



AMERICANO BEACH LODGE RESORT CONDOMINIUM ASSOCIATION, INC.
Financial Statements
December 31, 2015
With Independent Auditors' Report

Americano Beach Lodge Resort Condominium Association, Inc.
December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Americano Beach Lodge Resort Condominium Association, Inc.
Daytona Beach, Florida

We have audited the accompanying financial statements of Americano Beach Lodge Resort Condominium Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2015, and the related statements of revenue, expenses, and changes in fund balance (deficit) 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Association'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 Association'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 Americano Beach Lodge Resort Condominium Association, Inc. as of December 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.

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses – operating fund on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association’s management and, except for the portion marked “unaudited,” 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 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. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Withum Smith + Brown, PC

Orlando, Florida
May 27, 2016

Americano Beach Lodge Resort Condominium Association, Inc.
Balance Sheet
December 31, 2015

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|----------------------------|
| Assets | | | |
| Cash | \$ 86,202 | \$ 704,699 | \$ 790,901 |
| Cash – tax escrow fund, restricted | 175,025 | - | 175,025 |
| Prepaid expenses and other assets | 49,957 | - | 49,957 |
| Due (to) from other fund | <u>(5,219)</u> | <u>5,219</u> | <u>-</u> |
| Total assets | <u><u>\$ 305,965</u></u> | <u><u>\$ 709,918</u></u> | <u><u>\$ 1,015,883</u></u> |
| Liabilities and Fund Balance (Deficit) | | | |
| Liabilities | | | |
| Accounts payable and accrued expenses | \$ 121,123 | \$ - | \$ 121,123 |
| Due to developer | 72,311 | - | 72,311 |
| Deferred assessment – real estate taxes | 175,025 | - | 175,025 |
| Prepaid assessments | <u>799,326</u> | <u>165,979</u> | <u>965,305</u> |
| Total liabilities | <u>1,167,785</u> | <u>165,979</u> | <u>1,333,764</u> |
| Fund balance (deficit) | <u>(861,820)</u> | <u>543,939</u> | <u>(317,881)</u> |
| Total liabilities and fund balance (deficit) | <u><u>\$ 305,965</u></u> | <u><u>\$ 709,918</u></u> | <u><u>\$ 1,015,883</u></u> |

See Independent Auditors' Report.

The Notes to Financial Statements are an integral part of these statements.

Americano Beach Lodge Resort Condominium Association, Inc.
Statement of Revenue, Expenses, and Changes in Fund Balance (Deficit)
Year Ended December 31, 2015

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|---------------------|
| Revenue | | | |
| Owner assessments | \$ 2,616,260 | \$ 750,397 | \$ 3,366,657 |
| Developer assessments | 805,004 | - | 805,004 |
| Late charges and other income | 61,894 | 70 | 61,964 |
| | <u>3,483,158</u> | <u>750,467</u> | <u>4,233,625</u> |
| Expenses | | | |
| General and administrative | 2,091,291 | - | 2,091,291 |
| Housekeeping | 392,086 | - | 392,086 |
| Repairs and maintenance | 499,437 | 690,963 | 1,190,400 |
| Utilities | 455,940 | - | 455,940 |
| | <u>3,438,754</u> | <u>690,963</u> | <u>4,129,717</u> |
| Excess of revenue over expenses | 44,404 | 59,504 | 103,908 |
| Fund balance (deficit), beginning of year | <u>(906,224)</u> | <u>484,435</u> | <u>(421,789)</u> |
| Fund balance (deficit), end of year | <u>\$ (861,820)</u> | <u>\$ 543,939</u> | <u>\$ (317,881)</u> |

See Independent Auditors' Report.

The Notes to Financial Statements are an integral part of these statements.

Americano Beach Lodge Resort Condominium Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2015

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Excess of revenue over expenses | \$ 44,404 | \$ 59,504 | \$ 103,908 |
| Adjustments to reconcile excess of revenue over expenses to net cash provided by (used in) operating activities: | | | |
| Bad debt expense | 893,060 | - | 893,060 |
| Changes in assets and liabilities: | | | |
| Cash – tax escrow fund, restricted | 44,633 | - | 44,633 |
| Member assessments receivable | (893,060) | - | (893,060) |
| Prepaid expenses and other assets | 10,473 | 31,300 | 41,773 |
| Accounts payable and accrued expenses | 3,048 | - | 3,048 |
| Due to developer | 72,311 | - | 72,311 |
| Deferred assessment – real estate taxes | (44,633) | - | (44,633) |
| Prepaid assessments | (270,472) | 23,992 | (246,480) |
| Due (to) from other fund | 5,219 | (5,219) | - |
| Net cash provided by (used in) operating activities | <u>(135,017)</u> | <u>109,577</u> | <u>(25,440)</u> |
| Net increase (decrease) in cash | (135,017) | 109,577 | (25,440) |
| Cash, beginning of year | <u>221,219</u> | <u>595,122</u> | <u>816,341</u> |
| Cash, end of year | <u><u>\$ 86,202</u></u> | <u><u>\$ 704,699</u></u> | <u><u>\$ 790,901</u></u> |

See Independent Auditors' Report.

