

Sunset Bay Merritt Island Condominium Association, Inc.

Financial Statements and
Supplementary Information

December 31, 2016

Cole & Associates, LLC

Certified Public Accountants

Cole & Associates, LLC

Certified Public Accountants

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Sunset Bay Merritt Island Condominium Association, Inc.

To the Board of Directors:

We have reviewed the accompanying financial statements of Sunset Bay Merritt Island Condominium Association, Inc., which comprise the balance sheet as of December 31, 2016 and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

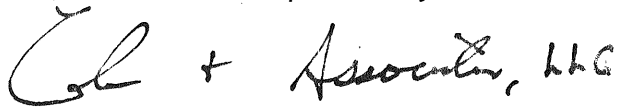
Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Supplementary Information

The accompanying supplementary comparison schedules on pages 12 - 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and do not express an opinion, a conclusion, nor provide any assurance on it.

A handwritten signature in black ink that reads "Cole & Associates, LLC". The signature is written in a cursive, flowing style.

Cole & Associates, CPA, LLC
Certified Public Accountants
March 4, 2017

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
ASSETS:			
Cash	\$ 267,587	\$ 267,353	\$ 534,940
Assessments receivable (Note 3)	24,665	-	24,665
Prepaid expenses	14,414	-	14,414
Other assets	2,300	-	2,300
TOTAL ASSETS	\$ 308,966	\$ 267,353	\$ 576,319
 LIABILITIES:			
Accounts payable and accrued expenses	\$ 8,400	\$ -	\$ 8,400
Due to developer (Note 5)	19,010	-	19,010
Prepaid assessments	40,531	-	40,531
TOTAL LIABILITIES	67,941	-	67,941
FUND BALANCE	241,025	267,353	508,378
TOTAL LIABILITIES AND FUND BALANCE	\$ 308,966	\$ 267,353	\$ 576,319

See accompanying notes and accountant's review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUE:			
Assessment income	\$ 439,555	\$ 298,000	\$ 737,555
Interest income	278	218	496
Other income	<u>13,373</u>	<u>-</u>	<u>13,373</u>
TOTAL REVENUE	<u>453,206</u>	<u>298,218</u>	<u>751,424</u>
EXPENDITURES:			
Accounting & legal	12,387	-	12,387
Bad debt	9,054	-	9,054
Building repairs & maintenance	42,225	-	42,225
Clubhouse maintenance	593	-	593
Contract grounds maintenance	33,309	-	33,309
Insurance	129,733	-	129,733
Interest expense	167	-	167
Irrigation repair	5,382	-	5,382
Licenses, permits & taxes	1,597	-	1,597
Management fees	49,476	-	49,476
Office & other expenses	19,150	-	19,150
Other grounds maintenance	7,367	-	7,367
Other pool maintenance	6,311	-	6,311
Payroll expense	61,716	-	61,716
Pest control	9,985	-	9,985
Pool maintenance	7,475	-	7,475
Safety & security	4,673	-	4,673
Utilities	25,119	-	25,119
Reserve expenditures	<u>-</u>	<u>133,532</u>	<u>133,532</u>
TOTAL EXPENDITURES	<u>425,719</u>	<u>133,532</u>	<u>559,251</u>
REVENUE IN EXCESS OF EXPENDITURES	27,487	164,686	192,173
BEGINNING FUND BALANCE	<u>213,538</u>	<u>102,667</u>	<u>316,205</u>
ENDING FUND BALANCE	<u>\$ 241,025</u>	<u>\$ 267,353</u>	<u>\$ 508,378</u>

See accompanying notes and accountant's review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Assessment fees collected	\$ 471,968	\$ 298,000
Interest received	278	218
Other income	13,373	-
Cash paid for operating expenses	(425,471)	-
Replacement expenses paid	-	(293,532)
Net cash provided (used) by operating activities	60,148	4,686
NET CHANGE IN CASH	60,148	4,686
CASH AND CASH EQUIVALENTS - Beginning of Year	207,439	262,667
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 267,587</u>	<u>\$ 267,353</u>

