

**THE SANDARAC  
ASSOCIATION, INC.**  
FORT MYERS BEACH, FLORIDA  
FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2016

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**Cindy  
D'Artagnan**  
CPA, LLC

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
The Sandarac Association, Inc.  
Fort Myers Beach, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Sandarac Association, Inc., which comprise the balance sheet as of March 31, 2016, 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.

### **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 misstatements, 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 includes 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 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 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sandarac Association, Inc., as of March 31, 2016, 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.

## **Report on Supplementary Information**

The audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund expenses - budget to actual is presented for the purpose 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. That information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied during 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 taken 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.

## **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the accompanying supplementary information on future major 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 the 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.

*Cindy D'Artagnan, CPA, LLC*

August 1, 2016

CINDY D'ARTAGNAN, CPA, LLC

THE SANDARAC ASSOCIATION, INC.  
BALANCE SHEET  
MARCH 31, 2016

	FUNDS		
	Operating	Replacement	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 265,060	\$ 71,129	\$ 336,189
Accounts receivable - members	1,620	-	1,620
Due from Sandarac II	11,578	-	11,578
Prepaid insurance	4,650	-	4,650
Due from operating fund	-	10,631	10,631
 Total assets	 \$ 282,908	 \$ 81,760	 \$ 364,668
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 24,109	\$ 6,601	\$ 30,710
Assessments received in advance	100,864	-	100,864
Deferred special assessment	-	14,317	14,317
Due to replacement fund	10,631	-	10,631
 Total liabilities	 135,604	 20,918	 156,522
 <b>FUND BALANCES</b>	 147,304	 60,842	 208,146
 Total liabilities and fund balances	 \$ 282,908	 \$ 81,760	 \$ 364,668

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.

THE SANDARAC ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED MARCH 31, 2016

	FUNDS		
	Operating	Replacement	Total
<b>REVENUES</b>			
Maintenance fees	\$ 457,730	\$ 91,520	\$ 549,250
Special assessment	-	9,546	9,546
Late fees	240	-	240
Interest	306	536	842
Beach commission	7,000	-	7,000
Transfer fees	1,700	-	1,700
Other	1,218	-	1,218
	<u>468,194</u>	<u>101,602</u>	<u>569,796</u>
Total revenues			
<b>EXPENSES</b>			
General and administrative	13,220	-	13,220
Pool	3,648	-	3,648
Insurance	131,666	-	131,666
Staffing	113,790	-	113,790
Maintenance	53,427	-	53,427
Utilities	143,607	-	143,607
Replacements	-	302,490	302,490
	<u>459,358</u>	<u>302,490</u>	<u>761,848</u>
Total expenses			
Excess (deficiency) of revenues over expenses	8,836	(200,888)	(192,052)
<b>FUND BALANCES -</b>			
April 1, 2015	<u>138,468</u>	<u>261,730</u>	<u>400,198</u>
<b>FUND BALANCES -</b>			
March 31, 2016	<u>\$ 147,304</u>	<u>\$ 60,842</u>	<u>\$ 208,146</u>

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.

THE SANDARAC ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2016

	FUNDS		
	<u>Operating</u>	<u>Replacement</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Maintenance fees received	\$ 442,966	\$ 91,520	\$ 534,486
Late fees received	240	-	240
Interest income received	306	536	842
Beach commission income received	7,000	-	7,000
Transfer fees received	1,700	-	1,700
Other income received	1,218	-	1,218
Cash paid for operating expenses	(402,164)	-	(402,164)
Replacement expenditures paid	-	(307,649)	(307,649)
Due (to) from funds	(13,313)	13,313	-
	<u>37,953</u>	<u>(202,280)</u>	<u>(164,327)</u>
Net cash provided (used) by operating activities			
	37,953	(202,280)	(164,327)
<b>CASH AND CASH EQUIVALENTS -</b>			
April 1, 2015	<u>227,107</u>	<u>273,409</u>	<u>500,516</u>
<b>CASH AND CASH EQUIVALENTS -</b>			
March 31, 2016	<u>\$ 265,060</u>	<u>\$ 71,129</u>	<u>\$ 336,189</u>

	FUNDS		
	Operating	Replacement	Total
RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 8,836	\$ (200,888)	\$ (192,052)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
Decrease in accounts receivable - members	211	-	211
Increase in due from Sandarac II	(6,663)	-	(6,663)
Decrease in prepaid insurance	64,471	-	64,471
Decrease in prepaid income taxes	223	-	223
Decrease in accounts payable	(837)	(5,159)	(5,996)
Decrease in assessments received in advance	(14,975)	-	(14,975)
Decrease in deferred special assessment	-	(9,546)	(9,546)
Due (to) from funds	(13,313)	13,313	-
Total adjustments	29,117	(1,392)	27,725
Net cash provided (used) by operating activities	\$ 37,953	\$ (202,280)	\$ (164,327)

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.



