

**CASA BLANCA ASSOCIATION, INC. AND SUBSIDIARY**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**  
**(TOGETHER WITH INDEPENDENT AUDITOR'S REPORT)**

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>Independent Auditor's Report</b>                                      | 1 - 2       |
| <b>Financial Statements:</b>   |             |
| Balance Sheet  | 3           |
| Statement of Revenues, Expenses,<br>and Changes in Fund Balances         | 4           |
| Statements of Cash Flows   | 5 - 6       |
| Notes to Financial Statements  | 7 - 11      |
| <b>Supplementary Schedules:</b>  |             |
| Supplementary Schedule of Operating and<br>Rental Fund Expenses          | 12 - 13     |
| Supplementary Schedule of Changes in<br>Replacement Fund Balances        | 14          |
| Supplementary Information About Future Major<br>Repairs and Replacements | 15          |

**FLANAGAN & JASON, INC.**  
CERTIFIED PUBLIC ACCOUNTANT AND ASSOCIATE

**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
Casa Blanca Association, Inc. and Subsidiary  
Sarasota, Florida

We have audited the accompanying financial statements of Casa Blanca Association, Inc. and Subsidiary which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Blanca Association, Inc. and Subsidiary as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

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

***Disclaimer of Opinion on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of operating and rental fund expenses and the supplementary schedule of changes in replacement fund balances on pages 12-14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Accounting principles generally accepted in the United States of America require that the supplementary information about future repairs and replacements on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



John R. Flanagan, CPA  
President  
Flanagan & Jason, Inc.  
Sarasota, Florida  
April 27, 2018

**Casa Blanca Association, Inc. and Subsidiary**  
**Balance Sheet**  
**December 31, 2017**

|   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Rental<br/>Fund</u> | <u>Total</u>            |
|---|---------------------------|-----------------------------|------------------------|-------------------------|
| <b><u>Assets</u></b>  |                           |                             |                        |                         |
| Cash  | \$ 85,427                 | \$ 309,729                  | \$ 221,234             | \$ 616,390              |
| Cash - escrow   | -                         | -                           | 374,588                | 374,588                 |
| Assessments receivable  | 17,339                    | -                           | -                      | 17,339                  |
| Other receivables   | -                         | -                           | 5,088                  | 5,088                   |
| Due from CBA  | -                         | -                           | 12,854                 | 12,854                  |
| Prepaid insurance   | 116,290                   | -                           | -                      | 116,290                 |
| Prepaid income tax  | -                         | -                           | 3,874                  | 3,874                   |
| Prepaid expenses - other  | 1,860                     | -                           | -                      | 1,860                   |
| Furniture and equipment, net<br>of accumulated depreciation<br>of \$46,653 and \$27,367 | -                         | -                           | 6,953                  | 6,953                   |
| Interfund receivable/(payable)  | <u>1,575</u>              | <u>(1,575)</u>              | <u>-</u>               | <u>-</u>                |
| <br>Total Assets  | <br><u>\$ 222,491</u>     | <br><u>\$ 308,154</u>       | <br><u>\$ 624,591</u>  | <br><u>\$ 1,155,236</u> |
| <b><u>Liabilities</u></b>   |                           |                             |                        |                         |
| Accounts payable  | \$ 24,332                 | \$ -                        | \$ 34,121              | \$ 58,453               |
| Sales tax payable   | -                         | -                           | 24,231                 | 24,231                  |
| Prepaid assessments   | 51,829                    | -                           | -                      | 51,829                  |
| Due to owners   | -                         | -                           | 91,718                 | 91,718                  |
| Rental deposits   | <u>-</u>                  | <u>-</u>                    | <u>443,303</u>         | <u>443,303</u>          |
| <br>Total Liabilities   | <br><u>76,161</u>         | <br><u>-</u>                | <br><u>593,373</u>     | <br><u>669,534</u>      |
| <br><b><u>Fund Balances</u></b>   | <br><u>146,330</u>        | <br><u>308,154</u>          | <br><u>31,218</u>      | <br><u>485,702</u>      |
| Total Liabilities and<br>Fund Balances  | <u>\$ 222,491</u>         | <u>\$ 308,154</u>           | <u>\$ 624,591</u>      | <u>\$ 1,155,236</u>     |

Read accountant's audit report.

