

**CYPRESS CHASE NORTH
CONDOMINIUM NO. 3 ASSOCIATION, INC.**

Financial Statements

December 31, 2018

(With Independent Auditor's Report Thereon)

Cypress Chase North Condominium No. 3 Association, Inc.

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Independent Auditor's Report

Independent Auditor's Report

The Board of Directors and Management
Cypress Chase North
Condominium No. 3 Association, Inc.

We have audited the accompanying financial statements of Cypress Chase North Condominium No. 3 Association, Inc. (a Florida Not for Profit Corporation), which comprise the balance sheet as of December 31, 2018, and the related statement revenues and expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Cypress Chase North Condominium No. 3 Association, Inc. as of December 31, 2018, and its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information about future major repairs and replacements of common property on page 12 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 inquires 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.

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 Operating Fund Expenses on page 11 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 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 respects in relation to the financial statements as a whole.

Grant, Stewart-Heron, LLC

Tamarac, Florida
April 30, 2019

Financial Statements

Cypress Chase North Condominium No. 3 Association, Inc.

BALANCE SHEET

December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 188,550	\$ 178,246	\$ 366,796
Assessment receivable, net	31,070	-	31,070
Prepaid expenses	16,700	-	16,700
Due from/(to)	15,520	(15,520)	-
Other assets	986	-	986
Rental property, net	47,964	-	47,964
Total assets	<u>\$ 300,790</u>	<u>\$ 162,726</u>	<u>\$ 463,516</u>
Liabilities and fund balances			
Accounts payable and accrued liabilities	\$ 16,525	\$ -	\$ 16,525
Insurance payable	16,700	-	16,700
Security payable	156,323	-	156,323
Prepaid Assessments	15,911	-	15,911
Rental security deposit	5,793	-	5,793
Total liabilities	<u>211,252</u>	<u>-</u>	<u>211,252</u>
Fund balances	<u>89,538</u>	<u>162,726</u>	<u>252,264</u>
Total liabilities and fund balances	<u>\$ 300,790</u>	<u>\$ 162,726</u>	<u>\$ 463,516</u>

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

Cypress Chase North Condominium No. 3 Association, Inc.

STATEMENT OF REVENUES AND EXPENSES

For the year ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Monthly assessments	\$ 413,472	\$ -	\$ 413,472
Rental income	37,359	-	37,359
Recovery of legal fees	11,099	-	11,099
Other income	11,832	-	11,832
Interest	894	143	1,037
Total revenues	<u>474,656</u>	<u>143</u>	<u>474,799</u>
Expenses			
Payroll related	55,590	-	55,590
Non-payroll operating	327,530	-	327,530
Administrative	124,734	-	124,734
Total expenses	<u>507,854</u>	<u>-</u>	<u>507,854</u>
Excess (deficit) of revenues over expenses	<u>\$ (33,198)</u>	<u>\$ 143</u>	<u>\$ (33,055)</u>

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

Cypress Chase North Condominium No. 3 Association, Inc.

STATEMENT OF CHANGES IN FUND BALANCE

For the year ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance - Beginning of year	\$ 162,736	\$ 122,583	\$ 285,319
Transfers in (out)	(40,000)	40,000	-
Excess (deficit) of revenues over expenses	<u>(33,198)</u>	<u>143</u>	<u>(33,055)</u>
Fund balance - End of year	<u>\$ 89,538</u>	<u>\$ 162,726</u>	<u>\$ 252,264</u>

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

Cypress Chase North Condominium No. 3 Association, Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Operating receipts:			
Cash from member assessments	\$ 558,224	\$ -	\$ 558,224
Cash from rental income	37,359	-	37,359
Cash from collection of legal fees	11,099	-	11,099
Cash from other income	11,832	-	11,832
Interest received	894	143	1,037
Total operating receipts	<u>619,408</u>	<u>143</u>	<u>619,551</u>
Operating disbursements:			
Cash paid to vendors	<u>575,567</u>	<u>(10,949)</u>	<u>564,618</u>
Total operating disbursements	<u>575,567</u>	<u>(10,949)</u>	<u>564,618</u>
Net cash provided by operating activities	<u>43,841</u>	<u>11,092</u>	<u>54,933</u>
Cash flows from financing activities			
Transfer of funds	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,841	51,092	54,933
Cash - beginning of year	<u>184,709</u>	<u>127,154</u>	<u>311,863</u>
Cash - end of year	<u>\$ 188,550</u>	<u>\$ 178,246</u>	<u>\$ 366,796</u>
Reconciliation of excess (deficit) over expenses to net cash provided by operating activities			
Change in fund balance	\$ (33,198)	\$ 143	\$ (33,055)
Adjustments to reconcile change in fund balance to net cash provided by operating activities:			
Bad debt expense	50,042	-	50,042
Depreciation	3,058	-	3,058
(Increase) decrease in assets:			
Assessment receivable	641	-	641
Other Assets	(986)	-	(986)
Prepaid expenses	726	-	726
Due from/to	(10,949)	10,949	-
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	7,823	-	7,823
Prepaid assessments	15,911	-	15,911
Insurance note payable	(729)	-	(729)
Security payable	11,502	-	11,502
Net cash provided by operating activities	<u>\$ 43,841</u>	<u>\$ 11,092</u>	<u>\$ 54,933</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A – NATURE OF OPERATIONS

