

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT THEREON
DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, and the related statements of activities and cash flows for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, and the results of their operation and cash flow for the years ended December 31, 2016 and 2015 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,

The Spires Group P.A.

The Spires Group P.A.

May 4, 2017

Fort Myers, Florida

CRECIENTE CONDOMINIUM, ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | | <u>2015</u> | |
|---|-------------------|--------------------|------------------|--------------------|
| | <u>Operating</u> | <u>Replacement</u> | <u>Operating</u> | <u>Replacement</u> |
| ASSETS | | | | |
| Cash | \$ 185,958 | 75,605 | 48,059 | 178,797 |
| Certificates of deposit, at market value | - | - | 150,060 | 246,099 |
| Accounts receivable, net of allowance for doubtful accounts of \$17,397 in 2015 | 3,020 | - | 4,492 | - |
| Due from Replacement (due to Operating) | (14,826) | 14,826 | 3,965 | (3,965) |
| Prepaid insurance | 318,940 | - | 316,367 | - |
| Other prepaid expenses | 3,736 | - | 2,935 | - |
| Total assets | \$ 496,828 | 90,431 | 525,878 | 420,931 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 46,590 | - | 29,407 | 106,422 |
| Prepaid maintenance fees | 25,445 | - | 36,043 | - |
| Due to social committees | 1,628 | - | 1,859 | - |
| Total liabilities | 73,663 | - | 67,309 | 106,422 |
| FUND BALANCES | | | | |
| Unrestricted - operating | 423,165 | - | 458,569 | - |
| Restricted - replacement funds | - | 90,431 | - | 314,509 |
| Total fund balances | 423,165 | 90,431 | 458,569 | 314,509 |
| Total liabilities and fund balances | \$ 496,828 | 90,431 | 525,878 | 420,931 |

See accompanying notes to financial statements.

CRECIENTE CONDOMINIUM, ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | | <u>2015</u> | |
|-----------------------------------|------------------|--------------------|------------------|--------------------|
| | <u>Operating</u> | <u>Replacement</u> | <u>Operating</u> | <u>Replacement</u> |
| REVENUES | | | | |
| Maintenance fees | \$ 959,640 | 210,000 | 995,185 | 174,455 |
| Interest and investment income | 487 | 710 | 578 | 1,165 |
| Other revenues | 15,348 | - | 3,863 | - |
| Total revenues | 975,475 | 210,710 | 999,626 | 175,620 |
| EXPENSES | | | | |
| Administration | 19,548 | 5,618 | 17,992 | - |
| Buildings | 88,150 | 378,309 | 52,503 | 154,164 |
| Elevators | 17,457 | 4,315 | 26,320 | 232,404 |
| Grounds | 53,900 | 23,706 | 51,494 | 10,570 |
| Insurance | 382,970 | 15,000 | 413,784 | - |
| Personnel | 143,798 | - | 132,069 | - |
| Pool | 8,267 | 7,840 | 6,901 | 19,150 |
| Professional | 21,619 | - | 9,434 | - |
| Security | 31,458 | - | 29,496 | - |
| Entertainment and Wi-Fi | 3,272 | - | 1,007 | - |
| Utilities | 240,440 | - | 224,338 | - |
| Total expenses | 1,010,879 | 434,788 | 965,338 | 416,288 |
| Excess revenues (expenses) | (35,404) | (224,078) | 34,288 | (240,668) |
| FUND BALANCES | | | | |
| Beginning of year | 458,569 | 314,509 | 424,281 | 555,177 |
| End of year | \$ 423,165 | 90,431 | 458,569 | 314,509 |

See accompanying notes to financial statements.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|--------------------|
| CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Revenues over (under) expenses: | | |
| Operating | \$ (35,404) | 34,288 |
| Replacement | <u>(224,078)</u> | <u>(240,668)</u> |
| | (259,482) | (206,380) |
| Adjustments: | | |
| (Increase) decrease in: | | |
| Accounts receivable, net of | 1,472 | (11,372) |
| Prepaid insurance | (2,573) | 37,908 |
| Other prepaid expenses | (801) | (1,830) |
| Increase (decrease) in: | | |
| Allowance for doubtful accounts | - | 6,915 |
| Accounts payable and accrued expenses | (89,239) | 117,246 |
| Prepaid maintenance fees | (10,598) | 16,629 |
| Due to social committees | <u>(231)</u> | <u>360</u> |
| Net cash provided by operations | <u>(361,452)</u> | <u>(40,524)</u> |
| CASH PROVIDED (USED) BY INVESTMENT ACTIVITIES | | |
| Redemption of certificates of deposit | 396,159 | 1,978,510 |
| Purchase of certificates of deposit | <u>-</u> | <u>(1,879,052)</u> |
| Net cash provided (used) by investment activities | <u>396,159</u> | <u>99,458</u> |
| Net increase (decrease) in cash | 34,707 | 58,934 |
| CASH | | |
| Beginning of year | | |
| Operating | \$ 48,059 | |
| Replacement | <u>178,797</u> | <u>226,856</u> |
| End of year | | |
| Operating | 185,958 | |
| Replacement | <u>75,605</u> | |
| | <u>\$ 261,563</u> | <u>285,790</u> |

See accompanying notes to financial statements.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 these 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. A previously owner's (deceased) account, which was in arrears for almost two years was settled in December 2016 by the mortgage holder and the unit was sold.

