

TORTUGA CLUB, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

(TOGETHER WITH INDEPENDENT AUDITOR'S REPORT)

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FLANAGAN & JASON, INC.
CERTIFIED PUBLIC ACCOUNTANT AND ASSOCIATE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tortuga Club, Inc.
8730 Midnight Pass Road
Sarasota, FL 34242

We have audited the accompanying financial statements of Tortuga Club, Inc. which comprise the balance sheet as of December 31, 2017, 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.

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 Tortuga Club, Inc. as of December 31, 2017, 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

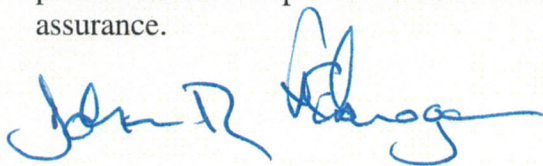
Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note III are adequate to meet such future costs because that determination is outside the scope of our audit. However, as further explained in Note III, the Association is not funding the replacement fund in accordance with the Association's estimated future replacement costs. Accordingly, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of operating expenses and the supplementary schedule of changes in replacement fund balances on pages 12-13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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 supplementary information about future repairs and replacements on page 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.



John R. Flanagan, CPA
President
Flanagan & Jason, Inc.
Sarasota, Florida
May 4, 2018

Tortuga Club, Inc.
Balance Sheet
December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 46,690	\$ 729,312	\$ 776,002
Assessments receivable	7,021	-	7,021
Special assessments receivable	-	87,334	87,334
Other receivable - Paving Crew, Inc.	-	5,084	5,084
Prepaid insurance	33,214	-	33,214
Prepaid expenses - other	5,127	-	5,127
Deposit - payroll company	3,389	-	3,389
Interfund receivable/(payable)	<u>(22,881)</u>	<u>22,881</u>	<u>-</u>
 Total Assets	 <u>\$ 72,560</u>	 <u>\$ 844,611</u>	 <u>\$ 917,171</u>
 <u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 8,333	\$ 2,571	\$ 10,904
Prepaid assessments	<u>64,710</u>	<u>-</u>	<u>64,710</u>
 Total Liabilities	 73,043	 2,571	 75,614
 Fund Balances (Deficits)	 <u>(483)</u>	 <u>842,040</u>	 <u>841,557</u>
 Total Liabilities and Fund Balances	 <u>\$ 72,560</u>	 <u>\$ 844,611</u>	 <u>\$ 917,171</u>

Read accountant's audit report.
The accompanying notes are an integral part of these financial statements.

Tortuga Club, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Revenues</u>			
Member assessments	\$ 522,220	\$ 131,463	\$ 653,683
Interest earned	-	2,304	2,304
Miscellaneous	5,237	-	5,237
Total Revenues	<u>527,457</u>	<u>133,767</u>	<u>661,224</u>
 <u>Expenses</u>			
Grounds maintenance	29,577	-	29,577
Building maintenance	112,437	-	112,437
Swimming pool	9,578	-	9,578
Utilities	84,479	-	84,479
Administration	287,312	-	287,312
Replacements	-	200,801	200,801
Total Expenses	<u>523,383</u>	<u>200,801</u>	<u>724,184</u>
 Excess (Deficit) of Revenues Over Expenses	4,074	(67,034)	(62,960)
 Beginning Fund Balances	<u>(4,557)</u>	<u>909,074</u>	<u>904,517</u>
 Ending Fund Balances (Deficits)	<u>\$ (483)</u>	<u>\$ 842,040</u>	<u>\$ 841,557</u>

Read accountant's audit report.
The accompanying notes are an integral part of these financial statements.

Tortuga Club, Inc.
Statement of Cash Flows
For the Year December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash received from members			
- quarterly assessments	\$ 494,192	\$ 131,463	\$ 625,655
Cash received from members			
- special assessments	-	87,478	87,478
Interest received	-	2,304	2,304
Miscellaneous receipts	5,237	-	5,237
Cash paid to suppliers & contractors	<u>(524,189)</u>	<u>(206,307)</u>	<u>(730,496)</u>
 Net Cash Provided (Used) by Operating Activities	 <u>(24,760)</u>	 <u>14,938</u>	 <u>(9,822)</u>
 Cash Flows From Financing Activities:			
Interfund receivable	<u>8,317</u>	<u>(8,317)</u>	<u>-</u>
 Net Cash Provided (Used) by Financing Activities	 <u>8,317</u>	 <u>(8,317)</u>	 <u>-</u>
 Net Increase (Decrease) in Cash	 (16,443)	 6,621	 (9,822)
 Cash at Beginning of Year	 <u>63,133</u>	 <u>722,691</u>	 <u>785,824</u>
 Cash at End of Year	 <u><u>\$ 46,690</u></u>	 <u><u>\$ 729,312</u></u>	 <u><u>\$ 776,002</u></u>

Read accountant's audit report.
The accompanying notes are an integral part of these financial statements.

