

Audited Financial Statements and
Supplementary Information

**KINGSTON PLANTATION
MASTER ASSOCIATION, INC.**

Years Ended December 31, 2018 and 2017

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Revenues and Expenses and Changes in Fund Balances	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-10
Supplementary Information:	
Supplementary Information on Future Major Repairs and Replacements (Un-audited)	11

Wayne E. Fussaro
Certified Public Accountant
1015 Surf Pine Drive, Suite A
Surfside Beach, SC 29575
(843) 712-2704
wfussaro@hotmail.com
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, 2018 and 2017 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, 2018 and 2017, 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. Fussaw, CPA

Surfside Beach, South Carolina

April 25, 2019

KINGSTON PLANTATION MASTER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2018 and 2017

	Operating Fund	Reserve Fund	2018 Totals	2017 Totals
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>				
Cash & cash equivalents	\$ 464,901	\$ 1,253,213	\$ 1,718,114	\$ 1,387,629
Certificates of deposit	-	789,370	789,370	1,001,962
Prepaid insurance	11,998	-	11,998	29,475
Utility deposits	220	-	220	220
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 477,119	\$ 2,042,583	\$ 2,519,702	\$ 2,419,286
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 26,568	\$ 1,132	\$ 27,700	\$ 135,663
Income taxes payable	2,312	-	2,312	1,890
Construction deposits	23,000	-	23,000	23,000
Deferred revenue	18,783	-	18,783	4,318
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	70,663	1,132	71,795	164,871
Fund balances	<u>406,456</u>	<u>2,041,451</u>	<u>2,447,907</u>	<u>2,254,415</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities & fund balances	\$ 477,119	\$ 2,042,583	\$ 2,519,702	\$ 2,419,286
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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, 2018 and 2017

	Operating Fund	Reserve Fund	2018 Totals	2017 Totals
<u>Revenues</u>				
Regular assessments	\$ 2,150,867	\$ 297,775	\$ 2,448,642	\$ 2,446,955
Cable TV assessments	277,379	-	277,379	268,821
Cable TV disconnect fees	245	-	245	1,680
Interest / investment income	366	22,430	22,796	14,362
Rental income	18,900	-	18,900	18,900
Decal / sticker revenues	36,102	-	36,102	28,554
Miscellaneous income	4,229	-	4,229	3,645
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	2,488,088	320,205	2,808,293	2,782,917
<u>Expenses</u>				
Repairs & maintenance				
General maintenance materials	107,512	-	107,512	94,296
Irrigation maintenance	10,581	-	10,581	12,938
Janitorial supplies	701	-	701	1,548
Lake maintenance	9,540	-	9,540	9,640
Landscape contract	885,020	-	885,020	869,541
Landscape maintenance & supplies	23,700	-	23,700	23,356
Maintenance staff	192,987	-	192,987	205,540
Parking area maintenance	1,954	-	1,954	2,285
Pest control	23,329	-	23,329	23,184
Pool maintenance, supplies, & equipment	15,873	-	15,873	10,989
Tree maintenance	15,975	-	15,975	32,653
	<hr/>	<hr/>	<hr/>	<hr/>
Total repairs & maintenance	1,287,172	-	1,287,172	1,285,970
General & administrative				
Management services	191,507	-	191,507	187,000
Accounting services	4,500	-	4,500	4,500
Legal services	5,123	-	5,123	5,546
Professional services	38,630	-	38,630	-
Insurance expense	49,222	-	49,222	79,794
Office supplies & expense	24,248	-	24,248	36,017
	<hr/>	<hr/>	<hr/>	<hr/>
Total general & administrative	313,230	-	313,230	312,857

