

**Audited Financial Statements and
Supplementary Information**

**KINGSTON PLANTATION
MASTER ASSOCIATION, INC.**

Years Ended December 31, 2017 and 2016

KINGSTON PLANTATION MASTER ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2017 and 2016

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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, 2017 and 2016 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, 2017 and 2016, 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 27, 2018

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2017 and 2016

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
<u>ASSETS</u>				
Cash & cash equivalents	\$ 385,667	\$ 1,001,962	\$ 1,387,629	\$ 2,002,751
Certificates of deposit	-	1,001,962	1,001,962	135,417
Prepaid insurance	29,475	-	29,475	30,670
Utility deposits	220	-	220	220
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 415,362	\$ 2,003,924	\$ 2,419,286	\$ 2,169,058
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 26,540	\$ 109,123	\$ 135,663	\$ 62,847
Income taxes payable	1,890	-	1,890	1,352
Construction deposits	23,000	-	23,000	13,000
Deferred revenue	4,318	-	4,318	3,523
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	55,748	109,123	164,871	80,722
Fund balances	359,614	1,894,801	2,254,415	2,088,336
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities & fund balances	\$ 415,362	\$ 2,003,924	\$ 2,419,286	\$ 2,169,058

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, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
<u>Revenues</u>				
Regular assessments	\$ 2,147,150	\$ 299,805	\$ 2,446,955	\$ 2,450,488
Cable TV assessments	268,821	-	268,821	265,818
Cable TV disconnect fees	1,680	-	1,680	340
Interest income	321	14,041	14,362	8,372
Rental income	18,900	-	18,900	18,900
Decal / sticker revenues	28,554	-	28,554	24,486
Miscellaneous income	3,645	-	3,645	4,185
Total revenue	2,469,071	313,846	2,782,917	2,772,589
<u>Expenses</u>				
Repairs & maintenance				
General maintenance materials	94,296	-	94,296	90,502
Irrigation maintenance	12,938	-	12,938	11,650
Janitorial supplies	1,548	-	1,548	820
Lake maintenance	9,640	-	9,640	7,165
Landscape contract	869,541	-	869,541	858,855
Landscape maintenance & supplies	23,356	-	23,356	22,423
Maintenance staff	205,540	-	205,540	223,907
Parking area maintenance	2,285	-	2,285	-
Pest control	23,184	-	23,184	24,914
Pool maintenance, supplies, & equipment	10,989	-	10,989	13,980
Tree maintenance	32,653	-	32,653	29,910
Total repairs & maintenance	1,285,970	-	1,285,970	1,284,126
General & administrative				
Management services	187,000	-	187,000	187,000
Accounting services	4,500	-	4,500	4,500
Legal services	5,546	-	5,546	12,434
Insurance expense	79,794	-	79,794	78,447
Office supplies & expense	36,017	-	36,017	27,075
Total general & administrative	312,857	-	312,857	309,456

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, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
<u>Expenses (continued)</u>				
Utilities				
Electricity	73,221	-	73,221	71,584
Water & sewer	11,839	-	11,839	9,341
Trash removal	20,018	-	20,018	17,179
Telephone	5,727	-	5,727	5,676
High speed internet access	394	-	394	394
Cable television	266,575	-	266,575	256,116
Total utilities	377,774	-	377,774	360,290
Other expenses				
Contract security	420,948	-	420,948	412,270
Storm damages and repairs	10,896	-	10,896	57,024
Operating contingency	1,600	-	1,600	-
Income taxes & licenses	4,350	-	4,350	6,374
Total other expenses	437,794	-	437,794	475,668
Major repairs & replacements				
Building and other common property repairs and replacements	-	202,443	202,443	23,493
Total major repairs & replacements	-	202,443	202,443	23,493
Total expenses	2,414,395	202,443	2,616,838	2,453,033
Excess of revenues over expenses	54,676	111,403	166,079	319,556
Beginning fund balances	304,938	1,783,398	2,088,336	1,768,780
Ending fund balances	\$ 359,614	\$ 1,894,801	\$ 2,254,415	\$ 2,088,336

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

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 54,676	\$ 111,403	\$ 166,079	\$ 319,556
Adjustments to reconcile excess of revenues over expenses to net cash (used in) provided by operating activities:				
(Increase) decrease in:				
Prepaid insurance	1,195	-	1,195	(3,180)
Increase (decrease) in:				
Accounts payable	(36,307)	109,123	72,816	(21,675)
Construction deposits	10,000	-	10,000	-
Income taxes payable	538	-	538	205
Deferred revenue	795	-	795	(668)
Net cash (used in) provided by operating activities	30,897	220,526	251,423	294,238
Cash flows from investing activities:				
Redemptions of certificates of deposit	-	135,417	135,417	1,493,307
Investments in certificates of deposit, including interest	-	(1,001,962)	(1,001,962)	(135,417)
Net cash provided by (used in) investing activities	-	(866,545)	(866,545)	1,357,890
Net increase (decrease) in cash	30,897	(646,019)	(615,122)	1,652,128
Cash & cash equivalents, beginning of year	354,770	1,647,981	2,002,751	350,623
Cash & cash equivalents, end of year	\$ 385,667	\$ 1,001,962	\$ 1,387,629	\$ 2,002,751
Supplementary cash flow information				
Cash paid during the year for:				
Income taxes	\$ 1,375	\$ -	\$ 1,375	\$ 1,147

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, 2017 and 2016 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 27, 2018, 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, 2017 and 2016, 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 year ended December 31, 2017, 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. For the year ended December 31, 2016, 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 2014 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 \$1,894,801 at December 31, 2017 and \$1,783,398 at December 31, 2016 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 - 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 \$205,540 and \$223,907 for the years ended December 31, 2017 and 2016, respectively.

The Association reimburses the management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$32,192 and \$37,856 for the years ended December 31, 2017 and 2016, respectively.

9 - ASSESSMENTS

Regular monthly assessments to the fourteen (14) subordinate regimes ranged from \$248 to \$35,349 in 2017 and 2016. At December 31, 2017 and 2016, all assessments receivable has been collected in full.

SUPPLEMENTARY INFORMATION

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

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

December 31, 2017

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 2018 Approved Funding</u>	<u>Component Balance at 12/31/17</u>
Site and grounds	0 - 19	\$ 2,174,875	\$ 211,440	\$ 1,345,431
Bridges, bulkheads, etc	0 - 21	580,750	56,460	359,266
Building exteriors	0 - 26	73,150	7,111	45,253
Mechanical, equipment	0 - 11	116,425	11,319	72,024
Beach pool area	0 - 12	43,500	4,229	26,910
St. James pool area	0 - 12	41,250	4,010	25,518
Laurel Court meeting building	0 - 2	32,975	3,206	20,399
		<u>\$ 3,062,925</u>	<u>\$ 297,775</u>	<u>\$ 1,894,801</u>

See independent auditor's report.