

Tortuga Club, Inc.

Financial Statements and Supplementary Information

December 31, 2019

Miller & Company, LLP
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Tortuga Club, Inc.

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying financial statements of Tortuga Club, Inc., which comprise the balance sheet as of December 31, 2019, 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. 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

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 accordance with accounting principles generally accepted in the United States of America.

We have not applied procedures to determine whether the funds designated for major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our review. As further explained in Footnote 4, the Association is not funding the replacement fund adequately to meet future needs. Accordingly, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

Supplementary Information

The supplementary schedule of operating fund expenses and the supplementary schedule of replacement fund activity on pages 12 through 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the representation of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

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 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. The information is the responsibility of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.



Miller & Company, LLP
Certified Public Accountants
Sarasota, Florida
September 17, 2020

Tortuga Club, Inc.
Balance Sheet
December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash	\$ 4,980	\$ 223,369	\$ 228,349
Assessments receivable, net	5,357	-	5,357
Prepaid insurance	33,887	-	33,887
Prepaid expenses	368	-	368
Deposits	3,449	-	3,449
Interfund receivable (payable)	<u>30,341</u>	<u>(30,341)</u>	<u>-</u>
	<u><u>\$ 78,382</u></u>	<u><u>\$ 193,028</u></u>	<u><u>\$ 271,410</u></u>
Liabilities and Fund Balances			
Accounts payable	\$ 12,492	\$ 3,600	\$ 16,092
Assessments received in advance	45,529	-	45,529
Contract liabilities	<u>-</u>	<u>183,216</u>	<u>183,216</u>
	58,021	186,816	244,837
Fund Balances	<u>20,361</u>	<u>6,212</u>	<u>26,573</u>
	<u><u>\$ 78,382</u></u>	<u><u>\$ 193,028</u></u>	<u><u>\$ 271,410</u></u>

See accompany notes.

Tortuga Club, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 537,950	\$ 590,158	\$ 1,128,108
Interest income	-	1,211	1,211
Other income	7,643	-	7,643
Total revenues	<u>545,593</u>	<u>591,369</u>	<u>1,136,962</u>
Expenses			
Grounds maintenance	42,086	-	42,086
Building maintenance	82,067	-	82,067
Recreation	11,677	-	11,677
Utilities	96,778	-	96,778
Administration	295,270	-	295,270
Replacements	-	590,158	590,158
Total expenses	<u>527,878</u>	<u>590,158</u>	<u>1,118,036</u>
Excess of revenues over expenses	17,715	1,211	18,926
Fund balances, beginning of year	<u>2,646</u>	<u>5,001</u>	<u>7,647</u>
Fund balances, end of year	<u><u>\$ 20,361</u></u>	<u><u>\$ 6,212</u></u>	<u><u>\$ 26,573</u></u>

See accompanying notes.

Tortuga Club, Inc.
Statement of Cash Flows
Year December 31, 2019

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses	\$ 17,715	\$ 1,211	\$ 18,926
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities			
Provision for doubtful accounts	26,521	-	26,521
Changes in operating assets and liabilities			
Assessments receivable	(31,337)	-	(31,337)
Prepaid and other assets	1,470	-	1,470
Accounts payable	6,838	3,600	10,438
Assessments received in advance	(20,947)	-	(20,947)
Contract liabilities	-	(439,158)	(439,158)
Net cash provided (used) by operating activities	<u>260</u>	<u>(434,347)</u>	<u>(434,087)</u>
Cash flows from financing activities			
Interfund borrowing	<u>(163,073)</u>	<u>163,073</u>	<u>-</u>
Net cash (used) in financing activities	<u>(163,073)</u>	<u>163,073</u>	<u>-</u>
Net (decrease) in cash	(162,813)	(271,274)	(434,087)
Cash, beginning of year	<u>167,793</u>	<u>494,643</u>	<u>662,436</u>
Cash, end of year	<u><u>\$ 4,980</u></u>	<u><u>\$ 223,369</u></u>	<u><u>\$ 228,349</u></u>

See accompanying notes.

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 1-Nature of Business

The Association is a not-for-profit corporation organized in 1972 to provide an entity pursuant to Florida Statute 718 for the administration, maintenance, operation, and management of Tortuga Beach, a condominium located in Sarasota, Florida. Tortuga Club, Inc. consists of 77 residential condominium units.

Assessments against the owners of the 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 Tortuga Club, Inc. and are allocated to owners based on unit type. Common property includes grounds, building exteriors, pool, recreational areas, drainage facilities, and paved areas.

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 2-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 elements.

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

Replacement Fund - This fund is used to account for financials resources, including 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.

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 2-Summary of Significant Accounting Policies (Continued)

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 freestanding units. 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 to 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.

Member Assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments revenue is recognized as the related performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when the funds are expended for their designated purpose. Any excess operating fund assessments at year end are retained by the Association for use in the succeeding year.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association treats uncollectible assessments as variable consideration. Methods, inputs and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The Association's policy is to retain legal counsel to collect delinquent assessments. A provision for doubtful accounts of \$26,521 was deemed necessary at December 31, 2019.

