

Bay Tree Club Association, Inc.

**Independent Auditor's Report,
Financial Statements
and
Supplementary Information**

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bay Tree Club Association, Inc.

We have audited the accompanying financial statements of Bay Tree Club Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Tree Club Association, Inc. as of December 31, 2018, 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.

Emphasis of Matter

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 4 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 supplementary schedules of operating fund expenses and of replacement fund activity on pages eleven (11) through thirteen (13) are presented for purposes 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 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 supplementary information on future major repairs and replacements on page fourteen (14) 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.

Menchinger & Tychel CPAs, LLC

March 3, 2019
Curtiss Office
Sarasota, Florida

Bay Tree Club Association, Inc.

Sarasota, Florida

Balance Sheet

December 31, 2018

ASSETS

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 159,955	\$ 289,874	\$ 449,829
Certificate of deposits	-	35,000	35,000
Due from other fund	-	25,000	25,000
Prepays and other	69,871	-	69,871
Property and equipment, net of accumulated depreciation of \$39,659	<u>12,217</u>	<u>-</u>	<u>12,217</u>
 Total Assets	 <u>\$ 242,043</u>	 <u>\$ 349,874</u>	 <u>\$ 591,917</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	\$ 16,518	\$ -	\$ 16,518
Payroll accrual	4,013	-	4,013
Due to other fund	25,000	-	25,000
Deposits	3,825	-	3,825
Prepaid member assessments	<u>86,755</u>	<u>-</u>	<u>86,755</u>
 Total Liabilities	 136,111	 -	 136,111
 Fund Balances	 <u>105,932</u>	 <u>349,874</u>	 <u>455,806</u>
 Total Liabilities and Fund Balances	 <u>\$ 242,043</u>	 <u>\$ 349,874</u>	 <u>\$ 591,917</u>

The accompanying notes are an integral part of these financial statements.

Bay Tree Club Association, Inc.

Sarasota, Florida

Statement of Revenues, Expenses and Changes in Fund Balances

Year Ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 638,492	\$ 168,000	\$ 806,492
Recovery of bad debt	55,358	-	55,358
Interest	-	2,035	2,035
Application fees	12,620	-	12,620
Laundry	10,235	-	10,235
Late fees and other	<u>2,884</u>	<u>-</u>	<u>2,884</u>
Total Revenues	<u>719,589</u>	<u>170,035</u>	<u>889,624</u>
Expenses			
Administration	200,567	-	200,567
Grounds	60,579	-	60,579
Maintenance	132,848	-	132,848
Pool and recreation	20,536	-	20,536
Utilities	158,515	-	158,515
Payroll and related	118,810	-	118,810
Replacement	<u>-</u>	<u>76,453</u>	<u>76,453</u>
Total Expenses	<u>691,855</u>	<u>76,453</u>	<u>768,308</u>
Excess Revenues over Expenses	<u>27,734</u>	<u>93,582</u>	<u>121,316</u>
Beginning Fund Balances	103,198	231,292	334,490
Transfer	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Ending Fund Balances	<u>\$ 105,932</u>	<u>\$ 349,874</u>	<u>\$ 455,806</u>

The accompanying notes are an integral part of these financial statements.

Bay Tree Club Association, Inc.

Sarasota, Florida

Statement of Cash Flows
Year Ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Member assessments received	\$ 710,238	\$ 168,000	\$ 878,238
Interest received	-	2,035	2,035
Other receipts	25,214	-	25,214
Cash paid to suppliers and contractors	<u>(693,811)</u>	<u>(76,453)</u>	<u>(770,264)</u>
Net Cash Provided by Operating Activities	<u>41,641</u>	<u>93,582</u>	<u>135,223</u>
Cash Flows From Investing Activities:			
Purchase of equipment	<u>(7,022)</u>	<u>-</u>	<u>(7,022)</u>
Net Cash Used by Investing Activities	<u>(7,022)</u>	<u>-</u>	<u>(7,022)</u>
Cash Flows From Financing Activities:			
Transfer	(25,000)	25,000	-
Change in due (to) from other fund	<u>25,187</u>	<u>(25,187)</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>187</u>	<u>(187)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	34,806	93,395	128,201
Cash and Cash Equivalents - Beginning of Year	<u>125,149</u>	<u>196,479</u>	<u>321,628</u>
Cash and Cash Equivalents - End of Year	<u>\$ 159,955</u>	<u>\$ 289,874</u>	<u>\$ 449,829</u>

The accompanying notes are an integral part of these financial statements.

