

**GULF SHORES SURF & RACQUET CLUB
CONDOMINIUM ASSOCIATION, INC.**

FINANCIAL STATEMENTS

AUGUST 31, 2015

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gulf Shores Surf & Racquet Club Condominium Association, Inc.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Gulf Shores Surf & Racquet Club Condominium Association, Inc., which comprise the balance sheet as of August 31, 2015, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

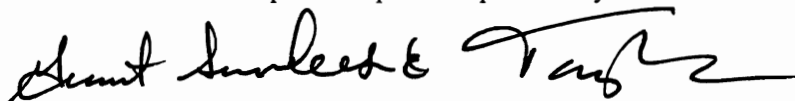
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulf Shores Surf & Racquet Club Condominium Association, Inc. as of August 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

We have previously audited the Gulf Shores Surf & Racquet Club Condominium Association, Inc.'s August 31, 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated September 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 ten 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Grant Sanders & Taylor", is written over a horizontal line.

Grant, Sanders, & Taylor P.C.
Gulf Shores, Alabama
September 21, 2015

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
AUGUST 31, 2015

	2015			2014
	Operating Fund	Reserve Fund	Total	Total for comparison only
ASSETS				
Assets				
Cash and cash equivalents	\$ 231,953	\$ 214,194	\$ 446,147	\$ 293,751
Certificate of deposits	-	415,448	415,448	408,034
Assessments receivable	14,672	-	14,672	14,590
Allowance for doubtful accounts	(1,922)	-	(1,922)	(1,922)
Interfund (payable) receivable	(68,324)	68,324	-	-
Prepaid insurance	24,714	-	24,714	26,416
Prepaid expenses	1,347	-	1,347	641
Deferred tax asset	-	-	-	2,918
Utility deposit	2,725	-	2,725	2,725
Fixed assets	162,584	-	162,584	93,798
Accumulated depreciation	(91,417)	-	(91,417)	(66,978)
Loan cost	3,725	-	3,725	2,175
Accumulated amortization	(931)	-	(931)	(36)
Total Assets	\$ 279,126	\$ 697,966	\$ 977,092	\$ 776,112
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 18,765	\$ -	\$ 18,765	\$ 13,136
Prepaid assessments	25,601	-	25,601	26,329
Payroll liabilities	2,276	-	2,276	2,282
Federal taxes payable	3,886	-	3,886	9,704
State taxes payable	1,235	-	1,235	-
Total Liabilities	51,763	-	51,763	51,451
Fund Balance				
Total fund balance	227,363	697,966	925,329	724,661
Total Liabilities and Fund Balance	\$ 279,126	\$ 697,966	\$ 977,092	\$ 776,112

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED AUGUST 31, 2015

	2015			2014
	Operating Fund	Reserve Fund	Total	Total for comparison only
Operating Revenues				
Assessments - regular	\$ 548,940	\$ -	\$ 548,940	\$ 548,940
Income tax refund	-	-	-	767
Insurance proceeds	22,423	-	22,423	-
CSSP proceeds	-	630,781	630,781	944
Interest	61	7,704	7,765	1,705
Late charges	2,858	-	2,858	5,321
Registration certificates	96,591	-	96,591	81,416
Rental income	300	-	300	300
Storage room	17,360	-	17,360	16,485
Vending	640	-	640	514
Other	2,880	-	2,880	2,941
Total Revenues	<u>692,053</u>	<u>638,485</u>	<u>1,330,538</u>	<u>659,333</u>
Operating Expenses				
Accounting	23,575	-	23,575	22,387
Amortization	1,040	-	1,040	36
Bad debt	-	-	-	3,854
Cable television	29,921	-	29,921	27,398
Depreciation	24,439	-	24,439	9,396
Electricity	33,115	-	33,115	30,009
Elevator contract	24,981	-	24,981	37,491
Fire protection	8,498	-	8,498	37,058
Insurance	154,681	-	154,681	161,015
Landscaping	4,351	-	4,351	6,901
Miscellaneous	10,254	207	10,461	5,109
Office	5,649	-	5,649	6,241
Payroll expense	129,039	-	129,039	114,520
Pest control	4,632	-	4,632	4,600
Pool maintenance and repairs	10,197	-	10,197	9,393
Professional fees	4,805	126,156	130,961	2,310
Registration certificate expense	678	-	678	739
Repairs and maintenance	62,675	333,140	395,815	60,275
Security	20,859	-	20,859	17,467
Sewer, water and trash	69,777	-	69,777	58,568
Supplies	11,940	-	11,940	8,120
Taxes and licenses	11,820	-	11,820	12,607
Telephone	5,682	-	5,682	8,854
Federal income tax	13,606	-	13,606	9,704
Income tax penalty	128	-	128	-
Deferred tax expense	2,918	-	2,918	1,912
State income tax	1,107	-	1,107	-
Total Expenses	<u>670,367</u>	<u>459,503</u>	<u>1,129,870</u>	<u>655,964</u>
Operating excess revenues over (under) expenses	21,686	178,982	200,668	3,369
Fund Balance at the beginning of the year	<u>205,677</u>	<u>518,984</u>	<u>724,661</u>	<u>721,292</u>
Fund Balance at the end of the year	<u>\$ 227,363</u>	<u>\$ 697,966</u>	<u>\$ 925,329</u>	<u>\$ 724,661</u>

See accompanying notes.

