THE AMERICANO

AMERICANO BEACH LODGE RESORT CONDOMINIUM ASSOCIATION, INC.
Financial Statements
December 31, 2018
With Independent Auditors' Report

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AUDIT TAX ADVISORY

Americano Beach Lodge Resort Condominium Association, Inc.
December 31, 2018

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Final Draft

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, 2018, 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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming the Association will continue as a going concern. As discussed in Note 8 to the financial statements, the Association has a deficit fund balance in its operating fund of $1,171,585 as of December 31, 2018. In addition, the property suffered significant damage from two hurricanes during the prior year, which led to the closing of the resort. These conditions raise substantial doubt about the Association's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

Future Major Repairs and Replacements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements 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.

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 pages 11 and 12 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 that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," 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, except for that portion marked "unaudited," on which we express no opinion or any assurance, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report 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 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 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.

_________ __, 2019

Americano Beach Lodge Resort Condominium Association, Inc.
Balance Sheet
December 31, 2018

	Operating Fund	Special Assessment and Insurance Fund	Replacement Fund	Total
Assets				
Cash	$ 891,995	$ 155,528	$ 93,418	$ 1,140,941
Cash – tax escrow fund, restricted	84,972	-	-	84,972
Assessments receivable, net of allowance for doubtful accounts of $4,515,923	-	-	-	-
Due from developer, net	665,591	1,695,470	-	2,361,061
Prepaid expenses and other assets	80,848	-	-	80,848
Interfund receivable	-	-	2,753,781	2,753,781
Total assets	$ 1,723,406	$ 1,850,998	$ 2,847,199	$ 6,421,603
Liabilities and Fund Balance (Deficit)				
Liabilities				
Accounts payable and accrued expenses	$ 145,558	$ 103,030	$ -	$ 248,588
Prepaid assessments	94,808	-	-	94,808
Deferred special assessment revenue	-	1,498,711	-	1,498,711
Real estate taxes payable	209,709	-	-	209,709
Interfund payable	2,444,916	308,865	-	2,753,781
Total liabilities	2,894,991	1,910,606	-	4,805,597
Fund balance (deficit)	(1,171,585)	(59,608)	2,847,199	1,616,006
Total liabilities and fund balance (deficit)	$ 1,723,406	$ 1,850,998	$ 2,847,199	$ 6,421,603

Americano Beach Lodge Resort Condominium Association, Inc.
Statement of Revenue, Expenses, and Changes in Fund Balance (Deficit)
Year Ended December 31, 2018

	Operating Fund	Special Assessment and Insurance Fund	Replacement Fund	Total
Revenue				
Owner assessments	$ 3,640,935	$ 1,219,380	$ 844,577	$ 5,704,892
Developer assessments	760,039	1,847,195	209,012	2,816,246
Late charges and other income	306,815	607	1,309	308,731
Insurance proceeds	-	21,800	-	21,800
	4,707,789	3,088,982	1,054,898	8,851,669
Expenses				
General and administrative	588,036	-	-	588,036
Housekeeping	1,119	-	-	1,119
Repairs and maintenance	105,349	-	28,893	134,242
Other operating expenses	3,433,423	-	-	3,433,423
Professional fees	-	412,759	-	412,759
Hurricane construction expenses	-	2,676,223	-	2,676,223
	4,127,927	3,088,982	28,893	7,245,802
Excess (deficiency) of revenue over expenses	579,862	-	1,026,005	1,605,867
Fund balance (deficit)				
Beginning of year	(1,751,447)	(59,608)	1,821,194	10,139
End of year	$ (1,171,585)	$ (59,608)	$ 2,847,199	$ 1,616,006

Americano Beach Lodge Resort Condominium Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

	Operating Fund	Special Assessment and Insurance Fund	Replacement Fund	Total
Cash flows from operating activities				
Excess (deficiency) of revenue over expenses	$ 579,862	$ -	$ 1,026,005	$ 1,605,867
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities				
Bad debt expense	2,435,025	-	-	2,435,025
Changes in assets and liabilities				
Cash – tax escrow fund, restricted	(56,509)	-	-	(56,509)
Member assessments receivable	(2,435,025)	-	-	(2,435,025)
Due to/from developer, net	(538,689)	(1,695,470)	-	(2,234,159)
Insurance proceeds receivable	-	930,176	-	930,176
Prepaid expenses and other assets	(9,984)	-	-	(9,984)
Accounts payable and accrued expenses	65,072	(320,158)	-	(255,086)
Deferred special assessement revenue	-	1,498,711	-	1,498,711
Real estate taxes payable	209,709	-	-	209,709
Prepaid assessments	(1,483,432)	-	-	(1,483,432)
Net cash provided by (used in) operating activities	(1,233,971)	413,259	1,026,005	205,293
Cash flows from financing activities				
Interfund borrowings	1,397,999	(257,731)	(1,140,268)	-
Net increase (decrease) in cash	164,028	155,528	(114,263)	205,293
Cash				
Beginning of year	727,967	-	207,681	935,648
End of year	$ 891,995	$ 155,528	$ 93,418	$ 1,140,941

