



**CANADA HOUSE BEACH CLUB
CONDOMINIUM ASSOCIATION, INC.
Financial Statements
December 31, 2016
With Independent Auditors' Report**

**Canada House Beach Club Condominium Association, Inc.
December 31, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Canada House Beach Club
Condominium Association, Inc.
Pompano Beach, Florida

We have audited the accompanying financial statements of Canada House Beach Club Condominium Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2016, and the related statements of revenue, expenses, and changes in fund balance (deficit), and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canada House Beach Club Condominium Association, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Future Major Repairs and Replacements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 6 are adequate to meet such future costs because that determination is outside the scope of our audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses – operating fund on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association’s management and, except for the portion marked “unaudited,” 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. The information marked “unaudited” 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.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of future major repairs and replacements on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



May 19, 2017

Canada House Beach Club Condominium Association, Inc.
Balance Sheet
December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 873,913	\$ 433,772	\$ 1,307,685
Restricted cash	918	-	918
Assessments receivable, net of allowance for doubtful accounts of \$100,439	58,087	-	58,087
Prepaid expenses	85,151	-	85,151
Due from (to) other fund	31,773	(31,773)	-
Due from affiliate	2,919	-	2,919
	<u>2,919</u>	<u>-</u>	<u>2,919</u>
Total assets	<u>\$ 1,052,761</u>	<u>\$ 401,999</u>	<u>\$ 1,454,760</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 35,451	\$ -	\$ 35,451
Prepaid assessments	937,509	-	937,509
Notes payable	21,429	199,461	220,890
Due to management company	40,360	-	40,360
Total liabilities	<u>1,034,749</u>	<u>199,461</u>	<u>1,234,210</u>
Fund balance	<u>18,012</u>	<u>202,538</u>	<u>220,550</u>
Total liabilities and fund balance	<u>\$ 1,052,761</u>	<u>\$ 401,999</u>	<u>\$ 1,454,760</u>

The Notes to Financial Statements are an integral part of these statements.

Canada House Beach Club Condominium Association, Inc.
Statement of Revenue, Expenses, and Changes in Fund Balance (Deficit)
Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenue			
Member assessments	\$ 1,064,175	\$ 506,060	\$ 1,570,235
Late fees	42,602	-	42,602
Interest income	-	1,265	1,265
Other income	148,831	-	148,831
	<u>1,255,608</u>	<u>507,325</u>	<u>1,762,933</u>
Expenses			
Salaries and payroll taxes	419,547	-	419,547
Insurance	184,406	-	184,406
Utilities	122,542	-	122,542
Management fees	108,000	-	108,000
Repairs and maintenance	96,174	-	96,174
Bad debt expense	166,548	-	166,548
General and administrative	70,479	-	70,479
Accounting and audit	10,273	-	10,273
Taxes, licenses, and fees	7,959	-	7,959
Legal and collection costs	40,925	-	40,925
Association-owned interval expense	47,379	-	47,379
Replacement expenditures	-	280,293	280,293
	<u>1,274,232</u>	<u>280,293</u>	<u>1,554,525</u>
Excess (deficiency) of revenue over expenses	(18,624)	227,032	208,408
Fund balance (deficit)			
Beginning of year	<u>36,636</u>	<u>(24,494)</u>	<u>12,142</u>
End of year	<u>\$ 18,012</u>	<u>\$ 202,538</u>	<u>\$ 220,550</u>

The Notes to Financial Statements are an integral part of these statements.