See accompanying notes and accountant's review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund
	<u> </u>	<u> </u>
RECONCILIATION OF NET REVENUES AND EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenues over expenditures	\$ 27,487	\$ 164,686
Adjustment to reconcile net revenues and expenditures to net cash provided by operating activities:		
Bad debt expense	9,054	-
(Increase) decrease in:		
Assessments receivable	9,573	-
Prepaid expenses	935	-
Other assets	(1,976)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	1,939	(160,000)
Other liabilities	(650)	-
Prepaid assessments	13,786	-
Net cash provided (used) by operating activities:	<u>60,148</u>	<u>4,686</u>
NET CHANGE IN CASH	<u>60,148</u>	<u>4,686</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>207,439</u>	<u>262,667</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 267,587</u>	<u>\$ 267,353</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 167</u>	

See accompanying notes and accountant's review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sunset Bay Merritt Island Condominium Association, Inc. (the "Association") is incorporated in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 192 residential units located in Brevard County, Florida.

Financial Statements

The accompanying financial statements were prepared pursuant to the requirements of Florida Statutes and the American Institute of Certified Public Accountants.

Fund Accounting

The Association presents its financial statements on the accrual basis using fund accounting. The financial statements are therefore segregated into funds based upon different funding policies established for operating and capital expenditures.

The Operating Fund reflects the maintenance assessments paid by unit owners to meet the regular, recurring costs of operations. Expenditures from this fund are limited to those connected with daily operations.

The Replacement Fund is composed of capital assessments paid by unit owners to fund future replacements and major repairs. Expenditures from this fund are typically restricted to those items for which assessments were specifically collected. Interest earned on replacement funds remains in the Replacement Fund and may only be expended for components previously funded.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

See independent accountants' review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real and Common Area Property

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. Real and common area property acquired from the developer is not capitalized in the Association's financial statements, as it is owned by the individual unit owners in common and not by the Association. As a result, improvements made to the real property and common areas are expensed as incurred.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Concentrations of Risk

The Association maintains cash balances at several banks. Deposits at banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2016, the uninsured portion of cash balances is \$141,487.

The Association has obtained insurance coverage for damages covered by windstorm. The Association would be responsible for losses up to the amount of the deductible and has the right to increase regular assessments, levy a special assessment or delay repairs until adequate funds are available.

Commitments and Contingency

The Association has entered into various short-term contractual agreements with outside vendors and service providers to maintain its common property and to administer the Association. These contracts have different expiration dates and renewal terms.

Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date that the financial statements were issued.

See independent accountants' review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, as well as Florida Statutes, require funds to be accumulated for future major repairs and replacements. The funds are segregated and are not generally available for expenditures for normal operations.

During the fall of 2016, the Association estimated the remaining useful lives and current replacement costs of common property components. Estimates were based on professional judgment, which may include contractor estimates for major components. The Association is funding for major repairs and replacements over the remaining useful lives, and considering amounts previously accumulated in the replacement fund.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

The following table presents significant information about the components of common property:

COMPONENT	BALANCE 12/31/15	FUNDING DURING YEAR	INTEREST & OTHER INCOME	CHARGES TO FUND	BALANCE 12/31/16
Pooled	102,667	298,000	218	(133,532)	267,353
TOTAL	<u>\$ 102,667</u>	<u>\$ 298,000</u>	<u>\$ 218</u>	<u>\$ (133,532)</u>	<u>\$ 267,353</u>

See independent accountants' review report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 3: MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Association expenses are allocated on a pro-rata basis per unit (1/192). Assessments receivable at the balance sheet date represent fees due from unit owners. It is the Association's policy to retain legal counsel and place liens on the property of delinquent homeowners. Assessments that have been deemed to be uncollectible as of the report date have been charged to bad debts. The allowance for uncollectible accounts is \$9,900 on December 31, 2016.

NOTE 4: INCOME TAXES

Associations may be taxed as homeowners' associations or as regular corporations. In 2016, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, net of directly related expenses, at a rate of 30%. Income tax expense was \$0 for the year then ended.

NOTE 5: TURNOVER FROM DEVELOPER

Control of the Association transitioned from the developer to the homeowners on December 5, 2012, resulting in an amount due back to the developer of \$19,010. The Association is disputing this amount due to structural defects and may consider pursuing the Developer for repairs.

SUPPLEMENTAL INFORMATION

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)**

December 31, 2016

In the fall of 2016, the Association estimated the remaining useful lives and current replacement costs of common property components. Estimates were based upon professional judgment, which may include contractor estimates for major components. Florida statutes require disclosure of the amount of the annual funding required to fully fund each reserve account over the remaining useful life of the applicable asset.