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

**Casa Blanca Association, Inc. and Subsidiary**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2017**

|                        | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Rental<br/>Fund</u> | <u>Total</u>      |
|------------------------|---------------------------|-----------------------------|------------------------|-------------------|
| <b><u>Revenues</u></b> |                           |                             |                        |                   |
| Member assessments     | \$ 491,160                | \$ 176,000                  | \$ -                   | \$ 667,160        |
| Commission fees        | -                         | -                           | 301,007                | 301,007           |
| Cleaning fees          | -                         | -                           | 86,830                 | 86,830            |
| Occupancy fees         | -                         | -                           | 80,082                 | 80,082            |
| Processing fees        | -                         | -                           | 106,890                | 106,890           |
| Interest income        | 16                        | 773                         | -                      | 789               |
| Reimbursed expenses    | 54,000                    | -                           | -                      | 54,000            |
| Other income           | 3,011                     | -                           | 17,364                 | 20,375            |
| Total Revenues         | <u>548,187</u>            | <u>176,773</u>              | <u>592,173</u>         | <u>1,317,133</u>  |
| <b><u>Expenses</u></b> |                           |                             |                        |                   |
| Administration         | 269,694                   | -                           | 176,749                | 446,443           |
| Grounds                | 29,007                    | -                           | -                      | 29,007            |
| Maintenance            | 78,129                    | -                           | 8,708                  | 86,837            |
| Pool and recreation    | 14,632                    | -                           | -                      | 14,632            |
| Utilities              | 113,194                   | -                           | 5,795                  | 118,989           |
| Payroll                | 76,792                    | -                           | 203,707                | 280,499           |
| Rental expenses        | -                         | -                           | 229,912                | 229,912           |
| Betterments            | -                         | 107,474                     | -                      | 107,474           |
| Total Expenses         | <u>581,448</u>            | <u>107,474</u>              | <u>624,871</u>         | <u>1,313,793</u>  |
| Excess (Deficit) of    |                           |                             |                        |                   |
| Revenues Over Expenses | (33,261)                  | 69,299                      | (32,698)               | 3,340             |
| Beginning Fund Balance | <u>179,591</u>            | <u>238,855</u>              | <u>63,916</u>          | <u>482,362</u>    |
| Ending Fund Balance    | <u>\$ 146,330</u>         | <u>\$ 308,154</u>           | <u>\$ 31,218</u>       | <u>\$ 485,702</u> |

Read accountant's audit report.

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

**Casa Blanca Association, Inc. and Subsidiary**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2017**

|  | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Rental<br/>Fund</u> | <u>Total</u>       |
|--|---------------------------|-----------------------------|------------------------|--------------------|
| <b>Cash Flows From Operating Activities:</b>                       |                           |                             |                        |                    |
| Maintenance fees collected   | \$ 488,750                | \$ 176,000                  | \$ -                   | \$ 664,750         |
| Rental fees collected  | -                         | -                           | 166,912                | 166,912            |
| Management fees collected  | -                         | -                           | 407,897                | 407,897            |
| Interest received  | 16                        | 773                         | -                      | 789                |
| Reimbursements collected   | 75,000                    | -                           | -                      | 75,000             |
| Other income collected   | 3,011                     | -                           | 17,364                 | 20,375             |
| Cash paid for<br>operating expenses                                | <u>(544,524)</u>          | <u>(107,474)</u>            | <u>(606,711)</u>       | <u>(1,258,709)</u> |
| Net Cash Provided (Used)<br>by Operating Activities                | <u>22,253</u>             | <u>69,299</u>               | <u>(14,538)</u>        | <u>77,014</u>      |
| <b>Cash Flows From Financing Activities:</b>                       |                           |                             |                        |                    |
| Rental deposits, net   | -                         | -                           | 8,128                  | 8,128              |
| Interfund loan   | <u>(1,575)</u>            | <u>1,575</u>                | <u>-</u>               | <u>-</u>           |
| Net Cash Provided (Used)<br>by Financing Activities                | <u>(1,575)</u>            | <u>1,575</u>                | <u>8,128</u>           | <u>8,128</u>       |
| <b>Net Increase (Decrease) In Cash<br/>and Cash Equivalentents</b> | 20,678                    | 70,874                      | (6,410)                | 85,142             |
| Cash - January 1, 2017   | <u>64,749</u>             | <u>238,855</u>              | <u>602,232</u>         | <u>905,836</u>     |
| Cash - December 31, 2017   | <u>\$ 85,427</u>          | <u>\$ 309,729</u>           | <u>\$ 595,822</u>      | <u>\$ 990,978</u>  |

Read accountant's audit report.