Revenue from member assessments is reported net of amounts deemed uncollectible from owners.

Contract Liabilities – Replacement Fund

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability, assessments received in advance-replacement fund, is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to the replacement fund assessments.

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 2-Summary of Significant Accounting Policies (Continued)

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.

Estimates and assumptions include the valuation of Association's commonly owned assets for obtaining insurance coverage and the estimated costs, useful lives, and the timing of repairs and replacement for components in replacement fund.

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 which carrying value approximate fair value.

Note 3-Member Assessments

The Association bills its maintenance assessments in advance on a quarterly basis. Assessments received in advance for 2020 were \$45,529.

Quarterly assessments to unit owners ranged from \$1,378 to \$4,478 in 2019. Of that amount, \$302 to \$982 was designated to the replacement fund.

Note 4-Future Major Repairs and Replacements

An independent engineer conducted a reserve study in September 2013, which was utilized by the Board of Directors while preparing the 2020 budget to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the supplementary information about future major repairs and replacements is based on this study.

Accumulated funds are held in a separate bank account and generally are not available for expenditures for normal operations.

The Association is computing the 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 utilizing the cash flow method. The study indicated funding requirement of \$756,964, however, the membership voted to waive fully funded reserves and included a partial reserve funding \$208,000 in the 2020 budget.

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 4-Future Major Repairs and Replacements (Continued)

Funds are not currently 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.

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, subject to Florida Statutes, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 5-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, 2019. 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, non-membership 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 2019, the Association has elected to file under section 528, and incurred no income tax expense.

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 6-FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate-Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 6-FASB ASC 606 New Accounting Guidance Implementation (Continued)

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund.

Following are the line items from the balance sheet as of December 31, 2018, that were affected, the amounts that were previously reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	Amounts reported previously	Effects of applying new guidance	Amounts reported applying new guidance
<u>Replacement Fund</u>			
Contract liabilities	\$ -	\$ 622,375	\$ 622,375
Fund balance	\$ 627,376	\$ (622,375)	\$ 5,001

Following are the line items from the statement of revenues, expenses, and changes in fund balance for the year ended December 31, 2018, that were affected, the amounts that were previously reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	Amounts reported previously	Effects of applying new guidance	Amounts reported applying new guidance
<u>Replacement Fund</u>			
Member assessments	\$ 147,208	\$ 217,361	\$ 364,569
Excess of revenue over expenses	\$ (214,694)	\$ 217,361	\$ 2,667
Fund balance	\$ 627,376	\$ (622,375)	\$ 5,001

Tortuga Club, Inc.
Notes to Financial Statements
Year Ended December 31, 2019

Note 7-Contingent Liability

The Association's current windstorm insurance policy contains a 3% hurricane deductible clause. Based on the \$22.6 insured valuation of the property, the first \$677,000 in damages caused by a named storm would be the responsibility of the Association.

Note 8-Commitments - Cable Services

The Association entered into a bulk service agreement, effective September 21, 2018, with a local cable communications provider to provide television and internet services to the community. The initial term of the agreement is for ten years and includes a renewal term of one year at an increased rate.

Note 9-Interfund Receivable (Payable)

As of December 31, 2019, the Association's replacement fund owed \$30,341 to the operating fund. The funds are commingled for investment purposes.

Note 10-Subsequent Events

The United States is presently in the midst of a national health emergency related to a virus commonly known as Novel Coronavirus (COVID-19). The overall consequences of COVID-19 on a national, regional, and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Association and its future financial position and results of operations is not presently determinable.

In April, 2020 the Board of Directors approved a special assessment for installation of new doors and windows at an estimated cost of \$803,800. The owners have voted that each unit will be assessed a unique amount based on the actual replacement cost for each unit. The assessment to the owners range from \$4,563 to \$47,923 is due upon completion. The owners also have the option to finance the assessment over 5 years.

In May 2020, the Association secured a \$900,000 line of credit with a local banking institution. During the initial draw period, the note requires monthly payments of interest only at 3.7%. The note will then convert to monthly payments of principal and interest until the maturity date of May 2026. The line of credit is collateralized by all operating fund assets and regular assessments not designated for reserves.

Management has evaluated the events and transactions that have occurred through September 11, 2020, the date the financial statements were available to be issued and noted no items requiring adjustment of the financial statements or additional disclosure.