The following is based on the estimate provided by the Association and presents significant information about the components of common property:

COMPONENT	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	REPAIRS / REPLACEMENTS 2016	2017 STATUTORY FUNDING REQUIRED
Painting	3 - 30	\$ 1,104,186	\$ -	\$ -
Pool	1 - 21	188,470	-	-
Resurfacing	2 - 10	444,131	-	-
Roof	1 - 17	326,865	-	-
Drainage	4 - 23	239,054	-	-
Deferred maintenance	10	700,000	-	-
Seawall	1 - 6	175,573	-	-
Plumbing	10	190,470	-	-
Exterior building elements	2 - 21	2,608,408	-	-
Tennis courts	5 - 10	58,331	-	-
Pooled		-	267,353	733,192
Clubhouse / fitness	2 - 7	123,900	-	-
Dock riverside	5	36,986	-	-
Irrigation system	2	50,000	-	-
TOTAL		<u>\$ 6,246,374</u>	<u>\$ 267,353</u>	<u>\$ 733,192</u>

See independent accountant's report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION - STATEMENT OF REVENUES AND EXPENDITURES
ACTUAL TO BUDGET (UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2016

	Actual	Budget	Variance
REVENUE:			
Assessment income	\$ 737,555	\$ 737,555	\$ -
Interest income	278	-	278
Other income	13,373	-	13,373
TOTAL REVENUE	751,206	737,555	13,651
EXPENDITURES:			
Accounting & legal	12,387	17,500	(5,113)
Bad debt	9,054	15,000	(5,946)
Building repairs & maintenance	42,225	50,000	(7,775)
Clubhouse maintenance	593	1,000	(407)
Contract grounds maintenance	33,309	30,000	3,309
Insurance	129,733	130,481	(748)
Interest expense	167	-	167
Irrigation repair	5,382	3,500	1,882
Licenses, permits & taxes	1,597	1,250	347
Management fees	49,476	49,200	276
Office & other expenses	19,150	9,600	9,550
Other grounds maintenance	7,367	13,500	(6,133)
Other pool maintenance	6,311	500	5,811
Payroll expense	61,716	66,700	(4,984)
Pest control	9,985	7,700	2,285
Pool maintenance	7,475	9,600	(2,125)
Safety & security	4,673	6,000	(1,327)
Utilities	25,119	28,024	(2,905)
Reserve funding	298,000	298,000	-
TOTAL EXPENDITURES	723,719	737,555	(13,836)
REVENUE IN EXCESS OF EXPENDITURES	\$ 27,487	\$ -	\$ 27,487

See independent accountant's report.

SUNSET BAY MERRITT ISLAND CONDOMINIUM ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION - STATEMENT OF REVENUES AND EXPENDITURES
ACTUAL TO PRIOR YEAR (UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015	Variance
REVENUE:			
Assessment income	\$ 737,555	\$ 707,863	\$ 29,692
Laundry income	-	78	(78)
Rental income	-	414	(414)
Interest income	278	29	249
Other income	13,373	12,297	1,076
TOTAL REVENUE	751,206	720,681	30,525
EXPENDITURES:			
Accounting & legal	12,387	14,885	(2,498)
Bad debt	9,054	11,837	(2,783)
Building repairs & maintenance	42,225	74,395	(32,170)
Clubhouse maintenance	593	506	87
Contract grounds maintenance	33,309	-	33,309
Insurance	129,733	146,230	(16,497)
Interest expense	167	-	167
Irrigation repair	5,382	736	4,646
Licenses, permits & taxes	1,597	1,002	595
Management fees	49,476	46,363	3,113
Office & other expenses	19,150	13,449	5,701
Other grounds maintenance	7,367	36,648	(29,281)
Other pool maintenance	6,311	6,058	253
Payroll expense	61,716	88,736	(27,020)
Pest control	9,985	6,438	3,547
Pool maintenance	7,475	-	7,475
Rental unit expenses	-	1,850	(1,850)
Safety & security	4,673	10,659	(5,986)
Trash removal	-	5,519	(5,519)
Utilities	25,119	25,117	2
Reserve funding	298,000	185,000	113,000
TOTAL EXPENDITURES	723,719	675,428	48,291
REVENUE IN EXCESS OF EXPENDITURES	\$ 27,487	\$ 45,253	\$ (17,766)

See independent accountant's report.