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

**Casa Blanca Association, Inc. and Subsidiary**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

|   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Rental<br/>Fund</u> | <u>Total</u>     |
|---|---------------------------|-----------------------------|------------------------|------------------|
| Reconciliation of Excess (Deficit) of<br>Revenues Over Expenses to Net Cash<br>Provided (Used) by Operating Activities: |                           |                             |                        |                  |
| <b>Excess (Deficit) of<br/>Revenues Over Expenses</b>   | <u>\$ (33,261)</u>        | <u>\$ 69,299</u>            | <u>\$ (32,698)</u>     | <u>\$ 3,340</u>  |
| Adjustments to Reconcile:   |                           |                             |                        |                  |
| <b>Depreciation</b>   | 56                        | -                           | 5,350                  | 5,406            |
| <b>Decrease/(Increase) in Operating Assets:</b>   |                           |                             |                        |                  |
| Assessments receivable  | (5,617)                   | -                           | -                      | (5,617)          |
| Other receivables   | 21,000                    | -                           | 2,755                  | 23,755           |
| Due from CBA  | -                         | -                           | (7,314)                | (7,314)          |
| Prepaid insurance   | 30,767                    | -                           | -                      | 30,767           |
| Prepaid expenses - other  | (900)                     | -                           | -                      | (900)            |
| <b>Increase/(Decrease) in Operating Liabilities:</b>  |                           |                             |                        |                  |
| Accounts payable  | 7,001                     | -                           | 15,904                 | 22,905           |
| Sales tax payable   | -                         | -                           | 8,636                  | 8,636            |
| Prepaid assessments   | 3,207                     | -                           | -                      | 3,207            |
| Due to owners   | -                         | -                           | (7,171)                | (7,171)          |
| <b>Total Adjustments</b>  | <u>55,514</u>             | <u>-</u>                    | <u>18,160</u>          | <u>73,674</u>    |
| <b>Net Cash Provided (Used) by<br/>Operating Activities</b>   | <u>\$ 22,253</u>          | <u>\$ 69,299</u>            | <u>\$ (14,538)</u>     | <u>\$ 77,014</u> |

Read accountant's audit report.

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



# **Casa Blanca Association, Inc. and Subsidiary**

## **Notes to Financial Statements**

### **ORGANIZATION**

Casa Blanca Association, Inc. (“the Association”) is a not-for-profit corporation organized February 16, 1966 to provide an entity pursuant to the Florida Condominium Act for the administration, maintenance, operation, and management of Casa Blanca located in Sarasota, Florida. The Association consists of 88 residential condominium units. Assessments against the owners of the condominium units, which are the principal source of revenue, are based on the estimated amounts required to protect and maintain the property owned by the owners in common and are divided equally among the units. The Association is the parent company of the wholly owned subsidiary, Casa Blanca Vacation Rentals, Inc. (“the Subsidiary”) which operates a short-term rental program.

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

### **NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Basis of Accounting

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

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

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

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

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

Rental Fund - This fund is used to account for the income and expenses derived from short-term rentals at Casa Blanca Association, Inc.

## **Casa Blanca Association, Inc. and Subsidiary Notes to Financial Statements**

### Cash and Cash Equivalents

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

### Interest Earned on Replacement Fund

The Association retains interest earned on operating fund accounts in the operating fund net of taxes and interest earned on replacement fund accounts in the replacement fund.

### 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.

Property and equipment were recorded at cost and capitalized through December 31, 2007. During 2008, the Association adopted a policy not to capitalize and depreciate the commonly owned assets purchased on or after January 1, 2008 as ownership is vested directly or indirectly to the unit owners and these assets are not deemed to be severable. The Subsidiary capitalizes equipment purchases.

Assessments Receivable – Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and take appropriate legal recourse on the properties of the unit owners whose assessments are delinquent. An allowance for uncollectable assessments was not deemed necessary for 2017.

