

Audited Financial Statements
And Supplementary Information

**MYRTLE BEACH VILLAS II
HOMEOWNERS ASSOCIATION, INC.**

Years ended December 31, 2017 and 2016

MYRTLE BEACH VILLAS II
HOMEOWNERS 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
Myrtle Beach Villas II Homeowners Association, Inc.
Myrtle Beach, South Carolina

I have audited the accompanying financial statements of Myrtle Beach Villas II Homeowners 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 Myrtle Beach Villas II Homeowners 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 10 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

May 14, 2018

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
<u>ASSETS</u>				
Cash & cash equivalents	\$ 57,101	\$ 174,753	\$ 231,854	\$ 145,889
Assessments receivable	44,084	-	44,084	2,171
Prepaid insurance	1,428	-	1,428	39,256
Prepaid expenses	5,317	-	5,317	21,573
Utility deposits	3,500	-	3,500	3,500
Inter-fund (payable) / receivable	(52,520)	52,520	-	-
Total assets	\$ 58,910	\$ 227,273	\$ 286,183	\$ 212,389
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 2,998	\$ 70,323	\$ 73,321	\$ 2,032
Deferred revenue	9,176	-	9,176	7,884
Total liabilities	12,174	70,323	82,497	9,916
Fund balances	46,736	156,950	203,686	202,473
Total liabilities & fund balances	\$ 58,910	\$ 227,273	\$ 286,183	\$ 212,389

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

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

For the years ended December 31, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
<u>Revenues</u>				
Regular assessments	\$ 235,538	\$ 61,700	\$ 297,238	\$ 297,238
Special assessments	-	85,220	85,220	28,000
Fines, late fees, pool pass & other revenues	725	-	725	1,210
Total revenues	236,263	146,920	383,183	326,448
<u>Expenses</u>				
Repairs & maintenance				
Pool & maintenance contracts	16,800	-	16,800	16,800
Elevator maintenance	14,272	-	14,272	11,008
Fire alarm maintenance	3,467	-	3,467	1,893
General maintenance & supplies	19,961	-	19,961	16,794
Landscape maintenance & supplies	3,495	-	3,495	1,615
Janitorial maintenance & supplies	2,299	-	2,299	1,570
Pest control	2,640	-	2,640	2,420
Pool maintenance & supplies	20,855	-	20,855	12,343
Total repairs & maintenance	83,789	-	83,789	64,443
General & administrative				
Management services	25,000	-	25,000	25,000
Legal, accounting & other professional services	1,850	-	1,850	1,850
Insurance expense (including finance charges)	46,138	-	46,138	42,936
Office supplies & expense	1,005	-	1,005	1,853
Total general & administrative	73,993	-	73,993	71,639

(continued on next page)

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

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

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

For the years ended December 31, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
<u>Expenses (continued)</u>				
Utilities				
Electricity	26,899	-	26,899	23,775
Fuel	4,994	-	4,994	5,024
Water & sewer	19,790	-	19,790	16,465
Television cable	14,244	-	14,244	13,807
Telephone	2,455	-	2,455	4,421
Total utilities	<u>68,382</u>	<u>-</u>	<u>68,382</u>	<u>63,492</u>
Major repairs and replacements				
Building & other common area replacements	-	133,297	133,297	35,091
Total major repairs and replacements	<u>-</u>	<u>133,297</u>	<u>133,297</u>	<u>35,091</u>
Other expenses (income)				
Website fee	-	-	-	198
Contract security / property attendant	22,000	-	22,000	22,000
Taxes & licenses	509	-	509	495
Total other expenses (income)	<u>22,509</u>	<u>-</u>	<u>22,509</u>	<u>22,693</u>
Total expenses	<u>248,673</u>	<u>133,297</u>	<u>381,970</u>	<u>257,358</u>
(Deficiency) excess of revenues over expenses	(12,410)	13,623	1,213	69,090
Beginning fund balances	<u>59,146</u>	<u>143,327</u>	<u>202,473</u>	<u>133,383</u>
Ending fund balances	<u>\$ 46,736</u>	<u>\$ 156,950</u>	<u>\$ 203,686</u>	<u>\$ 202,473</u>

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

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	Operating Fund	Reserve Fund	2017 Totals	2016 Totals
Cash flows from operating activities:				
(Deficiency) excess of revenues over expenses	\$ (12,410)	\$ 13,623	\$ 1,213	\$ 69,090
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash (used in) provided by operating activities:				
(Increase) decrease in:				
Assessments receivable	(41,913)	-	(41,913)	734
Prepaid insurance	37,828	-	37,828	(29,949)
Prepaid expenses	-	16,256	16,256	(16,256)
Inter-fund payable / receivable	12,227	(12,227)	-	-
Increase (decrease) in:				
Accounts payable	966	70,323	71,289	(2,966)
Deferred revenue	1,292	-	1,292	(3,560)
Net cash (used in) provided by operating activities	(2,010)	87,975	85,965	17,093
Cash & cash equivalents, beginning of year	59,111	86,778	145,889	128,796
Cash & cash equivalents, end of year	\$ 57,101	\$ 174,753	\$ 231,854	\$ 145,889
Supplementary cash flow information:				
Cash paid during the year for:				
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Myrtle Beach Villas II Homeowners 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 Association members. The Association consists of twenty-eight (28) residential units and related common property and began its operations in 2007.