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, 2018 and 2017

	Operating Fund	Reserve Fund	2018 Totals	2017 Totals
Expenses (continued)				
Utilities				
Electricity	75,226	-	75,226	73,221
Water & sewer	12,272	-	12,272	11,839
Trash removal	22,074	-	22,074	20,018
Telephone	4,741	-	4,741	5,727
High speed internet access	394	-	394	394
Cable television	285,268	-	285,268	266,575
Total utilities	<u>399,975</u>	<u>-</u>	<u>399,975</u>	<u>377,774</u>
Other expenses				
Contract security	420,960	-	420,960	420,948
Storm damages and repairs	6,491	-	6,491	10,896
Operating contingency	-	-	-	1,600
Income taxes & licenses	13,418	-	13,418	4,350
Total other expenses	<u>440,869</u>	<u>-</u>	<u>440,869</u>	<u>437,794</u>
Major repairs & replacements				
Building and other common property repairs and replacements	-	173,555	173,555	202,443
Total major repairs & replacements	-	173,555	173,555	202,443
Total expenses	<u>2,441,246</u>	<u>173,555</u>	<u>2,614,801</u>	<u>2,616,838</u>
Excess of revenues over expenses	46,842	146,650	193,492	166,079
Beginning fund balances	<u>359,614</u>	<u>1,894,801</u>	<u>2,254,415</u>	<u>2,088,336</u>
Ending fund balances	<u>\$ 406,456</u>	<u>\$ 2,041,451</u>	<u>\$ 2,447,907</u>	<u>\$ 2,254,415</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, 2018 and 2017

	Operating Fund	Reserve Fund	2018 Totals	2017 Totals
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 46,842	\$ 146,650	\$ 193,492	\$ 166,079
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Prepaid insurance	17,477	-	17,477	1,195
Increase (decrease) in:				
Accounts payable	28	(107,991)	(107,963)	72,816
Construction deposits	-	-	-	10,000
Income taxes payable	422	-	422	538
Deferred revenue	14,465	-	14,465	795
Net cash provided by operating activities	<u>79,234</u>	<u>38,659</u>	<u>117,893</u>	<u>251,423</u>
Cash flows from investing activities:				
Redemptions of certificates of deposit	-	1,001,962	1,001,962	135,417
Investments in certificates of deposit, including interest	-	(789,370)	(789,370)	(1,001,962)
Net cash provided by (used in) investing activities	<u>-</u>	<u>212,592</u>	<u>212,592</u>	<u>(866,545)</u>
Net increase (decrease) in cash	79,234	251,251	330,485	(615,122)
Cash & cash equivalents, beginning of year	<u>385,667</u>	<u>1,001,962</u>	<u>1,387,629</u>	<u>2,002,751</u>
Cash & cash equivalents, end of year	<u>\$ 464,901</u>	<u>\$ 1,253,213</u>	<u>\$ 1,718,114</u>	<u>\$ 1,387,629</u>
Supplementary cash flow information				
Cash paid during the year for:				
Income taxes	<u>\$ 2,025</u>	<u>\$ -</u>	<u>\$ 2,025</u>	<u>\$ 1,375</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.

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, 2018 and 2017 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, 2019, 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.

From time to time, the Association may enter into contracts with vendors, towards the end of the calendar year. Some of these contracts may call for a down-payment to begin the job, and payments as the work progresses. The Association recognizes these expenses as the contractor bills them and are reflected as such in the year(s) in which the invoices are received.

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, 2018 and 2017, 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, 2018, 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. 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.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns generally remain open to examination by the Internal Revenue Service and the South Carolina Department of Revenue for three (3) years after they were filed. 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 \$2,041,451 at December 31, 2018 and \$1,894,801 at December 31, 2017 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 \$192,987 and \$205,540 for the years ended December 31, 2018 and 2017, respectively.

The Association reimburses the management company for items such as postage, office supplies, printing, and other items. Reimbursements totaled \$37,890 and \$32,192 for the years ended December 31, 2018 and 2017, respectively.

9 - ASSESSMENTS

Regular monthly assessments to the fourteen (14) subordinate regimes ranged from \$248 to \$35,502 in 2018 and from \$248 to \$35,349 in 2017. At December 31, 2018 and 2017, 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, 2018

The following is based on estimates conducted by an outside engineering firm in 2018 and presents significant information about the components of common property. The estimated remaining useful lives and estimated replacements 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.

Component	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Year 2019 Budgeted Funding	Component Balance at 12/31/18
Laurel Court meeting building exterior elements	6 to 30	\$ 181,304	\$ 4,361	\$ 26,029
Laurel Court meeting building interior elements	2 to 28	269,815	6,489	38,736
Property site elements	0 to 30	11,586,068	278,660	1,663,363
Beach pool elements	1 to 27	952,617	22,912	136,763
St. James pool elements	1 to 27	654,779	15,748	94,004
Landscaping & tree replacement	1 to 27	575,042	13,830	82,556
		\$ 14,219,625	\$ 342,000	\$ 2,041,451

See independent auditor's report.