

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT THEREON
DECEMBER 31, 2018 AND 2017

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THE SPIRES GROUP, P.A.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Creciente Condominium Association, Inc.
Fort Myers Beach, Florida

We have audited the accompanying financial statements of Creciente Condominium Association, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years ended December 31, 2018 and 2017, 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 audits. We conducted our audits 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 of 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 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 Creciente Condominium Association, Inc. as of December 31, 2018 and 2017, and the results of their operation and cash flow for the years ended December 31, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial as a whole. The Schedules of Changes in Replacement Fund Balances on page 11 and 12 are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 13 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 the 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

Very truly yours,

A handwritten signature in black ink that reads "The Spires Group P.A." in a cursive, flowing script.

The Spires Group P.A.

April 9, 2019

Fort Myers, Florida

CRECIENTE CONDOMINIUM, ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Operating</u>	<u>Replacement</u>	<u>Operating</u>	<u>Replacement</u>
ASSETS				
Cash	\$ 44,666	106,916	599,148	291,575
Certificates of deposit, at market value	-	-	-	300,000
Insured Cash Sweep	302,017	302,398	-	-
Accounts receivable	9,773	-	3,620	-
Due to Replacement (due from Operating)	344	(344)	(128,418)	128,418
Prepaid insurance	163,865	-	99,713	-
Other prepaid expenses	18,478	7,000	14,853	-
Total assets	\$ 539,143	415,970	588,916	719,993
LIABILITIES				
Accounts payable and accrued expenses	58,835	-	93,023	-
Prepaid maintenance fees	27,343	-	19,466	-
Due to social committees	1,864	-	1,894	-
Total liabilities	88,042	-	114,383	-
FUND BALANCES				
Unrestricted - operating	451,101	-	474,533	-
Restricted - replacement funds	-	415,970	-	719,993
Total fund balances	451,101	415,970	474,533	719,993
Total liabilities and fund balances	\$ 539,143	415,970	588,916	719,993

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Operating</u>	<u>Replacement</u>	<u>Operating</u>	<u>Replacement</u>
REVENUES				
Maintenance fees	\$ 951,123	334,210	1,000,680	230,520
Interest and investment Income	2,507	3,764	678	2,078
Special Assessment	-	-	-	598,500
Irma Insurance Proceeds	-	-	-	193,356
Other revenues	11,488	-	3,805	-
Total revenues	965,118	337,974	1,005,163	1,024,454
EXPENSES				
Administration	12,729	2,609	9,904	219
Buildings	103,554	1,131	88,115	72,706
Elevators	21,839	328,822	46,629	1,000
Grounds	54,237	4,695	47,526	6,992
Insurance	271,527	-	330,425	15,000
Personnel	144,141	-	138,070	-
Pool	16,544	15,295	13,067	7,600
Professional	34,978	-	11,253	-
Security	22,423	-	16,247	-
Entertainment and Wi-Fi	1,098	7,127	600	-
Special Assessment-expense	-	260,781	-	291,375
Irma Insurance Proceeds-expense	-	72,937	-	-
Utilities	254,080	-	251,959	-
Total expenses	937,150	693,397	953,795	394,892
Excess revenues (expenses)	27,968	(355,423)	51,368	629,562
Transfers	(51,400)	51,400	-	-
Change in Net Position	(23,432)	(304,023)	51,368	629,562
FUND BALANCES				
Beginning of year	474,533	719,993	423,165	90,431
End of year	\$ <u>451,101</u>	<u>415,970</u>	<u>474,533</u>	<u>719,993</u>

See accompanying notes to financial statements.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Revenues over (under) expenses:		
Operating	\$ 27,968	51,368
Replacement	<u>(355,423)</u>	<u>629,562</u>
	(327,455)	680,930
Adjustments:		
(Increase) decrease in:		
Accounts receivable	(6,154)	(625)
Prepaid insurance	(64,152)	219,226
Other prepaid expenses	(10,625)	(11,117)
Increase (decrease) in:		
Allowance for doubtful accounts	-	-
Accounts payable and accrued expenses	(34,188)	46,458
Prepaid maintenance fees	7,877	(5,979)
Due to social committees	(30)	<u>266</u>
Net cash provided by operations	(434,726)	<u>929,159</u>
CASH PROVIDED (USED) BY INVESTMENT ACTIVITIES		
Redemption of certificates of deposit	300,000	-
Investment in Insured Cash Sweep	<u>(604,414)</u>	<u>(300,000)</u>
Net cash provided (used) by investment activities	(304,414)	<u>(300,000)</u>
Net increase (decrease) in cash	(739,141)	629,159
CASH		
Beginning of year		
Operating	\$ 599,148	
Replacement	<u>291,575</u>	<u>890,723</u>
End of year		
Operating	44,666	
Replacement	<u>106,916</u>	<u>890,723</u>
	\$ <u>151,582</u>	<u>890,723</u>

See accompanying notes to financial statements.

**CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - THE ASSOCIATION

Creciente Condominium Association, Inc. (the "Association"), is located on Fort Myers Beach, Florida and was incorporated on December 17, 1971, under Chapter 617 of the Florida Statutes as a not-for-profit organization. The Association is responsible for the preservation and maintenance of the common property in accordance with the terms of Florida Statutes, Chapter 718. The Association consists of 171 units.

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Funds Accounting

The Association's governing documents provide guidelines concerning its financial activities. The accounting policies that affect the more significant elements of the Association's financial statements are summarized below. These policies have been applied on a consistent basis.

The Association uses the fund method of accounting on the accrual basis, which requires that resources, such as those for operating purposes and resources for future repairs and replacements, be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions or designations on their use. The unrestricted fund is used to account for financial resources available for the general operations of the Association. Disbursements from the unrestricted fund are at the discretion of the Board of Directors ("the Board") and general manager for recurring costs of operation. The replacement, restricted, fund is used to accumulate financial resources designated for future major repairs and replacements. Expenses from this fund are available only for the purposes for which assessments were levied.

Interest earned on the replacement fund is retained therein.

Accounts Receivable

The Association's policy is to assess each unit owner, on an equal basis, a fixed amount per month, based on the annual budget adopted by the Board. Accounts receivable at the balance sheet date include unpaid fees due from the unit owners. The Association's policy is to retain legal counsel and place liens on the properties that are delinquent.

Cash and Cash equivalent

For purposes of reporting cash flows, the Association considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

The Association follows prevalent industry practice, as contained in the "Real Estate — Common Interest Realty Association Topic of the FASB ASC" in accounting for the common property

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of the Association. Real property that is not directly associated with the units is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can dispose of the property at the discretion of the Board or the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. As a result, commonly owned assets are not reflected in the Association's financial statements. The Association has no property and equipment that is other than common property, ownership of which resides in the members.

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.

NOTE 3— FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes require the Association to accumulate resources for future major repairs and replacements and required resources be accumulated for any item for which the deferred maintenance expenses or replacement cost is greater than \$10,000 unless the requirements are waived or reduced by the unit owners. The resources are segregated and held in interest bearing accounts and are not available for expenses for normal operations. Owners have not approved the waiver of the requirement to full-fund estimated replacement cost. However, the Board believes that the plan for funding future repairs and replacement is sufficient to meet the cost of such repairs and replacement when they are required.

The Board reviewed the replacement fund components in 2018 and 2017 to estimate the remaining useful lives and the estimated replacement costs of each component of common property. In 2015, the Board engaged an independent consultant to review the estimated replacement costs, expected useful lives and remaining useful lives of each component of the replacement account. The report of the consultant, along with other information available to the Association, was used to review in depth, the components of the replacement account in order to determine appropriate funding.

The unit owners approved the pooled method of accounting for the replacement fund. Under this method, the replacement costs and remaining lives for each item are determined and the required funding is based on the pooled or cumulative balance as of the end of the year and the pooled estimated time remaining. Under this method, additions are not allocated to a specific replacement fund component.

The calculations for future major repairs and replacements in the replacement fund are based on estimated current costs for repairs and replacements of common property components. Actual expenses may vary from the estimated future replacement costs and these variances could be significant. Consequently, the amounts accumulated in the replacement fund may not be adequate to fund the required repairs and replacements. When additional funds are needed, the Board may increase regular assessments, delay major repairs or replacements until funds are available or levy special assessments.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3— FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

In April 2017, the Board levied a special assessment against unit owners of \$598,500 (\$3,500 per unit) to cover the estimated cost in connection with a project for the maintenance, repair and replacement of the parking garage, including, but not limited to, replacing the waterproofing of the concrete deck, restoring the concrete, replacing the deck joints, repairing the storm drains, replacing the lighting, any other concrete restoration deemed necessary, replacing the landscaping, replacing the paint and contracting for engineering related to the project. Through December 31, 2017, \$291,374.71 was spent on the project, leaving a balance of \$307,125.29 for the remainder of the work. During 2018 an additional \$260,781.41 was spent, leaving a balance of \$46,343.88. The remaining funds will be utilized to pay for additional concrete restoration work.