Maintenance Fees – Maintenance fees assessed in excess of expenditures reduce amounts assessed to members for maintenance in the subsequent year. Accumulated deficits will be recovered by various methods including: increases in assessments, reduction in expenses or passing a special assessment.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

**Casa Blanca Association, Inc. and Subsidiary**  
**Notes to Financial Statements**

Property and Equipment – Property and equipment are valued at cost. Depreciation is recorded on the straight-line basis over the useful lives of the assets, ranging from 3-10 years. Depreciation expense for the year ended December 31, 2017 was \$5,406. Property and equipment consist of the following:

|                     | <u>Operating</u> | <u>Rental</u>   | <u>Total</u>    |
|---------------------|------------------|-----------------|-----------------|
| Equipment           | \$46,653         | \$34,320        | \$80,973        |
| Accum. Depreciation | <u>(46,653)</u>  | <u>(27,367)</u> | <u>(74,020)</u> |
| Net Book Value      | <u>\$ - 0 -</u>  | <u>\$ 6,953</u> | <u>\$ 6,953</u> |

Fair Value of Financial Instruments

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

**NOTE II - MAINTENANCE FEES**

Quarterly assessments to owners were \$1,900 in 2017. Of that amount, \$500 was designated to the replacement fund.

The Association bills its maintenance fees in advance on a quarterly basis. Maintenance fees received in advance for future periods amounted to \$51,829.

The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

**NOTE III - CONTINGENT LIABILITIES**

The Association’s current windstorm insurance policy contains a 3% hurricane deductible clause. Based on the \$10,297,000 valuation of the buildings, the first 3%, or \$309,000 in damages caused by a named storm would be the responsibility of the Association.

**NOTE IV - CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances at financial institutions located in Sarasota, Florida. Accounts at commercial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. As of December 31, 2017, the Subsidiary’s cash balances exceeded the insured limits by \$229,980.

**NOTE V - RENTAL REVENUES**

Casa Blanca Vacation Rentals, Inc. retains 13% of gross rents collected. Housekeeping and occupancy fees are paid by the tenant for rentals less than one week and by the owner for rentals of one week or longer. A 4% processing fee is paid by the tenant. Service income is collected from owners for cleaning services and repairs provided by the Association.

**Casa Blanca Association, Inc. and Subsidiary**  
**Notes to Financial Statements**

**NOTE VI - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

In 2016, independent engineers conducted a reserve study which was used with board estimates in preparing the 2018 budget to estimate the remaining useful lives and the replacement costs of the components of common property. Accumulated funds are held in a separate bank account and generally are not available for expenditures for normal operations. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

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 amounts previously accumulated in the replacement fund. Accordingly, the statutory funding requirement of \$223,565 has been included in the 2018 budget.

Funds are not being accumulated in the replacement fund based upon estimates of future needs for repairs and replacements of common property components. Amounts are based on normal operations and without the effect of potential catastrophic occurrences. Actual expenditures 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 replacement. 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 VII - INCOME TAXES**

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

The Association has an option for income tax purposes to elect on an annual basis to be taxed as a regular corporation under Section 277 of the Internal Revenue Code whereby non-exempt, function income is taxed at regular corporate rates, or to be taxed at a special corporate rate of 30% on its net, non-function income, less \$100 exclusion, in accordance with Section 528 of the Internal Revenue Code. For 2017, the Association elected to file under Section 528 and incurred no income tax expense.

The Subsidiary is taxed as a regular corporation, filed Form 1120 for the year ended December 31, 2017 and incurred no income tax expense.

**Casa Blanca Association, Inc. and Subsidiary**  
**Notes to Financial Statements**

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

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

**NOTE VIII - COMMITMENTS, CABLE SERVICE**

Effective November 1, 2014 the Association entered into a bulk service agreement with a local television service provider. The term of the agreement is for 62 months ending December 31, 2019. The term shall automatically renew for successive two year periods unless either party gives the other 60 days written notice. The service provider is entitled to increase the bulk services fees no more than 4% per year in any twelve month period. The broadcast TV fees can be increased annually to the extent of the current residential broadcast TV fee increase. Based on current costs, future minimum payments under this agreement excluding any annual increases are as follows:

|             |                   |                  |
|-------------|-------------------|------------------|
| Year ended: | December 31, 2018 | \$ 43,296        |
|             | December 31, 2019 | <u>43,296</u>    |
|             |                   | <u>\$ 86,592</u> |