Tortuga Club, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Reconciliation of Excess (Deficit) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Excess (Deficit) of Revenues Over Expenses	\$ 4,074	\$ (67,034)	\$ (62,960)
Decrease (increase) in operating assets:			
Assessments receivable	(7,021)	-	(7,021)
Special assessments receivable	-	87,478	87,478
Other receivable - Paving Crew, Inc.	-	(5,084)	(5,084)
Prepaid insurance	3,359	-	3,359
Other prepaid expenses	(4,060)	-	(4,060)
Increase (decrease) in operating liabilities:			
Accounts payable	(105)	(422)	(527)
Prepaid assessments	(21,007)	-	(21,007)
Total Adjustments	(28,834)	81,972	53,138
Net Cash Provided (Used) by Operating Activities	<u>\$ (24,760)</u>	<u>\$ 14,938</u>	<u>\$ (9,822)</u>

Read accountant's audit report.
The accompanying notes are an integral part of these financial statements.

Tortuga Club, Inc.

Notes to Financial Statements

ORGANIZATION

Tortuga Club, Inc. (the Association), is a not-for profit corporation organized November 16, 1972 to provide an entity pursuant to Section 718.111 of the Florida Condominium Act for the administration, maintenance, operation, and management of Tortuga Club, Inc., located in Sarasota, Florida. The Association consists of 77 residential condominium units. Assessments against the owners of the condominium units, which are the principal source of revenue, are based on the estimated amounts required to protect and maintain the property owned by the owners in common of the Association. This includes building exteriors, pool, tennis courts, boat docks, irrigation, landscaping and paved areas. The allocation of operating income and expense to the unit owners, as indicated in the documents, is based on square footage per unit.

All policy decisions are formulated by the Board of Directors. Certain major decisions are referred to the general membership before action is taken. Assessments are determined annually by the Board of Directors based upon maintenance and other operating requirements of the Association.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the fund method of accounting on the accrual basis. The accrual basis of accounting recognizes revenues when earned and expenses when the obligations are incurred.

The fund method of accounting requires funds, such as operating funds and funds for future major repairs and replacements, to be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are generally made at the discretion of the Board of Directors. Disbursements from the replacement fund may be made only for the repairs and replacements of the common element.

Operating Fund

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

Replacement Fund

This fund is composed of assessments paid by unit owners to fund future replacements, major repairs and purchases of additional commonly owned assets. Expenditures from this fund are restricted to those items for which assessments were levied.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Tortuga Club, Inc.

Notes to Financial Statements

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.

Commonly Owned Assets

The Association has the responsibility to preserve and maintain the commonly owned assets. The commonly owned assets include property that is directly associated with the unit which includes property without which the units could not be occupied and exterior property that is normally part of a freestanding unit. Commonly owned assets also include the property that is not directly associated with the unit and is not necessary for the primary use of the unit, although individual unit owners may benefit from its use.

The Association's policy is not to capitalize and depreciate the commonly owned assets as ownership is vested directly or indirectly in the unit owners and these assets are not deemed to be severable. In addition, the Association directly expenses any purchases of personal property such as furnishings and recreation equipment.

Assessments Receivable

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of the homeowners whose assessments are delinquent.

Fair Value of Financial Instruments

Professional standards require disclosure of an estimate of fair value of certain financial instruments. The Association's significant financial instruments are cash and assessments receivable. For these financial instruments, carrying values approximate fair value.

NOTE II - MEMBER ASSESSMENTS

Quarterly member assessments for 2017 were: \$1,308 for A units, \$1,798 for B units, \$2,288 for C units, \$3,268 for D units and \$4,249 for E units. Of these amounts, \$263, \$362, \$460, \$657 and \$855 were designated to the replacement fund, respectively.

Tortuga Club, Inc. bills its maintenance fees in advance on a quarterly basis. The amount received in advance for 2018 was \$64,710.