In late Fall 2017, a plumbing subcommittee was formed to proactively develop a plan to address the plumbing issues of the Association. Throughout 2018 the subcommittee met to research a solution to resolve the backups and cracks that the Association was dealing with on a monthly basis. These problems are occurring in the Association owned vertical cast iron pipes, the Association owned wet re-vent pipes, and the Owner owned lateral pipes. After contacting many vendors, a decision was made in the fall of 2018 to hire an engineer to develop requirements for vendors to bid on a solution that involved the lining of cast iron pipes. Legal counsel was approached to determine the scope of the work that could be undertaken by the Association. The Association attorney determined that, without a change to the Association's Declaration of Condominium, the Association could not repair the Owner owned pipes. At a Board meeting on March 5, 2019, the Board voted to award a contract to line the vertical waste and wet re-vent pipes, contingent on a Special Assessment. At a Board meeting on March 19, 2019, the Board voted to create a special assessment totaling \$1,060,000, or \$6200 per unit with equal payments due on April 15, 2019 and June 15, 2019. Work is scheduled to commence on April 29, 2019.

NOTE 4— INCOME TAXES

The Association is subject to federal and state income taxes. Annually, the Association may qualify and elect to be treated as a tax-exempt organization under Section 528 of the Internal Revenue Code. Under this election, revenue from maintenance fees, replacement and special assessments (exempt-function income) is not subject to state or federal income taxes. However, income that is not exempt-function is federally taxed at a 30% rate (after a \$100 exemption) and is exempt from Florida income tax. If the Association does not qualify and/or make this election, it is taxed as a regular corporation under the provisions of Internal Revenue Code Section 277. This section provides that the excess of income from members is used to offset next year expenses or returned to the member to avoid being taxed. The Association is taxed on all non-member income net of allocable expenses. The Association elected to file Form 1120H under Code Section 528 and had no federal income tax or state income tax liability for the years ended December 31, 2017 and 2016.

The Association uses the standard Accounting for Uncertainty in Income Taxes. It is the Association's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by "a-more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for 2018 and 2017. Currently, the statute of limitations remains open for tax returns filed subsequent to and including 2015; however, no IRS or Florida Department of Revenue examinations are in process or anticipated.

**CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5— INVESTMENTS

The table below presents the assets (all certificates of deposit) by category measured at fair value as of December 31, 2017:

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Face Value</u>	<u>Fair Value</u>
Citizens Business Bank	01/25/18	.1	\$ 51,500	51,500
Interbank	01/25/18	.1	<u>248,500</u>	<u>248,500</u>
Total			<u>\$ 300,000</u>	<u>300,000</u>

During 2018, the Association changed to a methodology whereby its financial institution would invest Association monies in an Insured Cash Sweep (ICS) program. The below table presents the assets invested in this manner at December 31, 2018:

<u>Depository</u>	<u>Balance</u>
East West Bank--Pasadena, CA	\$18.15
Glacier Bank--Kalispell, MT	\$245,262.92
Peoples Bank of Alabama--Cullman, AL	\$8.38
Quad City Bank and Trust Company--Bettendorf, IA	\$245,262.92
Redding Bank of Commerce--Redding CA	\$18.15
The Farmers & Merchants State Bank--Archbold, OH	\$113,843.89
Total	\$604,414.41

NOTE 6 - ASSESSMENTS CHARGES TO UNIT OWNERS

Pursuant to the Declaration of Condominium and Bylaws of the Association, regular and special assessments are allocated to each unit owner. During the years ended December 31, 2017 and 2016, the Association assessed members monthly \$488 and \$492, respectively to fund operating activities and \$112 and \$102, respectively in each year to provide funding for future repairs and replacements.

NOTE 7 - LITIGATION

The Association is a defendant, or co-defendant, in several lawsuits initiated by a company providing insurance coverage to individual unit owners. Certain units so insured suffered water damages from cracks in wastewater pipes or other plumbing issues, and the suits allege failure of the Association to provide proper and adequate inspection and maintenance of the pipes / plumbing in questions. The suits have been referred to the Association's insurance provider, and legal counsel has been retained by the Association's insurance company to provide defense of the suits. The Association believes it has proper and meritorious defense to all claims, and its exposure is, limited to the deductibles, which could exceed \$10,000 if the plaintiff is successful.