**NOTE IX - SUBSEQUENT EVENTS**

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

## **Supplementary Information**

**Casa Blanca Association, Inc. and Subsidiary**  
**Supplementary Schedule of Operating and Rental Fund Expenses**  
**For the Year Ended December 31, 2017**  
**Unaudited**

|                                   | <u>Operating<br/>Fund</u> | <u>Rental<br/>Fund</u> | <u>Total</u>   |
|-----------------------------------|---------------------------|------------------------|----------------|
| <b><u>Administration</u></b>      |                           |                        |                |
| Bank Charges & Coupons            | \$ 642                    | \$ 64,838              | \$ 65,480      |
| Fees, Dues & Licenses             | 753                       | 989                    | 1,742          |
| Fees Payable to Division          | 422                       | -                      | 422            |
| Depreciation                      | 56                        | 5,350                  | 5,406          |
| Insurance                         | 213,331                   | -                      | 213,331        |
| Accounting/Audit                  | 6,090                     | -                      | 6,090          |
| Prof. Fees - Legal                | 24,184                    | 280                    | 24,464         |
| Management Fees                   | 17,055                    | 12,646                 | 29,701         |
| Office: Svc/Supplies/Misc         | 6,581                     | 7,693                  | 14,274         |
| Equipment Leases                  | 56                        | 5,325                  | 5,381          |
| Office Rent & Reimbursed Expenses | -                         | 54,000                 | 54,000         |
| Annual Party                      | 524                       | -                      | 524            |
| Advertising                       | -                         | 2,206                  | 2,206          |
| Other Taxes                       | -                         | 3,925                  | 3,925          |
| Computer, Internet & Software     | -                         | 19,497                 | 19,497         |
|                                   | <u>269,694</u>            | <u>176,749</u>         | <u>446,443</u> |
| <b><u>Grounds</u></b>             |                           |                        |                |
| Landscape Maintenance             | 19,200                    | -                      | 19,200         |
| Grounds Expense Other             | 8,467                     | -                      | 8,467          |
| Hurricane Irma Expenses           | 1,340                     | -                      | 1,340          |
|                                   | <u>29,007</u>             | <u>-</u>               | <u>29,007</u>  |
| <b><u>Maintenance</u></b>         |                           |                        |                |
| Maintenance Supplies              | 25,141                    | -                      | 25,141         |
| Elevator Maintenance              | 9,426                     | -                      | 9,426          |
| Fire & Safety                     | 4,214                     | -                      | 4,214          |
| HVAC: Maint./Repairs/Svc Bldgs    | 4,122                     | -                      | 4,122          |
| Beach Maintenance/Repairs         | 2,595                     | -                      | 2,595          |
| Beach Chairs                      | -                         | 4,698                  | 4,698          |
| Pest Control                      | 9,323                     | -                      | 9,323          |
| Common Area Repairs - Maint.      | 6,710                     | -                      | 6,710          |
| Roof Repairs                      | 165                       | -                      | 165            |
| Security                          | 16,433                    | -                      | 16,433         |
| Laundry & Vending Machines        | -                         | 4,010                  | 4,010          |
|                                   | <u>78,129</u>             | <u>8,708</u>           | <u>86,837</u>  |

Read accountant's audit report.

**Casa Blanca Association, Inc. and Subsidiary**  
**Supplementary Schedule of Operating and Rental Fund Expenses**  
**For the Year Ended December 31, 2017**  
**Unaudited**