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, 2016 AND 2015

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 2016 and 2015 to estimate the remaining useful lives and the estimated replacement costs of each component of common property. In 2016, 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, 2016 AND 2015

NOTE 3— FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

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, stripping and cleaning the floor, replacing the lighting, any other concrete restoration deemed necessary, replacing the landscaping, replacing the paint and contracting for engineering related to the project.

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, 2016 and 2015.

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 2016 and 2015. Currently, the statute of limitations remains open for tax returns filed subsequent to and including 2013; however, no IRS or Florida Department of Revenue examinations are in process or anticipated.

NOTE 5 - 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, 2016 and 2015, the Association assessed members monthly \$468 and \$485, respectively to fund operating activities and \$102 and \$85, respectively in each year to provide funding for future repairs and replacements.

NOTE 6 - 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 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.

CRECIENTE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7— SUBSEQUENT EVENTS

Management has assessed subsequent events through May 4, 2017, the date of the independent auditor's report and 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, 2016 AND 2015

| <u>Component</u> | <u>Beginning balance</u> | <u>Transfers</u> | <u>Additions</u> | <u>Expenses</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|------------------|------------------|-----------------|---------------------------|
| Year ended December 31, 2016 | | | | | |
| Administration - Office Furniture \$ | - | 5,618 | - | 5,618 | - |
| Buildings: | | | | | |
| Roofs | - | 127,670 | | 127,670 | - |
| Painting and Concrete Rest | - | 32,233 | | 32,233 | - |
| Carpeting | - | 165,075 | | 165,075 | - |
| Lobby Furniture | - | 5,362 | | 5,362 | - |
| Plumbing - Major | - | 27,994 | | 27,994 | - |
| Electrical Equipment | - | 7,175 | | 7,175 | - |
| Pest Control | - | 12,800 | | 12,800 | - |
| Total buildings | - | 378,309 | - | 378,309 | - |
| Elevators | - | 4,315 | | 4,315 | - |
| Grounds: | | | | | |
| Paving and Resurfacing | - | 6,592 | | 6,592 | - |
| Outdoor Lighting | - | 2,869 | | 2,869 | - |
| Landscaping | - | 14,245 | | 14,245 | - |
| Total grounds | - | 23,706 | - | 23,706 | - |
| Insurance - Flood zone classificatio | - | 15,000 | | 15,000 | - |
| Pool | - | 7,840 | | 7,840 | - |
| Pooled funds | <u>314,509</u> | <u>(434,788)</u> | <u>210,710</u> a | <u>-</u> | <u>90,431</u> |
| | <u>\$ 314,509</u> | <u>-</u> | <u>210,710</u> | <u>434,788</u> | <u>90,431</u> |

(Continued))

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

SCHEDULES OF CHANGES IN REPLACEMENT FUND BALANCES

YEARS ENDED DECEMBER 31, AND

Year ended December 31, 2015

Buildings:

| | | | | | |
|----------------------------|------|-------------------|-------------------|-------------------|-------------------|
| Roofs | \$ - | 14,450 | - | 14,450 | - |
| Painting and Concrete Rest | - | 137,171 | - | 137,171 | - |
| Lonny furniture | - | 2,543 | - | 2,543 | - |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Total buildings - 154,164 - 154,164 -

Elevators - 232,404 - 232,404 -

Grounds:

| | | | | | |
|------------------|---|-------------------|-------------------|-------------------|-------------------|
| Outdoor lighting | - | 1,540 | - | 1,540 | - |
| Tennis court | - | 9,030 | - | 9,030 | - |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Total grounds - 10,570 - 10,570 -

Pool - 19,150 - 19,150 -

Special assessment 124,734 (124,734) - - -

Pooled funds 430,443 (291,554) 175,620 b - 314,509

\$ 555,177 - 175,620 416,288 314,509

Notes:

- a) Additions include investment earnings of \$1,165
- b) Additions include investment earnings of \$710

CRECIENTE CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTAL INFORMATION - REPLACEMENT FUNDS

DECEMBER 31, 2016

The following table is based on the Board of Directors' study in 2016 and provides significant information concerning the major components of the common property.

| <u>Component</u> | <u>Life (years)</u> | <u>Estimated Remaining Life (years)</u> | <u>Replacement Cost</u> | <u>Proposed 2017 Pooled Funding</u> |
|---------------------------------|---------------------|---|-----------------------------|---|
| Roofs | 25 | 22 - 24 | \$ 459,689 | |
| Exteriors | 10 - 50 | 1 - 49 | 1,504,891 | |
| Pool / tennis court | 5 - 35 | 1 - 25 | 141,372 | |
| Mechanical | 10 - 50 | 1 - 46 | 1,252,487 | |
| Painting / concrete restoration | 8 - 25 | 1 - 16 | 701,624 | |
| Interiors | 5 - 25 | 1 - 9 | 310,000 | |
| Paving | 4 - 20 | 4 - 10 | 60,183 | |
| Pooled funds | | | | <u>230,520</u> |
| | | | <u>\$ 4,430,246</u> | <u>230,520</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, 2016, the available replacement funds were \$90,431.

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 2016 determination by the Board.

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, stripping and cleaning the floor, replacing the lighting, any other concrete restoration deemed necessary, replacing the landscaping, replacing the paint and contracting for engineering related to the project.