

SUNRISE TOWER ASSOCIATION, INC.

FINANCIAL STATEMENTS

Year ended December 31, 2014

and

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sunrise Tower Association, Inc.
Fort Lauderdale, Florida 33316

We have audited the accompanying financial statements Sunrise Tower Association, Inc., which comprise the balance sheet as of December 31, 2014, 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 Sunrise Tower Association, Inc. as of December 31, 2014, 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.

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses on pages 12 and 13 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 material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that 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 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.

Zimmerman Zeigler & Chamberlain, P.A.

February 6, 2015

Fort Lauderdale, Florida

Sunrise Tower Association, Inc.

BALANCE SHEET

December 31, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 72,899
Cash special assessment	59,411
Assessments receivable, operating net of allowance for bad debt of \$5,000	5,078
Assessments receivable, special assessment net of allowance for bad debt of \$5,000	909
Accounts receivable-other	34,468
Unbilled special assessment	56,287
Prepaid expense	<u>57,590</u>
	286,642

OTHER ASSETS

Special assessment amortized bank fees	1,485
Deposits	<u>2,450</u>
	<u>3,935</u>
	<u><u>\$ 290,577</u></u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 8,077
Accrued expenses	5,609
Deferred special assessment	70,608
Prepaid assessments	<u>24,815</u>
	109,109

SECURITY DEPOSIT AND LEASE DEPOSITS

1,950

FUND BALANCE

179,518

\$ 290,577

See accompanying notes to the financial statements.

Sunrise Tower Association, Inc.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

For the year ended December 31, 2014

REVENUES

Member assessments	\$	571,802
Cable		45,862
Interest income		7,302
Late fee income		1,000
Screening income		2,385
Laundry		10,805
Bad debt recovery		3,000
Miscellaneous income		4,518
		646,674

EXPENSES

Administrative		11,889
Professional		56,241
Insurance		118,225
Payroll		93,590
Utilities		115,445
Contract		110,254
Maintenance and services		100,343
Supplies		20,370
Amenities		613
		626,970

Excess of operating revenues over expenses before other income and expenses and special assessments		19,704
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OTHER INCOME AND (EXPENSE)

Rental income		23,325
Association assessments and expenses for rental apartment		(10,067)
		13,258

SPECIAL ASSESSMENT

Special assessment revenue		86,425
Special assessment interest and late fee income		10,099
Special assessment administrative fees income		1,353
Special assessment bad debt recovery		11,702
Special assessment expense		(109,579)
		-

Excess of revenues over expenses		32,962
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FUND BALANCE, beginning of year		146,556
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FUND BALANCE, end of year	\$	179,518
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See accompanying notes to the financial statements.

Sunrise Tower Association, Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

**CASH FLOWS FROM
OPERATING ACTIVITIES**

Cash collected from member and special assessments	\$ 838,397
Cable assessment	45,862
Interest and late fee income	18,401
Other miscellaneous income	22,814
Rental income	23,325
Cash paid to employees and suppliers of goods and services including suppliers of insurance	<u>(985,232)</u>
Net cash used by operating activities	<u>(36,433)</u>

**CASH FLOWS FROM
INVESTING ACTIVITIES**

Security deposit	<u>(100)</u>
Net cash used by investing activities	<u>(100)</u>

NET DECREASE IN CASH (36,533)

CASH, at beginning of year 168,843

CASH, at end of year \$ 132,310

Note: Income tax paid during 2014 was \$0.
Interest paid during 2014 was \$1,077.

See accompanying notes to the financial statements.

Sunrise Tower Association, Inc.

STATEMENT OF CASH FLOWS - CONTINUED

For the year ended December 31, 2014

**RECONCILIATION OF EXCESS
OF REVENUES OVER EXPENDITURES
TO NET CASH FROM
OPERATING ACTIVITIES**

Excess of revenues over expenses	\$ 32,962
Adjustments to reconcile excess of revenues over expenses to net cash from operating activities:	
Decrease (increase) in:	
Assessment receivable, operating (net)	2,605
Assessment receivable, special assessment (net)	7,431
Accounts receivable-other	(34,468)
Prepaid expenses	(5,965)
Unbilled special assessment	269,941
Special assessment unamortized bank fees	3,753
Increase (decrease) in:	
Accounts payable	(178,769)
Accrued expenses	(2,181)
Retainage payable	(47,701)
Accelerated owners assessment	(8,125)
Deferred special assessment	(88,425)
Prepaid assessments	<u>12,509</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (36,433)</u></u>

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A - ORGANIZATION

Sunrise Tower Association, Inc. is a not-for-profit corporation, incorporated in the State of Florida on June 15, 1973. The Association is responsible for operating and maintaining the condominium, which consists of 101 residential units in Fort Lauderdale, Florida.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting records of the Association are maintained on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when earned and expenses when incurred.