|                                   | <u>Operating<br/>Fund</u> | <u>Rental<br/>Fund</u>   | <u>Total</u>               |
|-----------------------------------|---------------------------|--------------------------|----------------------------|
| <b><u>Pool and Recreation</u></b> |                           |                          |                            |
| Pool Expense                      | 8,301                     | -                        | 8,301                      |
| Pool Fuel                         | <u>6,331</u>              | -                        | <u>6,331</u>               |
|                                   | <u>14,632</u>             | -                        | <u>14,632</u>              |
| <b><u>Utilities</u></b>           |                           |                          |                            |
| Electric Usage                    | 12,985                    | -                        | 12,985                     |
| Cable TV & WiFi                   | 43,659                    | -                        | 43,659                     |
| Telecommunications                | 4,201                     | 5,795                    | 9,996                      |
| Trash                             | 1,528                     | -                        | 1,528                      |
| Water & Sewer                     | <u>50,821</u>             | -                        | <u>50,821</u>              |
|                                   | <u>113,194</u>            | <u>5,795</u>             | <u>118,989</u>             |
| <b><u>Payroll</u></b>             |                           |                          |                            |
| Maintenance                       | 76,792                    | 27,293                   | 104,085                    |
| Office and administration         | -                         | <u>176,414</u>           | <u>176,414</u>             |
|                                   | <u>76,792</u>             | <u>203,707</u>           | <u>280,499</u>             |
| <b><u>Rental Expenses</u></b>     |                           |                          |                            |
| Contract cleaning                 | -                         | 132,171                  | 132,171                    |
| Occupancy supplies                | -                         | 11,715                   | 11,715                     |
| Linens                            | -                         | 54,613                   | 54,613                     |
| Rental repairs                    | -                         | 10,768                   | 10,768                     |
| Rate adjustment                   | -                         | <u>20,645</u>            | <u>20,645</u>              |
|                                   | -                         | <u>229,912</u>           | <u>229,912</u>             |
| <b>Total Expenses</b>             | <b><u>\$ 581,448</u></b>  | <b><u>\$ 624,871</u></b> | <b><u>\$ 1,206,319</u></b> |

Read accountant's audit report.



**Casa Blanca Association, Inc. and Subsidiary**  
**Supplementary Schedule of Changes in Replacement Fund Balances**  
**For the Year Ended December 31, 2017**  
**Unaudited**

| <u>Reserve Components</u> | <u>Beginning<br/>Balance<br/>01/01/17</u> | <u>Member<br/>Assessments</u> | <u>Interest<br/>Income</u> | <u>Expenses</u>            | <u>Ending<br/>Balance<br/>12/31/17</u> |
|---------------------------|---|-------------------------------|----------------------------|----------------------------|--|
| Exterior painting         | \$ 39,765                                 | \$ 10,732                     | \$ -                       | \$ (25,814)                | \$ 24,683                              |
| Roadway resurfacing       | 21,989                                    | 5,040                         | -                          | -                          | 27,029                                 |
| Grounds site improvements | 109,141                                   | 120,116                       | -                          | (76,399)                   | 152,858                                |
| Roofing                   | 58,482                                    | 40,112                        | -                          | (5,261)                    | 93,333                                 |
| Interest                  | 9,478                                     | -                             | 773                        | -                          | 10,251                                 |
| <b>Totals</b>             | <b><u>\$ 238,855</u></b>                  | <b><u>\$ 176,000</u></b>      | <b><u>\$ 773</u></b>       | <b><u>\$ (107,474)</u></b> | <b><u>\$ 308,154</u></b>               |

Read accountant's audit report.

**Casa Blanca Association, Inc. and Subsidiary**  
**Supplementary Information About Future Major Repairs and Replacements**  
**For the Year Ended December 31, 2017**  
**Unaudited**

The following is the estimated remaining life and estimated cost to replace the components of reserves. This information is based upon a 2016 engineer's study and estimates determined by the Board of Directors during the preparation of the proposed 2018 budget.