Canada House Beach Club Condominium Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess (deficiency) of revenue over expenses	\$ (18,624)	\$ 227,032	\$ 208,408
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities			
Bad debt expense	166,548	-	166,548
Changes in			
Assessments receivable	(108,608)	-	(108,608)
Prepaid expenses	(4,904)	-	(4,904)
Accounts payable and accrued expenses	17,770	(48,258)	(30,488)
Prepaid assessments	88,233	-	88,233
Due to or from management company	22,952	-	22,952
Due to or from affiliate	(39,885)	-	(39,885)
Net cash provided by operating activities	<u>123,482</u>	<u>178,774</u>	<u>302,256</u>
Cash flows from financing activities			
Interfund borrowings	2,319	(2,319)	-
Repayments of notes payable	(4,803)	(48,897)	(53,700)
Net cash used in financing activities	<u>(2,484)</u>	<u>(51,216)</u>	<u>(53,700)</u>
Increase in cash and cash equivalents	120,998	127,558	248,556
Cash and cash equivalents			
Beginning of year	<u>752,915</u>	<u>306,214</u>	<u>1,059,129</u>
End of year	<u>\$ 873,913</u>	<u>\$ 433,772</u>	<u>\$ 1,307,685</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for interest	<u>\$ 250</u>	<u>\$ 12,789</u>	<u>\$ 13,039</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Canada House Beach Club Condominium Association, Inc. (the "Association") was incorporated under the laws of the state of Florida in 1980 as a not-for-profit corporation for the purpose of managing, operating, and maintaining the timeshare condominium located in Broward County, Florida. Operations of the Association began in 1980 under the administration of the original developer. By statutory conversion in 1991, Shoreline Resorts, Inc. (the "Developer") became the successor developer. At December 31, 2016, the Association consists of 57 apartment units with a total of 2,907 weekly intervals of which the Developer owned 25 weekly intervals and the Association owned 542 weekly intervals.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

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

Cash and Cash Equivalents

The Association considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. The fair market value of these instruments approximates their recorded value.

Restricted Cash

Restricted cash consists of funds held in escrow for real estate taxes.

Assessments Receivable and Allowance for Doubtful Accounts

Assessments receivable represents amounts due from weekly interval owners for annual maintenance and taxes. The budgeted amount of the annual assessment for the replacement fund is funded from annual cash receipts. All assessments receivable are presented in the operating fund.

The Association provides for estimated future losses to be incurred due to uncollectible assessments at amounts deemed to be sufficient to sustain any material losses that may result from unpaid accounts. Receivables are considered delinquent when they are 30 days past due. A portion of receivables which are considered delinquent is charged against the allowance when all collection efforts have been exhausted. Factors which influence management's judgment in determining the appropriate allowance for doubtful accounts, and for charging off uncollectible accounts, include past collection experience and industry standards. For the year ended December 31, 2016, bad debt expense was \$166,548.

Inventory of Timeshare Intervals

Inventory of timeshare intervals consisting of weekly intervals is valued at the lesser of cost or fair market value. These weekly intervals have been acquired by the Association through foreclosure proceedings related to unpaid assessments. As the inventory has no net realizable value, no value has been recorded at December 31, 2016.

Property and Equipment

Common property acquired from the Developer and others and related improvements to such property are not recognized in the Association's financial statements. Those properties are owned by the weekly interval owners in common and not by the Association. Replacements, major repairs, and the purchase of additional commonly owned assets are accounted for as expenditures in the replacement fund.

Prepaid Assessments

Prepaid assessments consist of 2017 and future maintenance and tax assessments received by the Association in 2016.

Income Taxes

For the year ended December 31, 2016, the Association elected to be taxed as a regular corporation. Membership income is exempt from taxation if certain elections are made. Consequently, the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporation tax rates. When applicable, interest and penalties will be reported as interest expense and general and administrative expenses, respectively.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 (Revenue from Contracts with Customers (Topic 606)), which requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for some costs to obtain or fulfill a contract with a customer; and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 for all entities by one year. With respect to non-public entities, this update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted for fiscal years beginning after December 15, 2016. The effect of this guidance on the financial statements of the Association has not been determined.

Reclassification of Prior Year Presentation

Certain amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on total assets, liabilities, or fund balance.

Allocation of Joint Expenses

The Association shares certain expenses with an adjacent association. Expenses such as payroll and related expenses and certain indistinguishable routine maintenance expenses have been allocated between the two associations based upon total units in each association. The percentages for 2016 were 65% for the Association and 35% for Canada House Beach Club Condominium West Association, Inc. ("Canada House West"), which is affiliated by common management.