THE SANDARAC ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2016

**NOTE 1 - THE ASSOCIATION**

The Sandarac Association, Inc. (the "Association") was incorporated on December 18, 1974, under the laws of Florida as a corporation not-for-profit, to operate and manage Sandarac I, a condominium consisting of 88 residential units, located in Fort Myers Beach, Florida. The owners of all units in the condominium are the only members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General Accounting

The Association prepares its financial statements using the accrual reporting framework and presents them as separate funds based on its different funding policies for operations and replacement expenditures.

Property and Equipment

Ownership of the commonly owned assets is vested directly or indirectly in the unit owners, and those assets are not deemed to be severable. As a result, commonly owned assets are not presented in the Association's financial statements. Commonly owned assets include the buildings, shared pool, and common areas.

Revenue Recognition

The Association's current policy is to assess each unit owner a fixed amount per quarter, based on the annual budget determined by the Board of Directors (the "Board"). Each unit owner is assessed an equal portion of the maintenance fees.

Accounts Receivable

Accounts receivable are generally considered delinquent when they are 30 days past due. The Association accounts for potential losses in accounts receivable utilizing the allowance method. The Association maintains an allowance for bad debt at an amount that it believes is sufficient to provide adequate protection against future losses. Provisions for losses, if any, are determined principally on the basis of experiences in the preceding years, taking into account historical losses, industry standards, statutory regulations and current economic conditions. All accounts, or portions thereof, deemed to be uncollectible are written off to an allowance for bad debt.

Funds

The operating fund reflects the operating portion of the quarterly assessments paid by the unit owners to meet the various day-to-day expenditures incurred in the administration and operation of the condominium and recreational facilities.

The replacement fund is composed of the portion of the quarterly assessments designated in the budget to fund for future major repairs and replacements, as further discussed in Note 6.

THE SANDARAC ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2016

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes

The Association files its income tax return as a homeowners' association, in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest, beach commissions, and other income. The Association incurred no income tax liability for the year ended March 31, 2016.

The Association has not identified any tax positions that it would consider uncertain tax positions as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Code Section 740. The 2012, 2013, and 2014 tax returns remain open to examination.

Cash Flows

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

The Association made no cash payments for income taxes or interest during the year ended March 31, 2016.

Estimates

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

Subsequent events

Subsequent events have been evaluated through the date of the audit report, which is the date the financial statements were available to be issued.

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

The Association maintains its cash and cash equivalent accounts at a financial institution located in Florida. Accounts at the commercial banking institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of March 31, 2016, the uninsured balance was \$82,665, based on the bank statement balances less FDIC insurance.

THE SANDARAC ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2016

**NOTE 4 - ACCOUNTS RECEIVABLE - MEMBERS**

As of March 31, 2016, accounts receivable - members consisted of maintenance fees.

Accounts receivable are recorded at cost. Management considers all accounts receivable to be collectible; therefore no allowance for bad debt has been recorded. The Association did not recognize any bad debt expense during the year ended March 31, 2016.

**NOTE 5 - ASSESSMENTS RECEIVED IN ADVANCE**

Assessments received in advance consisted of maintenance fees for the year ended March 31, 2017, received by the Association prior to April 1, 2016.

**NOTE 6 - REPLACEMENT FUND**

The Association's replacement fund is utilized to accumulate funds for future major repairs and replacements, by an allocation of the maintenance fees assessment charged to each unit owner, and specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs, as incurred, which are determined by the Board to meet the objective for which the fund was established.

The following is a table of the current year's activity in the replacement fund:

Components	Balance April 1, 2015	Additions to Fund	Charges to Fund	Balance March 31, 2016
Pooled components	\$ 254,017	\$ 101,066	\$ 302,490	\$ 52,593
Unallocated interest	7,713	536	-	8,249
	<u>\$ 261,730</u>	<u>\$ 101,602</u>	<u>\$ 302,490</u>	<u>\$ 60,842</u>

Additions to fund include interest income of \$536, and \$9,546 from a special assessment, as more fully described in Note 7.