Cypress Chase North Condominium No. 3 Association, Inc. (the “Association”) was incorporated in the State of Florida on August 4, 1989, and is subject to the current requirements of Florida Statute 718 also known as the Condominium Act. The Condominium consists of 100 two bedroom and 40 one bedroom units, totaling 140 units in Lauderdale Lakes, Florida. The Association is responsible for maintaining and preserving the common property.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Fund accounting

The Association prepares its financial statements using fund accounting, using separate funds for operations, and future major repairs and replacements. Disbursements from the operating fund generally are for the operations of the Association. Disbursements from the reserve fund generally are made only for major repairs and replacements.

2. Interest earned

Interest earned by each fund is allocated to the appropriate fund.

3. Common property

The Association’s common areas include recreation areas, facilities and / or buildings and improvements, pumps, dikes, ponds, waterways, canals, grass and landscaped areas, jogging paths, bike paths, personal property, streets, street lighting, easements, guard houses, and walls.

Real property, common areas and related improvements to such property are not recorded in the Association’s financial statements because those properties are owned by the individual unit owners in common and not by the Association. As at December 31, 2018, one unit is owned directly by the Association.

4. Use of estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

5. Income taxes

The Association may be taxed either as a condominium association, or as a regular corporation, at their election. The Association may select either method in any year and will generally select the method that results in the lowest tax due. A method selected in one year affects only that year and the Association is free to select either method in future years. For the year ended December 31, 2018, the Condominium has elected to be taxed as a condominium association. The Association is taxed only on its non-exempt income such as interest income, net of direct expenses, at a flat federal rate of 30% and is exempt from Florida

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Income taxes (continued)

Corporation business income taxes. Additionally, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as a whole. As such, the Association has not recorded deferred income taxes at December 31, 2018.

6. Cash and cash equivalents

Cash and cash equivalents include all monies in banks including money market funds. Cash equivalents include highly liquid securities with maturity of 90 days or less. At December 31, 2018, the Condominium had no cash equivalents.

7. Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash, assessments receivable, prepaid assessments, and other assets and liabilities approximate their fair values due to their short-term maturities.

8. Assessments receivable

Assessments receivable represent fees due from unit owners. Assessments are due on the first day of the month. It is the Association's policy to charge late fees to homeowners whose assessments are fifteen days or more delinquent. The Board of Directors has the right and duty to attempt to recover all delinquent assessments, together with any charges, attorneys' fee or expenses relating to the collection of such delinquent assessments. Pursuit of collection may result in the Association placing a lien on the property of unit owners that are past due. This may involve foreclosure on the property after other attempts of collection have failed.

9. Allowance for doubtful accounts

The carrying amount of assessments receivable is reduced by the valuation allowance that reflects management's best estimate of the amounts that will not be collected. The Association has established an allowance for bad debts totaling \$34,730 for assessments that may not be collectible. The Association continues to pursue all past due balances.

10. Rental Property

Rental property is stated at cost. Rental property is depreciated over the estimated useful life of 27.5 years using the straight-line method of depreciation.

11. Subsequent events

Subsequent events have been evaluated through April 30, 2019, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE C – MAINTENANCE ASSESSMENTS

The Association's 140 individual owners are subject to annual assessments payable monthly, for the Association's operating expenses and future capital acquisitions, major repairs and replacements. Maintenance assessments are allocated to each unit owner based on the number of bedrooms. The current assessment is \$199 and \$265 for a one bedroom and two bedroom unit, respectively. Assessments are recognized as revenues when they become due and are deferred when received in advance. Any excess of revenues over expenses at year-end are generally retained by the Association for use in the succeeding year or transferred to reserve funds, as authorized by the Board of Directors. The Association's policy is to retain legal counsel and place liens or foreclose on units of members whose assessments are delinquent.

NOTE D – LITIGATION

The Association is a party to certain legal actions, substantially all involved with the collection of delinquent assessments, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE E – COMMITMENTS AND CONTINGENCIES

The Association has contracted with vendors for services to maintain the common property. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

The Association has obtained insurance coverage for the potential damages encountered from wind-driven precipitation. The coverage is subject to a hurricane deductible of 2% per calendar year, whether caused by hurricane or not. The insured value of the residential buildings and common elements is estimated to be \$13,645,605. Therefore, the Association would be responsible for losses up to these amounts and has the right to increase regular assessments, pass special assessments, borrow, or delay major repairs and replacements until funds become available.