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 of Americano 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. ARC Americano, LLC is the developer of the resort.

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, 2018, Americano Beach Resort Limited Partnership (the “Developer”) held title to approximately 1,460 unit-weeks.

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.

Basis of Presentation
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.

Special Assessment and Insurance Fund – This fund is used to account for the insurance proceeds and special assessments and repairs related to the hurricane damages (Note 7).

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

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).

Assessments Receivable and Allowance for Doubtful Accounts

Assessments receivable represent amounts due from unit-week owners for maintenance and taxes. The budgeted amount of the annual assessment for the replacement fund is funded from annual cash receipts. All regular assessments receivable are presented in the operating fund.

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, 2018, all member assessments receivable were deemed uncollectible and accordingly written off. For the year ended December 31, 2018, bad debt expense in the operating and insurance fund was $2,435,025.

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 2018 and future maintenance and tax assessments received by the Association in 2018.

Income Taxes
For the year ended December 31, 2018, 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.

For the year ended December 31, 2018, nonexempt function income did not exceed the related expenses. Therefore, no federal or state income tax is recorded. 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, 2018. In addition, the Association has no income tax related penalties or interest for the period reported in these financial statements.

Recently Issued Accounting Pronouncement
In May 2014, the Financial Accounting Standards Board ("FASB") 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. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 for all entities by one year. 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 permitted for fiscal years beginning after December 15, 2016. The effect of this guidance on the financial statements of the Association has not been determined.

2. OWNER ASSESSMENTS

Pursuant to the Declaration of Condominium and By-Laws of the Association, assessments (both regular and special) are allocated to the unit-week owners in the proportions or percentages provided in the Declaration. The annual budget and owner assessments are determined by the Board of Directors.

The 2018 annual assessments to the unit-week owners ranged from $565.81 to $1,086.68 depending on the unit type.

At December 31, 2018, operating assessments amounted to $665,591 is due from the developer and is due in May 2020.

The Association is collecting assessments for and remitting real estate taxes on behalf of 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).

On March 20, 2018, the Board of Directors passed a special assessment in the amount of $4,565,286 for the purpose of repairing the property damages from the hurricanes (see Note 7).

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, 2018, $16,770 of health club dues was collected on behalf of the Developer which was subsequently remitted and is included in due from Developer, net in the accompanying balance sheet.

4. MANAGEMENT AGREEMENT

The Association entered into a management agreement with ARC Resorts LLC (the “Management Company”) as manager of the Resort for a period of three years with automatic renewal for successive periods of three years each unless cancelled by either party under the terms of the agreement. 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, 2018, the management fees are $246,408 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.

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 $2,374,417 has been included in the 2019 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.

6. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through _________ __, 2019, the date which the financial statements were available to be issued. Based on this evaluation, the Association has determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

7. INSURANCE PROCEEDS AND SPECIAL ASSESSMENTS

During 2017 and 2016, the Association suffered damages approximating over $5 million from two hurricanes that destroyed a significant percentage of the units, infrastructure, other property, and equipment. The Association submitted insurance claims under their existing policies, and is in negotiations with the insurance companies, and may submit additional claims.

During the year ended December 31, 2018, the Association received the remaining amount of the insurance claims previously submitted and approved which amounted to $21,800.

In addition, the Board of Directors passed a special assessment in the amount of $4,565,286 for the purpose of repairing the property damages from the hurricanes. Total amount collected amounted to $2,869,816 and $1,695,470 is recorded as due from developer, net in the accompanying balance sheet as of December 31, 2018. As of December 31, 2018, total costs incurred amounted to $3,088,984 and accordingly, $1,498,711 is recorded as deferred special assessment revenue in the accompanying balance sheet.

8. GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared assuming the Association will continue as a going concern. However, the following conditions raise substantial doubt about its ability to continue as a going concern. As of December 31, 2018, the Association's financial statements reflect an accumulated deficit for the operating fund of approximately $1.2 million. In addition, during 2017 the hurricane damages (see Note 7) impacted a significant portion of the property and affected a large percentage of the units rendering the property unusable.

Based on the current estimates of management, the insurance coverage and special assessment is not sufficient to cover the loss in full.

To address the operating fund deficit and the property damage, management is attempting to obtain loans and/or investors to secure the necessary financing for the property repairs. In the event management is unsuccessful in obtaining the necessary funding and unable to complete the necessary repairs to the property, management may be obligated to seek a termination of the condominium and timeshare plan, and to liquidate the property and distribute the net proceeds, if any, as required under Florida statutes.

9. COMMITMENTS AND CONTINGENCIES

During its operations, the Association is subject to various claims, torts, and actions. Management reviews the validity of such actions and acts accordingly. Management does not believe the outcome of any current actions will result in a material loss to the Association.

SUPPLEMENTARY INFORMATION

Final Draft

	Actual	Budget (Unaudited)
Revenue		
Maintenance assessments	$ 4,400,974	$ 4,400,974
Rental income, net	-	48,000
Late charges and other income	306,815	67,800
Total revenue	4,707,789	4,516,774
Expenses		
General and administrative		
Rent – recreational and common facilities		
Management fee	246,408	307,255
General administration	259,036	279,455
Front desk payroll/taxes	685	299,971
Housekeeping payroll/taxes	29,099	572,014
Maintenance payroll/taxes	29,530	452,685
Total rent – recreational and common facilities	564,758	1,911,380
Front desk/reservations/night crew		
Guest relations	11	30,000
Computer/office/secretary supplies	817	-
Uniforms/training/miscellaneous	-	3,000
Total front desk/reservations/night crew	828	33,000
Professional fees		
Audit and tax expense	22,450	14,400
Total general and administrative	588,036	1,958,780

Continued

Americano Beach Lodge Resort Condominium Association, Inc.
Schedule of Revenue and Expenses – Operating Fund
Year Ended December 31, 2018

	Actual	Budget (Unaudited)
Housekeeping		
Equipment rental/repair	-	10,200
Cleaning/laundry chemicals	642	138,000
Contract cleaning	477	231,794
Unit consumables/inventory replacement	-	72,000
Total housekeeping	1,119	451,994
Maintenance		
Building maintenance/ supplies	35,760	132,000
Contract plumbing	-	15,000
Elevator	21,629	23,400
Fire protection	8,251	7,800
Landscaping	1,519	15,000
Pool maintenance/supplies	16,443	51,000
Pool contractor	14,460	36,000
Pest control	5,457	11,400
Outside labor	527	3,000
Safety/education/training	1,303	7,800
Total maintenance	105,349	302,400
Other operating expenses		
Bad debt expense	2,435,025	720,000
Bank/credit card fees	62,466	43,200
Equipment rental	10,174	7,800
Insurance and licenses	332,678	270,000
Postage	18,435	12,000
Land sales division fees	20,592	24,000
Administrative office supplies/travel	100,846	76,800
Licenses/fees	107,238	15,000
Printing	13,080	6,600
Security services	79,050	11,400
IT services	3,890	7,200
Utilities	249,949	609,600
Total other operating expenses	3,433,423	1,803,600
Total expenses	4,127,927	4,516,774
Excess of revenue over expenses	$ 579,862	$ -

Americano Beach Lodge Resort Condominium Association, Inc.
Schedule of Future Major Repairs and Replacements (Unaudited)
December 31, 2018

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 (Deficit) December 31, 2017	Additions	Expenditures	Fund Balance (Deficit) December 31, 2018
Roof	15 years	$ 500,000	$ 191,976	$ 33,333	$ 26,320	$ 198,989
Exterior painting	1 year	175,000	123,881	35,000	-	158,881
Pavement resurfacing	1 year	60,000	45,846	8,571	-	54,417
Furnitures and fixtures	1 year	1,000,000	1,120,644	201,309	2,573	1,319,380
Air conditioner	1 year	870,000	142,978	87,000	-	229,978
Elevator	15 years	500,000	193,216	20,000	-	213,216
Pool deck	8 years	150,000	(60,637)	15,000	-	(45,637)
Telephone and computer	1 year	80,000	63,290	16,000	-	79,290
Window Systems	25 years	4,300,000	-	638,685	-	638,685
		$ 7,635,000	$ 1,821,194	$ 1,054,898	$ 28,893	$ 2,847,199