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 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.

Property & Equipment

The Association has adopted the accounting principles prescribed by generally accepted accounting principles in FASB Accounting Standards Codification (ASC) 972, Real Estate – Common Interest Realty Associations. 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, landscaping and other recreational areas.

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.

Deferred Revenue

Deferred revenue at December 31, 2017 and 2016 represents payments received in advance for homeowners' assessments. These advance payments will be recognized as revenue in the months in which they are earned.

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenues remaining at year end are retained by the Association for use in future years.

Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent.

2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 14, 2018, the date that the financial statements were available to be issued.

3 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements may have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Any reclassifications would have had no effect on previously reported results of operations and cash flows.

4 - CONTINGENCIES AND COMMITMENTS

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 - 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. For the years ended December 31, 2017 and 2016, 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 did not incur an income tax liability for the years ended December 31, 2017 and 2016.

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.

6 - 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, 2017 and 2016, all of the Association funds were insured under the FDIC.

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

7 - MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which total \$156,950 (including \$52,520 due from the operating fund) at December 31, 2017 and \$143,327 (including \$40,292 due from the operating fund) at December 31, 2016, 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 a reserve study performed by an outside firm. 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.

8 - ASSESSMENTS & ALLOWANCE FOR DOUBTFUL ACCOUNTS

Regular monthly assessments to residential unit owners were \$734 for four (4) bedroom units and \$1,086 for six (6) bedroom units in 2017 and 2016. In January 2016, the Association levied a special assessment to provide necessary funds to repair flood damage to the elevator and pool pumps. The special assessment was \$830 for four (4) bedroom units and \$1,227 for six (6) bedroom units and was due no later than March 31, 2016. In addition, in November 2017, the Association levied a special assessment to provide necessary funds for exterior HVAC deck repairs and additional waterproofing. The special assessment was \$2,525 for four (4) bedroom units and \$3,735 for six (6) bedroom units. Unit owners had the option of paying in full or in four (4) equal monthly payments beginning in December, 2017.

At December 31, 2017 and 2016, all assessments receivable are considered to be fully collectible and the Association does not recognize an allowance for doubtful accounts or bad debt expense.

9 - SUBSEQUENT EVENTS

Subsequent events are events that take place after the financial statements' balance sheet date, which if recognized as subsequent events, provide additional evidence about conditions and estimates that existed at the date of the balance sheet and retroactively revise those amounts reflected in the financial statements. Other subsequent events, not recognized as subsequent events or transactions, did not exist at the date of the balance sheet but instead arose after that date and are reported as additional disclosures in the notes to the financial statements.

In January, 2018, the Association was named as one (1) of the defendants in a civil matter filed by an owner within the Association. The case involves various allegations involving decisions made and actions taken by the Board of Directors' and references HVAC, decking and repairs made to the common areas of the condominium complex. The case is still in the early stages of fact and discovery and the likelihood of an unfavorable outcome or range of potential loss, if any, is impracticable to determine. The Association's insurance carrier has hired legal counsel to defend the Association and will be responsible for an insurance deductible payment of \$1,000, with all other costs and expenses to be incurred by insurance.

SUPPLEMENTARY INFORMATION

MYRTLE BEACH VILLAS II HOMEOWNERS ASSOCIATION, INC.

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

December 31, 2017

The following is based on information provided to the Board of Directors by an outside engineering firm who performed a reserve study in 2012 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. The information is updated annually by the Association's management company. 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 2018 Budgeted Funding	Component Balance at 12/31/17
Balconies & breezeways - concrete, repairs, etc.	-	\$ 45,500	\$ 5,995	\$ 9,834
Balconies & breezeways - railings	10	50,400	6,641	10,893
Elevator cab finishes	10	11,000	1,449	2,377
Elevators - hydraulic, pumps & controls	25	150,000	19,765	32,420
Life safety systems	15	84,000	11,068	18,155
Light fixtures - common areas	15	13,000	1,713	2,810
Packaged terminal air conditioners	-	2,600	343	562
Roofs - asphalt shingles	8	69,000	9,092	14,913
Signage, renovations	2	5,000	659	1,081
Staircases	15	74,000	9,751	15,994
Walls, stucco & EIFS paint finishes & repairs	-	16,500	2,174	3,566
Concrete driveway, partial	2	9,300	1,225	2,010
Pool concrete deck, inspections, etc.	-	13,880	1,829	3,000
Pool electrical systems	-	28,000	3,689	6,052
Pool furniture	2	5,000	659	1,080
Pool mechanical equipment	-	21,000	2,767	4,539
Pool plaster finishes	-	22,000	2,899	4,755
Water features, kiddie pool	4	45,000	5,930	9,726
Garage concrete, on-grade, partial	5	20,400	2,688	4,409
Garage foundation - waterproof, repairs, etc.	-	10,000	1,318	2,161
Garage light fixtures	15	14,060	1,853	3,039
Garage railings, aluminum	15	13,635	1,797	2,947
Reserve study update	-	2,900	382	627
		<u>\$ 726,175</u>	<u>\$ 95,686</u>	<u>\$ 156,950</u>

See independent auditor's report.