Supplementary Information

Tortuga Club, Inc.
Supplementary Schedule of Operating Fund Expenses
Year Ended December 31, 2019

Grounds Maintenance	
Grounds contract	\$ 20,220
Grounds expense	21,566
Docks	300
	<u>42,086</u>
Building Maintenance	
Repairs and maintenance	15,774
Maintenance	5,335
Pest control	6,545
Janitorial service	28,920
Building supplies	5,986
Laundry service	973
Window service and repairs	1,515
Plumbing service	3,819
Fire services	3,366
Elevator contract and service	7,033
Elevator repairs	2,801
	<u>82,067</u>
Recreation	
Pool contract	4,800
Pool repairs	2,065
Pool heat	4,812
	<u>11,677</u>
Utilities	
Water and sewer	42,763
Electric	13,978
Cable television	14,754
Internet service	25,283
	<u>96,778</u>
Administration	
Insurance	115,292
Legal and professional	6,011
Accounting services	10,190
Division fees	308
Fees, dues and licenses	485
Social committee	869
Payroll	148,768
Contingencies	370
Telephone	6,940
Office supplies	6,037
	<u>295,270</u>
Total operating fund expenses	<u><u>\$ 527,878</u></u>

Tortuga Club, Inc.
Supplementary Schedule of Replacement Fund Activity
Year Ended December 31, 2019

The Association's policy is to recognize replacement fund interest income as received.

Expenditures from replacement fund interest are made at the discretion of the Board of Directors.

The following is the activity in the replacement fund by component for the year ended December 31, 2019:

	Contract Liabilities				Fund	
	Balance			Balance	Balance	Total
	1/1/19	Additions	Charges	12/31/19	1/1/19	12/31/19
Swimming pool	\$ 1,142	\$ 1,673	\$ -	\$ 2,815	\$ -	\$ 2,815
Building restoration	162,985	24,757	-	187,742	-	187,742
Roofs	136,063	11,041	(76,656)	70,448	-	70,448
Walkways	50,655	15,298	(2,817)	63,136	-	63,136
Asphalt resurfacing	181,348	4,421	(5,766)	180,003	-	180,003
Plumbing	(39,482)	2,412	(38,553)	(75,623)	-	(75,623)
Social area renovation	12,548	2,773	-	15,321	-	15,321
Washers & dryers	6,977	1,171	(504)	7,644	-	7,644
Generator	1,139	1,076	(3,670)	(1,455)	-	(1,455)
Elevator pistons	13,206	3,461	-	16,667	-	16,667
Elevator reserve	2,934	6,321	(82,800)	(73,545)	-	(73,545)
Lanai screen enclosures	36,734	11,512	(65,978)	(17,732)	-	(17,732)
Enterphones	5,269	2,820	-	8,089	-	8,089
Fire pumps	1,329	2,904	(4,762)	(529)	-	(529)
Water pumps	482	745	-	1,227	-	1,227
Docks	3,704	1,424	(494)	4,634	-	4,634
Tennis courts	(2,099)	321	(8,558)	(10,336)	-	(10,336)
Fire alarm	49,285	9,965	-	59,250	-	59,250
Penthouse	12,610	8,408	-	21,018	-	21,018
Fire places	792	2,532	-	3,324	-	3,324
Exterior doors	17,707	12,727	(289,657)	(259,223)	-	(259,223)
Windows & patio doors	(32,357)	23,261	(7,975)	(17,071)	-	(17,071)
Electrical	(597)	(23)	(1,968)	(2,588)	-	(2,588)
Unallocated interest	-	-	-	-	6,212	6,212
	<u>\$ 622,374</u>	<u>\$ 151,000</u>	<u>\$ (590,158)</u>	<u>\$ 183,216</u>	<u>\$ 6,212</u>	<u>\$ 189,428</u>

Tortuga Club, Inc.
Supplementary Schedule of Replacement Fund Activity
Year Ended December 31, 2019

Tortuga Club, Inc.
 Supplementary Information About Future Major Repairs and Replacements
 December 31, 2019

An independent engineer conducted a study in September 2013 to estimate the remaining useful lives and the replacement costs of the components of common property.

The study was utilized by the Board of Directors during the preparation of the 2020 budget.

Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property:

Components	Estimated Remaining Lives (Years)	Estimated Cost to Replace	2020 Funding Requirement
Swimming pool	9	\$ 80,000	\$ 2,357
Building restoration	1	400,000	58,328
Roofs	17	500,000	6,944
Walkways	6	350,000	13,138
Asphalt resurfacing	21	350,000	2,225
Plumbing	22	154,000	2,868
Social area renovation	13	112,740	2,059
Washers & dryers	1	26,000	5,044
Generator	22	65,000	830
Elevator pistons	12	150,000	3,053
Elevator reserve	12	215,000	6,608
Lanai screen enclosures	2	326,000	47,229
Enterphones	1	18,000	2,723
Fire pumps	9	12,000	383
Water pumps	17	50,000	788
Docks	5	26,000	1,174
Tennis courts	16	12,000	384
Fire alarm	1	75,000	4,328
Penthouse lanais	4	160,000	9,548
Fireplaces	5	40,000	2,016
Exterior doors	8	195,000	15,603
Windows & patio doors	8	560,000	19,633
Electrical	1	144	751
		<u>\$ 3,876,884</u>	<u>\$ 208,014</u>