NOTE 8 - SUBSEQUENT EVENTS

Management has assessed subsequent events through April 9, 2019, the date of the independent auditor's report on the financial statements, and determined that there were no events that required disclosure in these financial statements.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

SCHEDULES OF CHANGES IN REPLACEMENT FUND BALANCES
YEARS ENDED DECEMBER 31, 2018 AND 2017

Component	Beginning Balance	Transfers	Additions	Expenses	Ending Balance
Year ended December 31, 2018					
Administration - Office Furniture	\$ -	2,609	-	2,609	-
Buildings:					
Unit 105	-	751	-	751	-
Garage Deck Project	-	260,781	-	260,781	-
Storm Damage Repairs	-	72,937	-	72,937	-
Drain Pipe Project	-	380 A	51,400	380	-
Total Buildings	-	334,849	-	334,849	-
Elevators	-	328,822	-	328,822	-
Grounds:					
Landscaping	-	4,695	-	4,695	-
Total Grounds	-	4,695	-	4,695	-
Entertainment and WI-FI	-	7,127	-	7,127	-
Pool	-	15,295	-	15,295	-
Pooled funds	<u>719,993</u>	<u>(693,397)</u>	<u>389,374 B</u>		<u>415,970</u>
	<u>\$ 719,993</u>	<u>-</u>	<u>389,374</u>	<u>693,397</u>	<u>415,970</u>

(Continued)

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

**SCHEDULES OF CHANGES IN REPLACEMENT FUND BALANCES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Component	Beginning Balance	Transfers	Additions	Expenses	Ending Balance
Year ended December 31, 2017					
Administration - Office Furniture	\$ -	219	-	219	-
Buildings:					
Air Conditioners	-	8,460	-	8,460	-
Garage Deck Project	-	(307,125)	598,500 D	291,375	-
Plumbing - Major	-	40,846	-	40,846	-
Pest Control	-	23,400	-	23,400	-
Total buildings	-	(234,419) A	598,500	364,081	-
Elevators	-	1,000	-	1,000	-
Grounds:					
Landscaping	-	6,992	-	6,992	-
Total grounds	-	6,992	-	6,992	-
Insurance - Flood zone classification	-	15,000	-	15,000	-
Pool	-	7,600	-	7,600	-
Pooled funds	<u>90,431</u>	<u>203,608</u>	<u>425,954</u> C	<u>-</u>	<u>719,993</u>
	<u>\$ 90,431</u>	<u>-</u>	<u>1,024,454</u>	<u>394,892</u>	<u>719,993</u>

Notes

- A) Additions include a Board approved transfer from Operating to Replacement of \$51,400
- B) Additions include investment earnings of \$3,764
- C) Additions include investment earnings of \$2078. It also includes \$193,356 of Insurance proceeds
- D) In 2017 the Association special assessed the unit owners for a Parking Garage Project for \$598,500

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTAL INFORMATION - REPLACEMENT FUNDS

December 31, 2018

<u>Component</u>	<u>Life (years)</u>	<u>Estimated</u>		<u>Replacement cost</u>	<u>Proposed 2018 Pooled funding</u>
		<u>Remaining Life (years)</u>			
Roofs	25	3 - 23	\$	1,035,189	
Exteriors	10 - 50	1 - 48		1,504,891	
Pool / tennis court	5 - 35	1 - 23		141,372	
Mechanical	10 - 50	1 - 45		1,327,487	
Painting / concrete restoration	8 - 25	1 - 14		701,624	
Interiors	5 - 25	1 - 13		380	A <u>51,400</u>
Paving	4 - 20	2 - 8		60,183	
Pooled funds				<u>3,735,937</u>	<u>51,400</u>
			\$	<u>328,822</u>	<u>51,400</u>

Estimated replacement costs are reviewed on a regular basis and, do not necessarily include allowances for inflation. Actual cost at time of replacements may be greater than the estimates. Income earned from investing replacement funds is added to the available funds for use at the discretion of the Board of Directors. At December 31, 2018, the available replacement funds were \$415,970, of which \$46,344 were restricted to the special assessment.

In accordance with Florida statutory requirements, in 2014 the Association engaged a professional consultant to perform an in-depth review of the estimated replacement cost, life expectations and remaining life of the elements. The report of the consultant formed the basis for the review, evaluation and projection of estimated cost and replacement timing of the 2018 determination by the Board.

In April 2017, the Board leveled a special assessment against unit owners of \$598,500 (\$3,500 per unit) to cover the estimated cost in connection with a project for the maintenance, repair and replacement of the parking garage, including, but not limited to, replacing the waterproofing of the concrete deck, restoring the concrete, replacing the deck joints, repairing the storm drains, replacing the lighting, any other concrete restoration deemed necessary, replacing the landscaping, replacing the paint and contracting for engineering related to the project.