NOTE F – CONCENTRATION OF CREDIT RISK

At various times during the fiscal year, the Association's cash in bank balances may exceed the Federally Insured limits. At December 31, 2018, the Association had \$92,054 of uninsured cash balances.

NOTE G – PROPERTY AND EQUIPMENT

At December 31, 2018, property and equipment consists of the following components

Rental property	\$ 84,098
Accumulated depreciation	<u>(36,134)</u>
Property and equipment (net)	<u>\$ 47,964</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018

NOTE H – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association’s documents and Florida law provide for funds to be accumulated for future major repairs and replacements or maintenance items that occur less frequently than annually (“reserve funds”). Accumulated funds are held in separate accounts and are generally not available for operating purposes.

During 2018, the Board of Directors authorized the transfer of \$40,000 from the operating account to the reserve account.

Components	<u>Fund Balance 1/1/2018</u>	<u>Additions to Fund</u>	<u>Interest Allocation</u>	<u>Charges to Fund</u>	<u>Fund Balance 12/31/2018</u>
Roof Replacement	\$ -	\$ 22,000	\$ -	\$ -	\$ 22,000
Elevators and Alarm	<u>122,583</u>	<u>18,000</u>	<u>143</u>	<u>-</u>	<u>140,726</u>
	<u>\$ 122,583</u>	<u>\$ 40,000</u>	<u>\$ 143</u>	<u>\$ -</u>	<u>\$ 162,726</u>

NOTE I – SECURITY PAYABLE

On November 27, 2000, the membership of the Association amended the provisions to its Declaration of Condominium (“Declaration”). Based on the Declaration, the Association, through the Board of Directors, is empowered to levy an assessment against each Unit in the condominium in an amount sufficient for the Association to hold in escrow for each Unit, a sum equal to six (6) months of assessments payable to the Association. The funds collected are the property of the Association and held for the benefit of the Association. The amounts collected may be used if the Unit is foreclosed by a mortgagee or other lienholder holding a lien superior to the lien of the Association resulting in a loss to the Association. If all or any portion of the amounts paid into the account by a particular Unit are used by the Association under the approved circumstances, the Association may levy a special assessment against the Unit until the account is replenished to cover six (6) months of assessments to the Association.

As at December 31, 2018, the balance in the capital deposit account is \$156,844 and the corresponding liability is \$156,844.

NOTE J – RELATED PARTY TRANSACTIONS

The Association is self-managed. Designated officers of the Board of Directors perform services on behalf the Association. During the year ended December 31, 2018, compensation to the directors totaled \$21,600.

Supplementary Information

Cypress Chase North Condominium No. 3 Association, Inc.

Schedule of Operating Expenses

For the year ended December 31, 2018

Expenses	Payroll	Non-Payroll Operating	Repair and Replacement Fund	Administrative	Total
Accounting and audit	\$ -	\$ -	\$ -	\$ 8,750	\$ 8,750
Bad debt expense	-	-	-	50,042	50,042
Cable	-	80,876	-	-	80,876
Consulting and professional fees	-	-	-	5,669	5,669
Depreciation	-	-	-	3,058	3,058
Director compensaion	21,600	-	-	-	21,600
Electricity	-	4,201	-	-	4,201
Elevator maintenance	-	7,918	-	-	7,918
Elevator telephone	-	1,803	-	-	1,803
Exterminating	-	2,910	-	-	2,910
Fire equipment maintenance	-	640	-	-	640
Insurance	-	-	-	48,562	48,562
Licenses, taxes and permits	-	-	-	3,348	3,348
Maintenance wages	27,855	-	-	-	27,855
Office expenses and supplies	-	-	-	4,854	4,854
Payroll taxes	6,135	-	-	-	6,135
Plumbing	-	10,651	-	-	10,651
Rental apartment expenses	-	11,273	-	-	11,273
Repairs and maintenance	-	45,147	-	-	45,147
Screening	-	-	-	451	451
Trash removal	-	28,840	-	-	28,840
Tree trimming / lawn maintenance	-	9,100	-	-	9,100
Water & Sewer	-	124,171	-	-	124,171
Total expenses	\$ 55,590	\$ 327,530	\$ -	\$ 124,734	\$ 507,854

Required Supplementary Information

Schedule of Future Major Repairs and Replacement (Unaudited)

December 31, 2018

The Association's board of directors conducted an informal study (the "study") on December 4, 2018 to estimate the remaining useful lives and the 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. 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 information is based on the study and presents significant information about the components of common property. Pavement resurfacing is the responsibility of Cypress Chase North Property Owners Association.

Component	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance 12/31/2018	Funding Needed
Elevators and alarm	25	1	\$ 140,000	\$ 140,726	\$ -
Painting	8	6	90,000	-	90,000
Roofing	15	9	<u>280,000</u>	<u>22,000</u>	<u>258,000</u>
			<u>\$ 510,000</u>	<u>\$ 162,726</u>	<u>\$ 348,000</u>