Funds

The Association utilizes fund accounting, which requires revenues and expenditures for the operating and reserve funds to be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors. The Reserve Fund disbursements may be made only for their designated purposes. The owners have consistently waived reserves.

Assessments Receivable

Association members are subject to monthly 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 represents the fees due from unit owners. Management assesses bad debt based on what they expect to recover based on current Florida law.

Income Taxes

The Association may elect on an annual basis to be taxed as a non-profit "homeowners" association. The effect of the election is to tax the Association only on its "non-exempt function" income, reduced by a specific \$100 deduction at a flat 30% rate. If such election is not made, the Association's net income is subject to tax at statutory corporate rates.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

Real property and common area acquired from the Developer 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.

Fair Value Measurement

The Association has determined that there was no material difference between the carrying value of its financial assets and liabilities at December 31, 2014.

Date of Management’s Review

Subsequent events have been evaluated through February 6, 2015 which is the date the financial statements were available to be issued.

NOTE C - INCOME TAXES

The Association has elected to be taxed as a non-profit “homeowner’s association” in 2014 resulting in no federal income tax.

The Association has no income tax returns under examination by the Internal Revenue Service. However, the Association’s federal income tax returns for 2011 through 2014 are subject to examination, generally for the three years after they are filed.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable are the amounts due for maintenance and special assessments at year end. Management has determined the allowance based on estimated collections including foreclosures. The current law for foreclosures states that; the bank must pay twelve months assessments or one percent of the mortgage, whichever is less. A recap of the accounts receivable and allowance for doubtful accounts for 2014 follows:

	Maintenance	Special Assessment
Accounts Receivables	\$ 10,078	\$ 5,909
Allowance	(5,000)	(5,000)
	\$ 5,078	\$ 909

There was no bad debt expense for 2014 but there was bad debt recovery for the year 2014 in the amount of \$3,000 for the Maintenance and \$11,702 for Special Assessment.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

NOTE E - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes require the Association to accumulate funds for future major capital improvements and replacements. These accounts are restricted for their intended purpose. The two methods of funding reserves are by using individual reserve categories or the pooled method in which all reserves are grouped together. The owners' voted to waive reserves for 2014 and 2015.

The Association has not conducted an independent study to estimate the remaining useful lives and the replacement costs of the components of common property. If funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The activity in the replacement fund was as follows:

<u>Components</u>	<u>Balance 01/01/14</u>	<u>Assessments</u>	<u>Interest Income</u>	<u>Expenditures</u>	<u>Balance 12/31/14</u>
Roof	\$ -	\$ -	\$ -	\$ -	\$ -
Painting	-	-	-	-	-
Paving	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE F - INSURANCE COVERAGE

The Association's insurance coverage for damages caused by windstorm is subject to a 5% or \$699,400 deductible, which would be approximately \$6,925 per unit. The Association would, therefore, be responsible for losses up to the deductible amount and would be required to levy a special assessment or to delay repairs if such an event should occur.

NOTE G - INSURANCE FINANCING

The Association financed some of the insurance renewals for 2014-2015 totaling \$62,888. The balance was paid in full by year end. Interest paid for the financing was \$1,077.

NOTE H - ASSOCIATION RENTAL UNIT

The Association has two rental units. The Association received a certificate of title which allows the Association to rent the unit. The Association is not responsible for the mortgage and the mortgage holder may foreclose at any time. The mortgage holder may take years to foreclose so the Association receives the rental income during this time. The rental income is used to offset the maintenance assessments for this unit and any repairs. The income and expense is recorded under other income and expense.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

NOTE I – SPECIAL ASSESSMENTS

The Board of Directors passed a special assessment on February 11, 2013 for \$1,300,000 for concrete restoration and 40 year re-certification issues, pool heater replacement and shed repair, diesel fuel tank replacement and installation, and contingencies and relevant miscellaneous expenses.

The assessment is payable in 24 equal monthly installments. The Association will pass through any costs related to the installment payments, such as interest charges and any closing expenses related to getting a bank loan to cover the costs of the assessment expenses during the installment period. The bank loan was available but was not needed. Any member could pay the assessment in full by April 10, 2013, without penalty. If any owner does not pay the installment when due the entire amount of the assessment will become payable and due immediately.