The Notes to Financial Statements are an integral part of these statements.

Americano Beach Lodge Resort Condominium Association, Inc.
Notes to Financial Statements
December 31, 2015

1. ORGANIZATION AND PURPOSE

Nature of Organization

Americano Beach Lodge Resort Condominium Association, Inc. (the "Association") was organized in 1992 as a not-for-profit corporation under the Condominium Act and Florida Real Estate Time-Share Act (Chapters 718 and 721, Florida Statutes). The purpose of the Association is to manage, operate, and maintain the common property ofAmericano Beach Lodge Resort Condominium (the "Resort") located in Daytona Beach, Florida. The Resort consists of 163 whole units and a recreation area containing a swimming pool and deck, jacuzzi, beachfront area for additional recreational activities, basketball court, deli, health club, and spa facilities. The Association is managed under an agreement with DaytonaAmericano Management, Inc. ("DAMCO" or the "Management Company").

The lounge, health club, and spa facilities represent property which has been retained by the Developer. However, members of the Association are entitled to the unlimited use of these facilities during their stay at the Resort. In addition, members of the Association also become members of the health club and spa, pursuant to the terms of the unit-week purchase contracts.

Each whole unit is subdivided into 52 fixed unit-weeks representing approximately 8,500 unit-weeks. As of December 31, 2015, Americano Beach Resort Limited Partnership (the "Developer") held title to approximately 2,000 unit-weeks.

On December 31, 2015, the Developer and the Management Company entered into an Asset Purchase Agreement with American Resort Coalition, Inc. ("ARC") to purchase substantially all of the assets of the Resort owned by the Developer as well as the DAMCO management agreement and all other assets of DAMCO. Effective January 1, 2016, ARC became the developer and the manager of the Resort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. 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 the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Americano Beach Lodge Resort Condominium Association, Inc.
Notes to Financial Statements
December 31, 2015

Cash and Concentration Risk

The Association considers money in checking accounts and money market funds to be cash. The Association maintains all of its cash in accounts at financial institutions which, at times, may exceed federally-insured amounts. The Federal Deposit Insurance Corporation ("FDIC") provides for deposits at FDIC insured institutions to be insured up to \$250,000. The Association has not experienced any losses in such accounts.

Cash – Tax Escrow Fund, Restricted

The tax escrow fund is utilized to collect real estate taxes billed to the owners to pay annual property taxes billed to the Association. The Association bills in advance based on an estimate to enable them to have the funds to pay the taxes when due. The Association remits real estate taxes on behalf of the individual unit-week owners, therefore, the real estate tax assessments and the related expenses are not presented on the Association's statement of revenue, expenses and changes in fund balance (deficit).

Member Assessments Receivable and Allowance for Doubtful Accounts

The Association provides for estimated future losses to be incurred due to uncollectible assessments. The allowance is based on past collection and industry experience at amounts sufficient to sustain any material losses that may result from unpaid accounts. Receivables are considered delinquent when they are 30 days past due. The portion of receivables which are considered delinquent is charged against the allowance when all collection efforts have been exhausted. Factors which influence management's judgement in determining the appropriate allowance for doubtful accounts, and for charging off uncollectible accounts, include past collection experience and industry standards. At December 31, 2015, member assessments receivable were deemed uncollectible and accordingly written off. For the year ended December 31, 2015, bad debt expense was \$893,060.

Revenue Recognition

Based upon a budget established by the Board of Directors, assessments are levied against the unit-week owners based on their proportionate share of common expenses and funds for future repairs and replacements.

Property and Equipment

Common property acquired from the Developer and others and related improvements to such property are not recognized in the Association's financial statements. Those properties are owned by the individual unit-week owners in common and not by the Association. Replacements, major repairs, and the purchase of additional commonly owned assets are accounted for as expenditures in the replacement fund.

Prepaid Assessments

Prepaid assessments consist of 2016 and future maintenance and tax assessments received by the Association in 2015.