Bay Tree Club Association, Inc.

Sarasota, Florida

Statement of Cash Flows

Year Ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Reconciliation of excess revenues over expenses to net cash provided by operating activities			
Excess Revenues over Expenses	\$ 27,734	\$ 93,582	\$ 121,316
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:			
Depreciation	4,905	-	4,905
Decrease (increase) in operating assets:			
Assessments receivable	6,419	-	6,419
Prepays and other	768	-	768
Increase (decrease) in operating liabilities			
Accounts payable	(3,720)	-	(3,720)
Payroll accrual	(3,909)	-	(3,909)
Deposits	(525)	-	(525)
Prepaid member assessments	9,969	-	9,969
Total Adjustments	<u>13,907</u>	<u>-</u>	<u>13,907</u>
Net cash provided by operating activities	<u>\$ 41,641</u>	<u>\$ 93,582</u>	<u>\$ 135,223</u>

The accompanying notes are an integral part of these financial statements.

Bay Tree Club Association, Inc.
Sarasota, Florida

Notes to the Financial Statements
December 31, 2018

Note 1 – Nature of Organization and Management Review

Nature of Organization

Bay Tree Club Association, Inc. (“the Association”) is a not-for-profit corporation organized to provide an entity pursuant to Section 718 of the Florida Condominium Act for the administration, maintenance, operation, and management of 120 residential units of Bay Tree Club Association located on Siesta Key, Florida. Assessments against the owners of the condominium units, which are the principal source of revenue, are based on the total estimated amounts required to protect and maintain the property owned by the unit owners in common of the Association.

All policy decisions are formulated by the Board of Directors. Certain major decisions are referred to the general membership before action is taken.

Management Review

The Association has evaluated events and transactions for potential recognition or disclosure through March 3, 2019, the date the financial statements were available to be issued.

Note 2 – Summary of Significant Accounting Policies

Financial Statements

The financial statements and notes are the representations of the Association’s management, who is responsible for their integrity and objectivity. The accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of 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 Board of Directors and 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. The operating fund reflects the operating assessments paid by unit owners to meet the regular costs of operation. Expenditures of this fund are limited to those connected with the day-to-day operations and non-recurring unanticipated expenditures.

Replacement Fund – This fund is used to account for financial resources designated for future major repairs and replacements. The replacement fund is composed of all capital assessments paid by unit owners to fund future replacements, major repairs and purchases of additional commonly-owned assets. Disbursements from the reserve fund may generally be made only for designated purposes.

Interest Earned on Reserves

The Association’s policy is to include in the replacement fund any interest earned on the replacement fund investments.

Allocation of Income and Expenses

The allocation of income and expenses to Association members is based on the condominium documents, which state that the Association members share the income and expenses based on the size of the unit.

Member Assessments

The Association bills its members in advance, on a quarterly basis, assessments based upon approved budgets which estimate the amount of funds needed to provide for the administration, operation and management of the Association. The quarterly assessments for 2018 ranged from \$1,512 to \$1,854, of which \$315 to \$386 was designated for the replacement fund. Excess assessments at year end are retained by the Association for use in the succeeding year.

Bay Tree Club Association, Inc.
Sarasota, Florida

Notes to the Financial Statements
December 31, 2018

Note 2 – Summary of Significant Accounting Policies - continued

Assessments Receivable

The Association records assessments and other receivables at their net realizable value. An allowance for doubtful accounts is established based on specific assessment of all amounts that remain unpaid following normal payment periods. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period the determination is made. The Association's management has provided an allowance for uncollectible assessments of \$0 as of December 31, 2018.