THE SANDARAC ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2016

**NOTE 6 - REPLACEMENT FUND (Continued)**

Charges to fund during the year ended March 31, 2016, consisted of the following:

Carport roof	\$ 1,540
Concrete repairs	14,471
Elevator modernization	248,061
HVAC/mechanical	20,074
Plumbing	9,546
Security system	7,218
Trash chutes	1,580
	<u>\$ 302,490</u>

During the year ended March 31, 2016, the Association funded for major repairs and replacements over the estimated useful lives of the components based on management’s estimates of current replacement costs, in accordance with Florida Statutes, using the pooling method. In addition, the activity related to a special assessment has been accounted for within the replacement fund. See Note 7 for additional information.

The 2016/2017 budgeted funding is \$105,600, as shown in the unaudited supplementary information. The components' actual costs and useful lives may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, through its Board, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**NOTE 7 - SPECIAL ASSESSMENT**

In April 2011, the Board approved a special assessment of \$3,500 per unit for sewer and related repairs. The activity related to the 2011 special assessment during the year ended March 31, 2016, was as follows:

Deferred special assessment - March 31, 2015	\$ 23,863
Current year expenditures	9,546
Deferred special assessment - March 31, 2016	<u>\$ 14,317</u>

THE SANDARAC ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2016

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Association shares certain costs with the The Sandarac II Association, Inc. (“Sandarac II”) related to staffing and to the operation of the recreation and office building and certain common areas. As of March 31, 2016, there was \$11,578 due from Sandarac II and \$993 due to Sandarac II. These amounts are included in Due from Sandarac II and accounts payable, respectively, on the balance sheet.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The Association has various service contracts.

**SUPPLEMENTARY INFORMATION**

THE SANDARAC ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON  
 FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 MARCH 31, 2016  
*(Unaudited)*

The following table is based on estimates provided by management during 2015, and presents information about the components of common property:

<u>Components</u>	<u>Estimated Useful Lives</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2016/2017 Budgeted Funding</u>
Carports	35 years	24 years	\$ 230,000	\$ -
Elevators	16-30 years	9-30 years	290,000	-
Generator	40 years	0 years	30,000	-
Lobbies and social room	15 years	8 years	25,000	-
Fire system	10 years	2 years	75,000	-
Painting and waterproofing	8 years	5 years	275,000	-
Paving	30 years	18 years	230,000	-
Pool and pool equipment	10 years	3 years	25,000	-
Roofs	10-20 years	4-10 years	260,000	-
Trash chutes	45 years	1 year	60,000	-
Walkways	20 years	17 years	100,000	-
Pooled components			N/A	105,600
			<u>\$ 1,600,000</u>	<u>\$ 105,600</u>

Estimated current replacement costs are based on an assumed rate of investment interest of 2%.

THE SANDARAC ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2016

	Budget <i>(Unaudited)</i>	Actual	Variance Favorable (Unfavorable)
GENERAL AND ADMINISTRATIVE			
Audit	\$ 4,000	\$ 4,000	\$ -
Auto	600	1,176	(576)
Office equipment	1,000	624	376
Legal fees	4,000	3,553	447
Printing, postage and supplies	1,450	2,013	(563)
Miscellaneous	2,300	1,854	446
Total general and administrative	<u>13,350</u>	<u>13,220</u>	<u>130</u>
POOL	<u>3,500</u>	<u>3,648</u>	<u>(148)</u>
INSURANCE	<u>130,490</u>	<u>131,666</u>	<u>(1,176)</u>
STAFFING	<u>114,550</u>	<u>113,790</u>	<u>760</u>
MAINTENANCE			
Building maintenance	27,000	25,794	1,206
Elevator	9,000	5,166	3,834
Grounds	23,000	19,467	3,533
Contingency	4,800	3,000	1,800
Total maintenance	<u>63,800</u>	<u>53,427</u>	<u>10,373</u>
UTILITIES			
Cable TV	68,640	73,461	(4,821)
Electricity	13,000	12,171	829
Propane	700	363	337
Telephone	4,200	2,652	1,548
Trash	8,000	8,600	(600)
Water and sewer	46,700	46,360	340
Total utilities	<u>141,240</u>	<u>143,607</u>	<u>(2,367)</u>
Total operating fund expenses	<u>\$ 466,930</u>	<u>\$ 459,358</u>	<u>\$ 7,572</u>