The following schedule details the estimated expenditures for the special assessment, special assessment total revenue, expenses and unexpended (deferred) special assessment as of December 31, 2014:

	<u>Estimated Expenditures</u>	<u>2013 Expenses</u>	<u>2014 Expenses</u>	<u>Deferred</u>
Concrete restoration and 40 year re-certification issues	\$ 1,150,000	\$ 1,053,091	\$ 98,118	\$ (1,209)
Pool heater replacement and shed repair	26,000	18,675	-	7,325
Diesel fuel storage tank replacement and installation	24,000	34,168	2,500	(12,668)
Contingencies and relevant miscellaneous expenses	<u>100,000</u>	<u>43,823</u>	<u>10,961</u>	<u>45,216</u>
	\$ 1,300,000	\$ 1,149,757	\$ 111,579	\$ 38,664
Less: Miscellaneous income	<u>-</u>	<u>(8,790)</u>	<u>(23,154)</u>	<u>31,944</u>
Net	<u>\$ 1,300,000</u>	<u>\$ 1,140,967</u>	<u>\$ 88,425</u>	<u>\$ 70,608</u>

NOTE J – BANK PROMISSORY NOTE

On May 14, 2013 the Association entered into an \$800,000 line of credit agreement with BB&T Bank. The line of credit was to fund the 2013 special assessment when funds are needed. The collateral for the loan was the special assessment (see Note I). The loan terms required interest only payments at 3.625% from May 14, 2013 to November 14, 2013, with monthly principle and interest payments commencing on December 14, 2013 for 23 equal payments and one final payment due November 14, 2015. The bank loan was not needed.

SUPPLEMENTARY INFORMATION

Sunrise Tower Association, Inc.

SCHEDULE OF OPERATING EXPENSES

For the year ended December 31, 2014

ADMINISTRATION

Office supplies	\$	3,254
Postage		373
Telephone		3,968
Card and check verification		2,100
Permits and licenses		1,925
Bank charges		269
		<hr/>
		11,889

PROFESSIONAL SERVICES

Management fees		32,145
Audit and accounting		10,697
Legal and general counsel		13,399
		<hr/>
		56,241

INSURANCE

Flood insurance		6,478
D & O insurance		2,706
Insurance		105,080
Workers comp insurance		3,961
		<hr/>
		118,225

PAYROLL

Payroll taxes		7,467
Front desk		59,188
Maintenance		26,935
		<hr/>
		93,590

UTILITIES & SERVICES

Electricity		62,038
Gas - hot water		6,448
Gas - pool		4,085
Water and sewer		42,874
		<hr/>
		115,445

See independent auditors' report.

Sunrise Tower Association, Inc.

SCHEDULE OF OPERATING EXPENSES - CONTINUED

For the year ended December 31, 2014

CONTRACTS

Security services	\$ 2,289
Pool and spa maintenance	4,239
Extermination contract	2,433
Lawn pesticide contract	2,445
Sanitation and trash removal	6,619
Elevator contract	13,514
Janitorial	18,981
Grounds and lawn contract	6,792
Fire alarm maintenance	2,783
Cable television	46,497
Water treatment contract	2,234
Trash chute and odor control	1,428
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	110,254

MAINTENANCE & SERVICES

Generator and repair	10,027
Pool and deck	4,312
Electrical repairs	5,435
Landscaping	3,709
Plumbing	35,064
Building repairs	37,608
Irrigation system repairs	848
Laundry equipment	1,275
General repairs	2,065
	<hr/>
	100,343

SUPPLIES

Janitorial supplies	1,116
Building supplies	19,254
	<hr/>
	20,370

AMENITY EXPENSES

613

TOTAL OPERATING EXPENSES

\$ 626,970

See independent auditors' report.

Sunrise Tower Association, Inc.

**SUPPLEMENTARY INFORMATION OF FUTURE
MAJOR REPAIRS AND REPLACEMENTS**

December 31, 2014

The Board of Directors has not conducted an outside study to estimate the replacement costs of the component of the common property. Replacement cost has been estimated by recent actual replacement costs and discussions with vendors. These estimates were determined during the budget process. No inflation or return on investment has been utilized in these calculations. The following are estimates of the component which should be funded, the estimated life remaining, the balance of funds accumulated at December 31, 2014 and the 2015 budgeted funding requirement. The owners have voted to waive reserves for 2014 and 2015.

<u>Reserve Description</u>	<u>Estimated Life</u>	<u>Remaining Life</u>	<u>Estimated Replacement Cost</u>	<u>Balance 12/31/2014</u>	<u>2015 Fully Funding Requirement</u>
Roofing	20	16	\$ 250,000	\$ -	\$ 15,625
Painting	7	5	175,000	-	35,000
Paving	20	20	15,000	-	750
Pool Heater	10	10	22,000	-	2,200
Elevators	25	15	500,000	-	33,333
Carpet	7	0	100,000	-	100,000
Hot water heater	18	16	40,000	-	2,500
			<u>\$ 1,102,000</u>	<u>\$ -</u>	<u>\$ 189,408</u>

See independent auditors' report.