Income Taxes

For the year ended December 31, 2015, the Association elected to be taxed as a homeowners association in accordance with Internal Revenue Code Section 528. Under that election, the Association is taxed only on its nonexempt function income, such as interest earnings, at a flat federal rate of 32%. Exempt function income, which consists primarily of member assessments, is not taxable. When applicable, interest and penalties will be reported as interest expense and general and administrative expenses, respectively.

Americano Beach Lodge Resort Condominium Association, Inc.
Notes to Financial Statements
December 31, 2015

For the year ended December 31, 2015, nonexempt function income exceeded the related expenses. Federal income tax expense is not material to these financial statements and has been funded throughout the year and recorded as an expense in the operating fund. The Association has no temporary differences relating to the recognition of income and expenses for financial and tax reporting purposes. Accordingly, no deferred tax assets or liabilities are recorded.

It is the Association's accounting policy to evaluate uncertain tax positions in accordance with the accounting pronouncement on uncertainty for income taxes. Management has determined that there are no uncertain tax positions as of December 31, 2015. In addition, the Association has no income tax related penalties or interest for the period reported in these financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09 (Revenue from Contracts with Customers (Topic 606)), which requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for some costs to obtain or fulfill a contract with a customer; and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. With respect to non-public entities, this update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is not permitted. The effect of this guidance on the financial statements of the Association has not been determined.

3. RELATED PARTY TRANSACTIONS

The Developer operates the Association's lounge, health club, and spa facilities and has the right to transact business necessary to continue these offerings during the period of sale, resale, and rental of all the unit-weeks owned by the Developer. As of December 31, 2015, \$72,311 of health club dues was collected on behalf of the Developer which was subsequently remitted and is included in due to Developer in the accompanying balance sheet.

4. MANAGEMENT AGREEMENT

On September 11, 1992, the Association entered into a management agreement with DAMCO as manager of the Resort through February 1995 with automatic renewal for successive periods of three years each unless cancelled by either party. DAMCO is controlled and owned by members of the Developer. The Management Company provides services, through employees and experts retained by it, incidental to management and operation of the Resort in exchange for a fee as more fully defined in the agreement. For the year ended December 31, 2015, the management fees are \$307,260 and are included in general and administrative expense in the accompanying statement of revenue, expenses, and changes in fund balance (deficit).

Pursuant to the requirement of Chapter 192, Florida Statutes, the Management Company will act as the "Agent" for purposes of ad valorem real estate tax assessments, taxation, and special assessments.

Americano Beach Lodge Resort Condominium Association, Inc.
Notes to Financial Statements
December 31, 2015

5. REPLACEMENT FUND

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements. Cash collected for replacements are maintained in a separate bank account and all interest income earned on these accounts is allocated to the replacement fund.

The Board of Directors annually approves the budgeted amounts needed to fund the major repairs and replacements of common property. The unit-week owners are funding these repairs and replacements over the remaining useful lives of the components by taking into consideration an independent reserve study performed in 2012 and management's estimate of certain reserve line items not included in the independent study. The estimates were based on future estimated replacement costs. Funding requirements do not consider inflation or interest on amounts funded for future major repairs and replacements. Accordingly, funding of \$750,399 has been included in the 2016 budget. Actual expenditures may vary from management's estimate of future expenditures and these variations may be material.

If additional funds are needed, the Association has the right, subject to the approval of the Board of Directors, to increase regular assessments, levy special assessments, or delay major repairs and replacements until appropriate funds are available. As of December 31, 2015, the Association's operating fund owed \$5,219 to the replacement fund, which was transferred subsequent to year end.

6. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 27, 2016, which is the date the financial statements were available to be issued. Based on the evaluation, the Association has determined that no subsequent events have occurred other than the matter in Note 1, which requires disclosure in or adjustment to the financial statements.

7. OPERATING FUND BALANCE DEFICIT

As of December 31, 2015, the Association's financial statements reflected a deficit within the operating fund of approximately \$861,820. This deficit was caused primarily as a result of the Association not collecting past outstanding maintenance fee assessments and continued operating deficits.

To address the operating fund deficit, management anticipates generating surpluses in future years by reducing operating expenses, increasing assessments, and anticipates ARC foreclosing on delinquent unit-weeks and increasing unit-week sales to generate productive unit-weeks.