Canada House Beach Club Condominium Association, Inc.
Notes to Financial Statements
December 31, 2016

Subsequent Events

The Association has evaluated subsequent events through May 19, 2017, the date which the financial statements were available to be issued. Based upon this evaluation, the Association has determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

2. MEMBER ASSESSMENTS

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

The 2016 annual assessments to weekly interval owners were as follows:

	<u>Standard Efficiency</u>	<u>Large Efficiency</u>	<u>1-Bedroom/ 1-Bathroom</u>	<u>1-Bedroom/ 2-Bathrooms</u>	<u>1-Bedroom/ 2-Bathrooms Unit 108</u>
Maintenance	\$ 269	\$ 319	\$ 519	\$ 587	\$ 624
Replacement fund	118	140	228	259	275
Real estate taxes, as agent	44	44	44	44	44
	<u>\$ 431</u>	<u>\$ 503</u>	<u>\$ 791</u>	<u>\$ 890</u>	<u>\$ 943</u>

The Association is collecting assessments for and remitting real estate taxes on behalf of weekly interval owners. Therefore, the real estate tax assessments and the related expenses are not presented on the Association's statement of revenue, expenses, and changes in fund balance (deficit).

3. INVENTORY OF TIMESHARE WEEKLY INTERVALS

During 2016, the Association bore the financial responsibility for 220 weekly intervals. The Association has acquired these intervals through foreclosure proceedings related to unpaid assessments. The real estate tax and replacement fund assessments for these weekly intervals of \$9,737 and \$37,642, respectively, have been charged to operating expense for 2016. The operating portion of the assessments for these weekly intervals has been excluded from assessment revenue for 2016. As the inventory has no net realizable value, no value has been recorded at December 31, 2016.

4. NOTES PAYABLE

At December 31, 2016, the operating fund note payable consists of an office telephone system finance agreement with GreatAmerica Financial Services, monthly principal and interest payments of \$735, maturing August 2019, interest fixed at 11%, secured by an interest in the financed office telephone system.

Canada House Beach Club Condominium Association, Inc.
Notes to Financial Statements
December 31, 2016

Future minimum principal payments under this agreement are:

Year Ending December 31,	
2017	\$ 6,747
2018	7,849
2019	<u>6,833</u>
	<u>\$ 21,429</u>

The underlying office telephone system benefits both the Association and Canada House West. Under the allocation of joint expenses between the associations, Canada House West is responsible for 35% of the expenses incurred (see Note 7).

At December 31, 2016, the replacement fund note payable consists of a commercial promissory note with Regent Bank for replacement of the chilled water piping for the six-story building, monthly principal and interest payments of \$4,937, maturing August 2020, interest fixed at 4.5%, secured by an interest in the assessments of the Association.

Future minimum principal payments under this agreement are:

Year Ending December 31,	
2017	\$ 51,321
2018	53,679
2019	56,145
2020	<u>38,316</u>
	<u>\$ 199,461</u>

Interest expense incurred under both notes payable totaled \$13,039 for the year ended December 31, 2016.

5. MANAGEMENT AGREEMENT

The property and affairs of the Association are managed by Daily Management, Inc. (the "Management Company"), an entity affiliated with the Developer by common ownership and management. The term automatically extends for three additional years at the end of each contract period and can be terminated at any time during the life of any three-year term in accordance with the terms of the contract. The current term expires December 31, 2018.

Under the management agreement, the Association agrees to pay the Management Company as compensation for the management services hereunder a sum equal to 10% of the annual estimated operating budget for the Association. Management fees incurred during 2016 amounted to \$108,000.

6. REPLACEMENT FUND

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements. The funds are held in segregated accounts and all interest income earned on these accounts is allocated to the replacement fund.

An independent specialist conducted a study in 2014 to estimate the remaining useful lives and the current replacement costs of the components of common property. The table included in the supplementary information on future major repairs and replacements, which is unaudited, is based on the study, as updated by management.

The Association is 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 the amounts previously accumulated in the replacement fund. Accordingly, funding of \$487,599 has been included in the 2017 budget.

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

At December 31, 2016, the Association had advanced \$31,773 from the operating fund to the replacement fund in excess of funding requirements. These funds are available for use in operations.

7. RELATED PARTY TRANSACTIONS

The Association is affiliated through common ownership and management with other owners associations through its relationship with the Management Company.

Due to the Management Company at December 31, 2016, consists of informal noninterest bearing advances which are in the nature of trade payables, due on demand.

Due from affiliate at December 31, 2016, consists of informal noninterest bearing advances which are in the nature of trade receivables, due on demand, from Canada House West. This amount includes amounts due for the office telephone system discussed in Note 4.

Weekly intervals returned to the Association through foreclosure and other actions are sold under an agreement with the Developer. The Developer pays maintenance fees on these weekly intervals until they are sold. At December 31, 2016, the Developer held 25 weekly intervals for resale.