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2015

	2015			2014
	Operating Fund	Reserve Fund	Total	Total for comparison only
Cash Flows From Operating Activities				
Excess revenues over expenses	\$ 21,686	\$ 178,982	\$ 200,668	\$ 3,369
Adjustments to reconcile excess revenue over (under) expenses to net cash provided (used) by operating activities				
Amortization	1,040	-	1,040	36
Depreciation	24,439	-	24,439	9,396
(Increase) decrease in:				
Assessments receivable	(82)	-	(82)	14,831
Interfund (payable) receivable	68,324	(68,324)	-	-
Prepaid insurance	1,702	-	1,702	(1,044)
Prepaid expenses	(706)	-	(706)	(17)
Income tax refund receivable	-	-	-	27,879
Deferred tax asset	2,918	-	2,918	(2,918)
Increase (decrease) in:				
Accounts payable	5,629	-	5,629	489
Prepaid assessments	(728)	-	(728)	(1,103)
Payroll liabilities	(6)	-	(6)	5
Federal taxes payable	(5,818)	-	(5,818)	9,704
Total adjustments	97,947	(68,324)	29,623	57,258
Net Cash Provided (Used) by Operating Activities	119,633	110,658	230,291	60,627
Cash Flows From Investing Activities				
(Increase) decrease in certificate of deposit	-	(7,414)	(7,414)	(61,410)
Purchase of fixed assets	(70,481)	-	(70,481)	(9,035)
Net Cash Provided (Used) by Investing Activities	(70,481)	(7,414)	(77,895)	(70,445)
NET INCREASE IN CASH	49,152	103,244	152,396	(9,818)
CASH AT BEGINNING OF YEAR	182,801	110,950	293,751	303,569
CASH AT END OF YEAR	\$ 231,953	\$ 214,194	\$ 446,147	\$ 293,751
Supplemental Disclosures				
Noncash Investing and Financing Activities: None				
Cash Paid (Received) During the Year for:				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	\$ 19,424	\$ -	\$ 19,424	\$ -

See accompanying notes.

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 1: ORGANIZATION

Gulf Shores Surf & Racquet Club Condominium Association, Inc. was incorporated on June 2, 1986, as a non-profit corporation. The corporation is an association of owners of Gulf Shores Surf & Racquet Club, a condominium consisting of 179 residential units located in Gulf Shores, Alabama. The corporation issued no shares of stock of any kind or nature and is, therefore, an association of members formed for the specific purpose of providing maintenance, preservation and architectural control of the condominium known as Gulf Shores Surf & Racquet Club. The corporation does not contemplate pecuniary gain or profit to the members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association uses the fund method of accounting on the accrual basis to account for the restrictions of expenditures resulting from actions of the Board of Directors or the Association's voting membership. The financial statements presented herein reflect the financial position and results of operations and cash flows of the Association's operating and restricted reserve funds.

Operating Fund

Revenues consist of the monthly assessments from the unit owners, late charges thereon and any special assessments declared by the Board. Other revenues consist of interest, and other sundry amounts received in the normal course of the Association's operations. Disbursements are made for normal operating expenses and acquisition of such items as pool furniture and other equipment.

Reserve Fund

Funding of the reserve fund is generally based on the useful lives and replacement costs of the respective items that will require future major repairs and replacements, using estimates which are periodically updated by the Board of Directors. Contributions to the reserve fund are generally budgeted and approved by the unit owners. There was no reserve funding for fiscal year 2014-2015. Disbursements from the reserve fund may be made only with the approval of the Board. Reserve fund monies are maintained in accounts separate from the operating fund. The reserve fund balance is \$697,966 as of August 31, 2015. The operating fund owes the reserve fund \$68,324 as of August 31, 2015.

Actual expenditures, however, may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacement until funds are available.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments with maturities of three months or less 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association has the right to levy liens on members' property to ensure payments of assessments due the Association. The Association has recorded an allowance for doubtful accounts in the amount of \$1,922 on the balance sheet as of year end.

Property and equipment

Real property and common areas acquired by the original homeowners from the developer and related improvements to such property are not capitalized on the Association's financial statements as they are owned by the individual unit owners in common and not by the Association. Common areas are restricted to use by Association members, their tenants and guests.

Real and personal property purchased with Association funds, to which the association holds title, are capitalized at cost and are depreciated over their estimated useful life using the double declining method of depreciation. The estimated lives of the capitalized assets are furniture and equipment – 5 years and leasehold improvement 15 years.

NOTE 3: INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended August 31, 2015. It does not qualify as a tax exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into member transactions, nonmember transactions, and capital transactions.