SUPPLEMENTARY INFORMATION

Americano Beach Lodge Resort Condominium Association, Inc.
Schedule of Revenue and Expenses – Operating Fund
Year Ended December 31, 2015

| | <u>Actual</u> | <u>Budget (Unaudited)</u> |
|--|------------------|-------------------------------|
| Revenue | | |
| Maintenance assessments | \$ 3,421,264 | \$ 3,421,266 |
| Late charges and other income | 61,894 | 61,648 |
| Total revenue | <u>3,483,158</u> | <u>3,482,914</u> |
| Expenses | | |
| Rent-recreational and common facilities: | | |
| Management fee | 307,260 | 307,255 |
| General administration | 194,797 | 190,985 |
| Front desk payroll/taxes | 327,369 | 306,887 |
| Housekeeping payroll/taxes | 104,638 | 114,597 |
| Maintenance payroll/taxes | 351,125 | 401,962 |
| Front desk/reservations/night crew | | |
| Guest relations | 12,760 | 17,000 |
| Computer/office/secretary supplies | 10,073 | 8,325 |
| Equipment rental/copier/postage/print | 7,814 | 9,600 |
| Uniforms/training/miscellaneous | 1,973 | 3,800 |
| Telephone | 2,018 | 7,200 |
| Professional fees | | |
| Audit and tax expense | 13,400 | 24,000 |
| Housekeeping | | |
| Equipment rental/repair | 7,361 | 7,000 |
| Cleaning/laundry chemicals | 38,667 | 38,000 |
| Contract cleaning | 223,374 | 215,000 |
| Telephone | - | 600 |
| Unit consumables/inventory replacement | 18,047 | 16,000 |
| Maintenance | | |
| Building maintenance/ supplies | 66,213 | 74,934 |
| Contract plumbing | 2,405 | 3,612 |
| Elevator | 21,637 | 16,080 |
| Fire protection | 18,449 | 5,004 |
| Landscaping | 2,521 | 5,100 |
| Pool maintenance/supplies | 29,318 | 40,000 |
| Pest control | 6,142 | 5,840 |
| Supplies common | - | 12,000 |
| Telephone | 156 | 1,800 |
| Safety/education/training | 1,469 | 5,000 |
| Other operating expenses | | |
| Bad debt expense | 893,060 | 875,000 |
| Bank/credit card fees | 28,256 | 38,411 |
| Equipment rental | 4,599 | 7,700 |
| Insurance and licenses | 193,851 | 180,000 |
| Postage | 7,492 | 10,000 |
| Land sales division fees | 20,592 | 20,592 |
| Administrative office supplies/travel | 32,436 | 28,200 |
| Licenses/fees | 6,314 | 6,000 |
| Printing | 4,303 | 5,000 |
| Telephone | 1,272 | 6,000 |
| Taxes | 21,653 | 30,430 |
| Utilities | 455,940 | 438,000 |
| Total expenses | <u>3,438,754</u> | <u>3,482,914</u> |
| Excess of revenue over expenses | <u>\$ 44,404</u> | <u>\$ -</u> |

See Independent Auditors' Report.

Americano Beach Lodge Resort Condominium Association, Inc.
Schedule of Future Major Repairs and Replacements
December 31, 2015 (Unaudited)

An independent specialist conducted a study in 2012 to estimate the remaining useful lives and the current replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The following table is based on that study, as updated by management, and presents significant information about the components of common property:

| Components | Remaining Estimated Useful Lives | Estimated Current Replacement Costs | Fund Balance December 31, 2014 | Additions | Expenditures | Fund Balance (Deficit) December 31, 2015 |
|-------------------------|---|--|---|-------------------|---------------------|---|
| Roof | 9 years | \$ 390,000 | \$ 115,715 | \$ 26,006 | \$ 1,750 | \$ 139,971 |
| Exterior painting | 5 years | 150,000 | 33,877 | 30,002 | - | 63,879 |
| Pavement resurfacing | 2 years | 60,000 | 39,723 | 8,572 | 19,592 | 28,703 |
| Furnitures and fixtures | 5 years | 2,954,855 | 73,575 | 573,872 | 564,181 | 83,266 |
| Air conditioner | 5 years | 300,000 | 37,203 | 60,005 | 35,475 | 61,733 |
| Elevator | 18 years | 500,000 | 133,201 | 20,008 | - | 153,209 |
| Pool deck | 5 years | 80,000 | 19,001 | 16,001 | 60,784 | (25,782) |
| Telephone and computer | 5 years | 80,000 | 32,140 | 16,001 | 9,181 | 38,960 |
| | | <u>\$ 4,514,855</u> | <u>\$ 484,435</u> | <u>\$ 750,467</u> | <u>\$ 690,963</u> | <u>\$ 543,939</u> |