Maintenance fees assessed in excess of the expenditures reduce amounts assessed to members for maintenance in the subsequent year. Accumulated deficits will be recovered through future increases in assessments.

Tortuga Club, Inc.
Notes to Financial Statements

NOTE III - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association engaged an independent engineer who conducted a study in 2013 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study and Board estimates. Accumulated funds are held in a separate bank account and generally are not available for expenditures for normal operations.

The Board is calculating funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. For 2018, the members waived statutory funding, but approved partial funding of \$146,960, which is included in the 2018 budget. The study indicated a statutory funding requirement of \$385,487.

Funds are not 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. Amounts are based on normal operations and without the effect of potential catastrophic occurrences. Presently, the Association is not funding the replacement fund adequately to meet future needs. Accordingly, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE IV - CONCENTRATIONS OF CREDIT RISK FOR CASH DEPOSITS

The Association maintains its cash balances at financial institutions located in Sarasota, Florida. Accounts at commercial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. As of December 31, 2017, all cash balances were within the FDIC's insured limit.

NOTE V - CONTINGENT LIABILITY

The Association's current windstorm insurance policy contains a 2% deductible clause. Based on the \$20,888,000 valuation of the buildings, the first 2% or \$418,000 in damages caused by a named hurricane would be the responsibility of the Association.

NOTE VI - INTERFUND RECEIVABLE

As of December 31, 2017, the Association's operating fund owed the replacement fund the sum of \$22,881. The amounts are comingled for investment purposes.

Tortuga Club, Inc.
Notes to Financial Statements

NOTE VII - INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2017. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

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-exempt function 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 2017, the Association has elected to file under 528, and did not incur income tax expense.

As required by the Internal Revenue Code, the Association evaluates its uncertain tax positions annually. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of December 31, 2017, the Association had no uncertain tax positions.

The Association's income tax returns are subject to examination, by the applicable taxing authorities, generally for three years after the returns are filed. Currently, there are no audits in progress for any tax periods.

NOTE VIII - SPECIAL ASSESSMENT

On March 11, 2016, the membership approved a \$262,000 special assessment to fund the purchase and installation of pavers. The assessment is payable in 12 quarterly installments beginning January 1, 2016 and ending October 1, 2018. The total assessment and quarterly amounts per unit type are as follows:

<u>Unit Type</u>	<u>Assessment</u>	<u>Quarterly Payment</u>
A	\$2,096	\$175
B	2,882	240
C	3,668	306
D	5,240	437
E	6,812	568

Tortuga Club, Inc.
Notes to Financial Statements

NOTE IX - COMMITMENTS, CABLE SERVICE

Effective May 1, 2013 the Association entered into a bulk service agreement with a local television service provider. The term of the agreement is in effect through December 31, 2018. The term shall automatically renew for successive two year periods unless either party gives the other 90 days written notice. The service provider is entitled to increase the bulk services fees no more than 4% per year in any twelve month period. Based on current costs, future minimum payments under this agreement excluding any annual increases are as follows:

Year ended:	December 31, 2018	<u>\$ 30,471</u>
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NOTE X - SUBSEQUENT EVENTS

Management has evaluated the events and transactions that have occurred through the date the financial statements were issued and noted no items requiring adjustment of the financial statements or additional disclosure.

Supplementary Schedules

Tortuga Club, Inc.
Supplementary Schedule of Operating Expenses
For the Year Ended December 31, 2017
Unaudited

Grounds Maintenance

Grounds contract	\$ 19,620
Grounds expense	9,425
Docks	532
	<u>29,577</u>

Building Maintenance

Repairs and maintenance	39,143
Maintenance	2,075
Pest control	5,775
Janitorial service	24,000
Building supplies	8,708
Laundry service	381
Window service and repairs	1,785
Plumbing service	9,959
Fire services	9,580
Elevator contract and service	7,068
Elevator repairs	3,963
	<u>112,437</u>

Swimming Pool

Pool contract	4,640
Pool repairs	3,483
Pool heat	1,455
	<u>9,578</u>

Utilities

Water and sewer	34,601
Electric	18,294
Cable television	30,590
Internet service	994
	<u>84,479</u>

Administration

Insurance	109,162
Legal and professional	10,313
Accounting services	7,200
Division fees	308
Fees, dues and licenses	1,259
Social committee	2,928
Payroll	144,343
Telephone	6,981
Office supplies	4,265
Miscellaneous	553
	<u>287,312</u>
Total Expenses	<u>\$ 523,383</u>

Read accountant's audit report.

