustments to reconcile excess of revenues over expenses to net cash (used in) provided by operating activities:				
(Increase) decrease in:				
Assessments receivable, net	-	-	-	17,161
Prepaid insurance	(3,180)	-	(3,180)	(570)
Increase (decrease) in:				
Accounts payable	(21,675)	-	(21,675)	11,804
Construction deposits	-	-	-	3,000
Income taxes payable	205	-	205	(438)
Deferred revenue	(668)	-	(668)	413
Net cash (used in) provided by operating activities	<u>(1,859)</u>	<u>296,097</u>	<u>294,238</u>	<u>300,449</u>
Cash flows from investing activities:				
Redemptions (investments): certificates of deposit, net	225,000	1,132,890	1,357,890	(1,493,307)
Net cash provided by (used in) investing activities	<u>225,000</u>	<u>1,132,890</u>	<u>1,357,890</u>	<u>(1,493,307)</u>
Net increase (decrease) in cash	223,141	1,428,987	1,652,128	(1,192,858)
Cash & cash equivalents, beginning of year	131,629	218,994	350,623	1,543,481
Cash & cash equivalents, end of year	<u>\$ 354,770</u>	<u>\$ 1,647,981</u>	<u>\$ 2,002,751</u>	<u>\$ 350,623</u>
Supplementary cash flow information				
Cash paid during the year for:				
Income taxes	\$ 1,147	\$ -	\$ 1,147	\$ 1,725

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.

Certificates of Deposit

The Association considers all certificates of deposit with original maturities of more than ninety (90) days to be another asset presented separately on the balance sheet.

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, 2016 and 2015 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 25, 2017, 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

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents. 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, 2016 and 2015, balances of cash in some of the Company's bank accounts exceed the federally insured limit. These balances often fluctuate during the year depending on the Association's cash flow requirements. Management regularly monitors the financial condition of the banking institutions to minimize the risk of loss due to uninsured balances.

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 years ended December 31, 2016 and 2015, the Association elected to be taxed as a homeowners association. 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 2013 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 funds, which aggregate \$1,783,398 at December 31, 2016 and \$1,487,301 at December 31, 2015 are held in a separate account 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 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 management company provide contract building, grounds and other maintenance services to the Association. Payments to the management company for these services amounted to \$223,907 and \$213,118 for the years ended December 31, 2016 and 2015, respectively.

The Association reimburses the management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$37,856 and \$34,039 for the years ended December 31, 2016 and 2015, respectively.

SUPPLEMENTARY INFORMATION

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

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

December 31, 2016

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 2017 Approved Funding</u>	<u>Component Balance at 12/31/16</u>
Site and grounds	0 - 20	\$ 2,174,875	\$ 212,881	\$ 1,266,328
Bridges, bulkheads, etc	0 - 22	580,750	56,845	338,143
Building exteriors	0 - 27	73,150	7,160	42,592
Mechanical, equipment	0 - 12	116,425	11,396	67,789
Beach pool area	0 - 13	43,500	4,258	25,328
St. James pool area	0 - 13	41,250	4,038	24,018
Laurel Court meeting building	0 - 3	32,975	3,227	19,200
		<u>\$ 3,062,925</u>	<u>\$ 299,805</u>	<u>\$ 1,783,398</u>

See independent auditor's report.