The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are delinquent.

Income Taxes

The Association has an option for income tax purposes to elect on an annual basis to be taxed as a regular corporation under Section 277 of the Internal Revenue Code whereby non-member income is taxed at regular corporate rates, or to be taxed at a special corporate rate of 30% on its net, non-function income, less \$100 exclusion, in accordance with Section 528 of the Internal Revenue Code. For 2018, the Association has elected to file under Section 528.

FASB ASC 740, *Income Taxes*, sets forth standards for financial presentation and disclosure of income tax liabilities and expenses and clarifies the accounting for uncertainty in income taxes recognized. In accordance with FASB ASC 740, *Income Taxes*, the Association has evaluated its tax positions and determined that the Association has no uncertain income tax positions that could have a material effect on the financial statements.

As of the date of the financial statements, the Association's federal and state income tax returns for 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service. These returns are open to examination generally for three years after they were filed.

Cash Equivalents

For purposes of the balance sheet and the statement of cash flows, the Association considers demand deposits with banks, money market funds and all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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 certain 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Commonly Owned Assets

The Association has the responsibility to preserve and maintain the commonly owned assets. Commonly owned assets include building exteriors, pool, cabana, docks, landscaping and paved areas. The Association's policy is not to capitalize and depreciate the commonly owned real property as ownership is vested directly or indirectly in the unit owners and these assets are not deemed to be severable.

Property and Equipment

The Association capitalizes personal property to which it has title at cost. The Association's property and equipment are depreciated using the straight-line method over the estimated useful life of five (5) years. Depreciation expenses was \$4,905 for the year ended December 31, 2018.

Bay Tree Club Association, Inc.
Sarasota, Florida

Notes to the Financial Statements
December 31, 2018

Note 3 – Property and Equipment

Property and equipment consists of the following:

Furniture	\$ 5,228
Machinery and equipment	<u>46,648</u>
Total cost	51,876
Accumulated depreciation	<u>(39,659)</u>
Net property and equipment	<u>\$12,217</u>

Note 4 – Future Major Repairs and Replacements

Florida Statutes and the Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in a separate bank account and generally are not available for expenditures for normal operations.

A formal replacement fund study was prepared during 2015. The Association is funding for major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously designated for future repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study. The 2019 budget includes funding of \$161,000. The study includes a 2019 funding contribution of \$89,214. The members waived full funding of the replacement fund for 2018 and 2019.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 5 – Investment in Marketable Debt Securities

The Association has purchased several marketable certificates of deposit with various maturity dates. The Association has the positive intent and ability to hold these securities to maturity and has classified these securities as held-to-maturity in accordance with *FASB Accounting Standards Codification 320*. Securities classified as held-to-maturity are to be measured at amortized cost. The various certificates of deposit were purchased at par and have been reported on the Association's balance sheet at cost of \$35,000. The fair value of the various certificates of deposit as of December 31, 2018 were \$34,917. As of December 31, 2018, the Association had an unrecognized holding loss of \$83.

Bay Tree Club Association, Inc.
Sarasota, Florida

Notes to the Financial Statements
December 31, 2018

Note 6 – Concentrations

The Association maintains its cash balances at local financial institutions. Accounts at each financial institution are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in aggregate. At times, cash balances may be in excess of FDIC insured limits. As of December 31, 2018 there was \$0 above FDIC insured limits.

All revenues are generated from residences of a single condominium located in a small geographic area. A loss of revenue could disrupt operations and have a severe impact on the Association.

Note 7 – Contingencies

The Associations current windstorm policy contains a 5% deductible clause. Based upon an insured value of the buildings and contents of approximately \$26 million, the first 5% or approximately \$1.3 million in damages caused by a named windstorm as further defined in the insurance policy would be the responsibility of the Association.

At times, the Association is involved in disputes or litigation with owners, suppliers and others in the normal course of operations. In the opinion of the Board of Directors, the ultimate disposition of these matters will not have a material adverse effect on the Association's financial position, liquidity or results of operations.