8. INCOME TAXES

For the year ended December 31, 2016, nonmembership income did not exceed the related expenses. Therefore, no federal income tax expense has been recorded.

The Association has no temporary differences relating to the recognition of income and expenses for financial and tax reporting purposes. Accordingly, no deferred tax assets or liabilities are recorded.

Management analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported. Additionally, management believes that no accruals for tax liabilities related to uncertain income tax positions are required. Therefore, no reserves for uncertain income tax positions have been recorded.

There have been no increases or decreases in unrecognized tax benefits for current or prior years. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, interest and penalties will be reported as income tax expense.

9. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts with balances, at times, in excess of amounts insured by the Federal Deposit Insurance Corporation and assessments receivable. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote. All of the Association's assessments receivable are related to billed assessments. The Association monitors the collectibility of these assessments receivable and pursues collection. Management routinely assesses the uncollectibility of the Association's assessments receivable and provides for allowances for doubtful accounts based on this assessment.

Litigation

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

Insurance Matters

In the event of a disaster, the Association could be exposed to losses for damages in excess of insurance coverage limits. Management considers this risk of loss to be remote and its insurance coverage adequate.



SUPPLEMENTARY INFORMATION

Canada House Beach Club Condominium Association, Inc.
Schedule of Revenue and Expenses – Operating Fund
Year Ended December 31, 2016

	<u>Actual</u>	<u>Budget (Unaudited)</u>
Revenue		
Member assessments	\$ 1,064,175	\$ 1,149,692
Late fees	42,602	-
Other income	148,831	55,000
Total revenue	<u>1,255,608</u>	<u>1,204,692</u>
Expenses		
Salaries and payroll taxes	<u>419,547</u>	<u>452,650</u>
Insurance	<u>184,406</u>	<u>165,000</u>
Utilities	<u>122,542</u>	<u>141,500</u>
Management fees	<u>108,000</u>	<u>108,000</u>
Repairs and maintenance	<u>96,174</u>	<u>122,000</u>
Bad debt expense	<u>166,548</u>	<u>120,000</u>
General and administrative		
Interest expense	250	-
Office supplies and expenses	5,630	6,000
Postage and printing	23,963	30,000
Uniforms	1,425	2,500
Computer expense	4,544	6,000
Credit card fees	33,882	30,000
Guest services	-	1,500
Other administrative expenses	785	-
	<u>70,479</u>	<u>76,000</u>
Accounting and audit	<u>10,273</u>	<u>12,000</u>
Taxes, licenses, and fees	<u>7,959</u>	<u>8,350</u>
Legal and collection costs	<u>40,925</u>	<u>25,000</u>
Association-owned interval expense	<u>47,379</u>	<u>-</u>
Total expenses	<u>1,274,232</u>	<u>1,230,500</u>
Deficiency of revenue over expenses	<u>\$ (18,624)</u>	<u>\$ (25,808)</u>

See Independent Auditors' Report.

Canada House Beach Club Condominium Association, Inc.
Schedule of Future Major Repairs and Replacements (Unaudited)
December 31, 2016

An independent specialist conducted a study in 2014 to estimate the remaining useful lives and the current replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The following table is based on that study, as updated by management, and presents significant information about the components of common property:

Components	Remaining Estimated Useful Lives	Estimated Current Replacement Costs	Fund Balance (Deficit) December 31, 2015	Additions	Expenditures	Fund Balance (Deficit) December 31, 2016
Roofing	19 years	\$ 120,000	\$ 53,255	\$ 3,837	\$ 3,253	\$ 53,839
Building painting	10 years	150,000	79,175	56,470	123,249	12,396
Pavement and grounds	9 years	165,000	(14,915)	16,435	33,560	(32,040)
Unit content and décor	5 years	1,750,000	100,460	291,355	30,647	361,168
Building and common areas	13 years	1,000,000	(386,748)	120,819	80,073	(346,002)
Elevator	17 years	107,000	8,988	5,445	-	14,433
Pool and spa	4 years	50,000	19,732	5,804	9,511	16,025
Catastrophe fund	8 years	160,000	115,559	7,160	-	122,719
		<u>\$ 3,502,000</u>	<u>\$ (24,494)</u>	<u>\$ 507,325</u>	<u>\$ 280,293</u>	<u>\$ 202,538</u>