| <u>Reserve Components</u>                | <u>Estimated<br/>Remaining<br/>Life - in Years</u> | <u>Estimated<br/>Cost to<br/>Replace</u> | <u>2018<br/>Statutory<br/>Funding<br/>Requirement</u> |
|--|--|--|---|
| <b>Buildings / Structural</b>            |  |  |   |
| Concrete Restoration Allowance           | 5  | \$ 85,000                                | \$ 14,541   |
| Sewer Remediation                        | 2  | 200,000                                  | 85,531  |
| <b>Mechanical / Electrical</b>           |  |  |   |
| Elevator Modernization/Jack, Mid-Rise    | 19   | 71,810                                   | 3,233   |
| Fire Alarm System, Mid-Rise              | 11   | 21,680                                   | 1,686   |
| HVAC Package Unit, Office Building       | 2  | 11,696                                   | 5,002   |
| <b>Exterior Painting / Powerwashing</b>  |  |  |   |
| Paint/Waterproof Mid-Rise Exteriors      | 5  | 35,904                                   | 6,142   |
| Paint/Waterproof Office Bldgs. Exteriors | 4  | 4,668                                    | 998   |
| Paint/Waterproof Villas Exteriors        | 6  | 71,568                                   | 10,202  |
| Roadway Resurfacing                      | 27   | 225,400                                  | 7,140   |
| <b>Pool</b>                              |  |  |   |
| Pool Decking                             | 11   | 23,165                                   | 1,801   |
| Pool Fencing & Gates                     | 5  | 6,735                                    | 1,152   |
| Pool Interiors                           | 6  | 28,188                                   | 4,018   |
| <b>Roofing</b>                           |  |  |   |
| Roofing, Mid-Rise                        | 13   | 158,840                                  | 10,451  |
| Roofing, Office (Flat)                   | 6  | 28,432                                   | 4,053   |
| Roofing, Office (Metal Shingle)          | 24   | 10,215                                   | 364   |
| Roofing, Villas                          | 24   | 1,067,387                                | 38,040  |
| Railings                                 | 2  | 16,808                                   | 7,188   |
| <b>Ground Site Improvements</b>          |  |  |   |
| Beach Cabanas                            | 5  | 15,120                                   | 2,587   |
| Fencing, North Boundary                  | 10   | 12,743                                   | 1,090   |
| Lighting, Parking/Drives                 | 3  | 23,474                                   | 6,693   |
| Seawall                                  | 9  | 101,280                                  | 9,625   |
| Signage                                  | 3  | 7,100                                    | 2,028   |
| <b>Total</b>                             |  | <u>\$ 2,227,213</u>                      | <u>\$ 223,565</u>                                     |

Read accountant's audit report.

**REPORT TO THE BOARD OF DIRECTORS**  
**CASA BLANCA ASSOCIATION, INC. AND SUBSIDIARY**  
**DECEMBER 31, 2017**

**FLANAGAN & JASON, INC.**  
CERTIFIED PUBLIC ACCOUNTANT AND ASSOCIATE

To the Board of Directors  
Casa Blanca Association, Inc. and Subsidiary

In planning and performing our audit of the financial statements of Casa Blanca Association, Inc. and Subsidiary as of and for the year ended December 31, 2017 in accordance with auditing standards generally accepted in the United States of America, we considered Casa Blanca Association, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Other Audit Findings or Issues

**Casa Blanca Vacation Rentals:**

Rental commissions, occupancy fees, cleaning fees and 4% processing fees revenues were not calculated correctly during the year resulting in an overstatement of revenue by approximately \$165,379. During our test of rental revenue, it was discovered that incorrect parameters were used to generate the reports used to determine monthly income. Our testing could not confirm the amount of owner reimbursement income, which represents the amount billed to owners for expenses incurred by CBVR on their behalf.

During our test of the rental and security deposits, it was determined that incorrect parameters were used to generate the reports used to determine the balance of rental and security deposits at month's end.

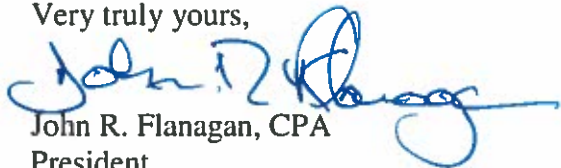
The amount of cash held in rental escrow is not being reconciled to the rental liabilities (rental deposits, sales and tourist tax payable, due to owners) on a monthly basis. We recommend these items be reconciled at the end of every month. Rental and security deposits were understated by approximately \$174,760 on the year-end financial statement as a result of the reconciliation not being completed on a monthly basis and the incorrect parameters used to compile the list of rental and security deposits.

During our review of the monthly sales and occupancy tax returns, we determined the 4% processing fees were omitted from the March – December returns. We could not determine if the 4% processing fees were included on the January and February returns. We estimate the sales and occupancy tax due on the omitted revenue to be \$10,022.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Casa Blanca Association, Inc. and Subsidiary, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John R. Flanagan, CPA  
President  
Flanagan & Jason, Inc.  
Sarasota, Florida  
April 27, 2018