Tortuga Club, Inc.
Supplementary Schedule of Changes in Replacement Fund Balances
For the Year Ended December 31, 2017
Unaudited

<u>Components:</u>	<u>Balance</u> <u>1/1/17</u>	<u>Allocations</u> <u>Income</u>	<u>Interest</u> <u>Income</u>	<u>Expenses</u>	<u>Intra-Fund</u> <u>Transfers</u>	<u>Balance</u> <u>12/31/17</u>
Swimming pool	\$ 33,448	\$ 2,653	\$ -	\$ -	\$ 24,000	\$ 60,101
Building restoration	164,309	6,831	-	(8,649)	-	162,491
Roofs	203,417	8,269	-	(4,256)	(72,000)	135,430
Walkways	100,624	11,096	-	-	(72,000)	39,720
Asphalt resurfacing	432	9,585	-	(39,030)	254,640	225,627
Plumbing	89,668	1,109	-	(72,366)	-	18,411
Social area renov.	7,001	2,757	-	-	-	9,758
Washers & dryers	515	4,393	-	-	-	4,908
Generator	13,666	914	-	(15,999)	1,419	-
Elevator pistons	1,007	3,682	-	-	25,000	29,689
Elevator reserve	93,556	3,341	-	(20,337)	(76,560)	-
Lanai screen enclosures	94,929	20,565	-	-	(100,000)	15,494
Enterphones	8,964	1,594	-	(12,533)	1,975	-
Fire pumps	8,343	2,861	-	(1,926)	-	9,278
Water pumps	2,281	912	-	-	-	3,193
Docks	655	1,410	-	-	-	2,065
Tennis courts	6,539	128	-	-	-	6,667
Fire alarm	37,109	5,620	-	-	-	42,729
Penthouse lanais	5,724	7,900	-	-	-	13,624
Fire places	17,249	1,266	-	-	(18,515)	-
Exterior doors	3,103	12,484	-	(4,174)	-	11,413
Windows & patio doors	16,535	21,949	-	(10,906)	21,560	49,138
Electrical	-	144	-	(10,625)	10,481	-
Interest	-	-	2,304	-	-	2,304
Totals	<u>\$ 909,074</u>	<u>\$ 131,463</u>	<u>\$ 2,304</u>	<u>\$ (200,801)</u>	<u>\$ -</u>	<u>\$ 842,040</u>

Read accountant's audit report.

Tortuga Club, Inc.
Supplementary Information About Future Major Repairs and Replacements
December 31, 2017
Unaudited

The following is the estimated remaining life and estimated replacement costs of the components of common property. This is based upon the reserve study conducted in 2013 and estimates made by the Board during the preparation of the proposed 2018 budget.

Components:	Estimated Remaining Life	Estimated Current Replacement Costs	2018 Statutory Funding Requirement	Current Fund Balance 12/31/17
Swimming pool	11 years	\$ 105,000	\$ 6,264	\$ 60,101
Building restoration	3 years	300,000	43,351	162,491
Roofs	19 years	650,000	23,311	135,430
Walkways	8 years	327,000	26,910	39,720
Asphalt resurfacing	23 years	300,000	22,157	225,627
Plumbing	24 years	154,000	5,002	18,411
Social area renov.	15 years	112,740	6,865	9,758
Washers & dryers	1 year	10,000	5,092	4,908
Generator	24 years	65,000	2,803	-
Elevator pistons	14 years	150,000	10,379	29,689
Elevator reserve	14 years	215,000	9,641	-
Lanai screen enclosures	4 years	326,000	52,627	15,494
Enterphones	1 year	12,546	12,968	-
Fire pumps	11 years	85,500	6,754	9,278
Water pumps	19 years	35,090	1,679	3,193
Docks	7 years	26,000	4,372	2,065
Tennis courts	18 years	12,000	296	6,667
Fire alarm	2 years	75,000	16,136	42,729
Penthouse lanais	6 years	130,000	19,396	13,624
Fireplaces	7 years	40,000	3,069	-
Exterior doors	10 years	315,000	37,560	11,413
Windows & patio doors	10 years	560,000	60,736	49,138
Electrical	1 year	144	8,119	-
Interest		-	-	2,304
		<u>\$ 4,006,020</u>	<u>\$ 385,487</u>	<u>\$ 842,040</u>

Read accountant's audit report.