Note 8 – Commitment

Cable

During 2014, the Association entered into a bulk services agreement with a local cable serve provider. The term of the contract is for seven (7) years. This agreement will automatically renew for successive one (1) year periods, unless either party provides ninety days written notice of their intent not to renew. The service provider has the right to increase the fee as further defined in the agreement. Based upon current costs, future minimum payments under this agreement are as follows:

December 31,	
2019	\$ 90,420
2020	90,420
2021	90,420
Thereafter	<u> -</u>
Total	<u>\$271,260</u>

SUPPLEMENTARY INFORMATION

Bay Tree Club Association, Inc.

Sarasota, Florida

Supplementary Schedule of Operating Fund Expenses

Year Ended December 31, 2018

	<u>Operating Fund</u>
Administration	
Office supplies	\$ 5,695
Legal and accounting	14,294
Insurance	163,004
Management fees	12,000
Licenses and permits	1,756
Telephone and internet	3,079
Miscellaneous	<u>739</u>
Total Administration	<u>200,567</u>
Grounds	
Landscape contract	22,090
Sprinkler and irrigation	2,982
Grounds supply and equipment	9,312
Grounds repairs	7,129
Tree trimming	13,320
Plants and landscaping	<u>5,746</u>
Total Grounds	<u>60,579</u>
Maintenance	
Fire Alarm	3,706
Supplies and equipment	1,624
Cleaning services	22,865
Air conditioning	4,719
Elevators	10,644
Repairs - stack lines	77,962
Boat dock	1,238
Electrical	550
Miscellaneous	1,122
Pest control	3,513
Depreciation	<u>4,905</u>
Total Maintenance	<u>132,848</u>

Continued page 12

Bay Tree Club Association, Inc.

Sarasota, Florida

Supplementary Schedule of Operating Fund Expenses

Year Ended December 31, 2018

	<u>Operating Fund</u>
Pool and Recreation	
Pool maintenance contract	8,757
Pool supplies and repairs	2,979
Pool heat	<u>8,800</u>
Total Pool and Recreation	<u>20,536</u>
Utilities	
Trash removal	1,906
Water and sewer	53,760
Electricity	12,422
Cable	<u>90,427</u>
Total Utilities	<u>158,515</u>
Payroll and related	<u>118,810</u>
Total Operating Fund Expenses	<u>\$ 691,855</u>

Bay Tree Club Association, Inc.

Sarasota, Florida

Supplementary Schedule of Replacement Fund Activity

Year Ended December 31, 2018

Beginning pooled balance - January 1	<u>\$ 231,292</u>
Revenues	
Assessments	168,000
Interest	<u>2,035</u>
Total revenues	<u>170,035</u>
Expenses:	
Plumbing	(69,688)
Roofing	(239)
Miscellaneous building components	<u>(6,526)</u>
Total expenses	<u>(76,453)</u>
Transfer	<u>25,000</u>
Ending pooled balance - December 31	<u>\$ 349,874</u>

Bay Tree Club Association, Inc.
Sarasota, Florida

Supplementary Information on Future Major Repairs and Replacements
December 31, 2018
(Unaudited)

The following is the estimated remaining life and estimated cost to replace the components of the replacement fund. This information is based upon a formal replacement fund study prepared in 2015.

<u>Reserve Component</u>	<u>Estimated Remaining Life In Years</u>	<u>Estimated Cost to Replace</u>	<u>2019 Funding Requirement</u>
Streets / asphalt	0-13	\$ 117,260	
Roofing	0-10	375,600	
Painting	0-6	174,759	
Recreation / pool	0-11	81,600	
Equipment	0-10	120,000	
Building components	3-21	334,857	
Doors	2	18,000	
Plumbing	0-2	336,000	
Fire alarm	0-0	9,000	
		<u>\$ 1,567,076</u>	<u>\$ 89,214</u>

Read note 4

Read independent auditor's report