For federal tax purposes, the Association is taxed on all net income from nonmember activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files form 1120, which has graduated tax rates of 15% to 39% that are applied to net taxable income. Federal income tax expense for the year ended August 31, 2015 is \$13,606.

For state income tax purposes, the Association also is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exist. Nonmembership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 6.5%. State income tax expense for the year ended August 31, 2015 is \$1,107. Deferred tax expense for the year ended August 31, 2015 is \$2,918 and results from the utilization of the Association's Alabama net operating loss carryforward.

The Association is subject to examination by tax authorities for tax years 2011 through 2013. As of August 31, 2015 there are no active examinations.

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 4: OWNERS' ASSESSMENTS

Regular monthly assessments to unit owners for the operations of the common elements of the property ranged from \$217-748 for the year ended August 31, 2015. Late charges and interest are assessed on the delinquent balances.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>Operating</u>	<u>Depreciable life</u>
Depreciable assets		
Dunes Walk Over	\$ 18,413	15 years
Equipment	76,074	5-7 years
Fencing	16,663	15 years
Furniture, Fixtures, & Equipment	50,056	5-7 years
Office Equipment	1,378	5 years
Less: accumulated depreciation	(91,417)	
Property and equipment, net	<u>\$ 71,167</u>	
 Loan cost	 3,725	 1 year
Less: accumulated amortization	(931)	
Loan cost, net	<u>\$ 2,794</u>	

Depreciation and Amortization expense for 2015 was \$24,439 and \$1,040, respectively.

NOTE 6: FANNIE MAE/FREDDIE MAC REPLACEMENT RESERVE REQUIREMENTS

As a result of the mortgage loan crisis during 2009 and 2010, mortgage underwriters Fannie Mae and Freddie Mac published new regulations in the Single-Family Seller/Servicer Guide (Fannie Mae Part B4-2.2-06 Lender Full Review: Additional Eligibility Requirements for Established Condo Projects and Freddie Mac Chapter 42: Special Warranties for Condominiums). One of these regulations states that in order to conform with a Full Project Review, the association must budget 10% of its annual operating expenses as designated replacement reserves for capital expenditures and deferred maintenance, as well as adequate funding for insurance deductibles. If the association does not meet this standard and the individual loan applications do not meet the requirements for a "Streamlined Review" (generally >20% down payment), then the borrower may not be eligible for a Fannie Mae/Freddie Mac backed mortgage loan.

Based on the current year calculation, the Association is currently designating none of its operating expenditures for future replacement reserves.

NOTE 7: FDIC COVERAGE

The Association's bank accounts are insured up to \$250,000 at each financial institution by the Federal Deposit Insurance Corporation. The Association has \$400,943 in excess deposits with Regions Bank at year end.

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 8: LINE OF CREDIT

The Association maintains a \$1,000,000 line of credit with Regions Bank. The line of credit bears an initial simple interest rate that varies with the Prime Rate and is secured by assessments. The line of credit is to be used in the event of a catastrophic tropical occurrence. There is no outstanding balance on the line of credit at year end.

NOTE 9: INSURANCE PROCEEDS

During the year, the Association received insurance proceeds in the amount of \$22,423 for damages to the building as a result of water intrusion.

NOTE 10: DEEPWATER HORIZON OIL SPILL PROCEEDS

The Association received proceeds of \$630,781 from Deepwater Horizon Court Supervised Settlement System for lost revenues resulting from the Deepwater Horizon Oil Spill. The Association paid \$126,156 in attorney fees related to the settlement.

NOTE 11: SUBSEQUENT EVENTS

Subsequent events were evaluated through the financial statements issuance date of September 21, 2015.

SUPPLEMENTARY INFORMATION

GULF SHORES SURF & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
 REPAIRS AND REPLACEMENTS
 AUGUST 31, 2015

The Board of Directors updated a study in August 2012, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated cost to repair or replace the common property components at the date of the study. The following schedule is based on the study and presents significant information about the components of common property. (Estimated replacement costs are rounded to the nearest hundred dollars.)

SCHEDULE OF REPLACEMENT FUND

Item Required	Estimated cost	Expected life (years)	Annual cost	Age (years)	Reserve requirement at August 31, 2015
Replace hand and balcony railing	\$ 400,000	15	\$ 26,670	3	\$ 80,009
Replace roof (three buildings)	450,000	15	30,000	1	30,000
Exterior sealing	350,000	10	35,000	5	175,000
Resurface parking lot	100,000	10	10,000	1	10,000
Replace piers	100,000	10	10,000	1	10,000
Replace doors	350,000	10	35,000	4	140,000
Replace fire protection system	200,000	10	20,000	3	60,000
Replace elevators	600,000	20	30,000	3	90,000
Resurface pools	100,000	10	10,000	5	50,000
Total Required	\$ 2,650,000				
 Total Required as of 08/31/15			 \$ 206,670		 \$ 645,009