

**LELY RESORT MASTER
PROPERTY OWNERS ASSOCIATION, INC.**

FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015)**

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
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(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lely Resort Master Property Owners Association, Inc.
Naples, Florida

Report on Financial Statements

We have audited the accompanying financial statements of Inc. Property (the Association), which comprise the balance sheet as of December 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 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.

Board of Directors
Lely Resort Master Property Owners Association, Inc.

Opinion


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lely Resort Master Property Owners Association, Inc. (the Association) as of December 31, 2016, and the changes in its fund balances and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Report on Summarized Comparative Information

We have previously audited the Association's 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



CliftonLarsonAllen LLP

Naples, Florida
February 8, 2018

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2015)

	Operating	Capital	Replacement	Totals	
	Fund	Fund	Fund	2016	2015
ASSETS					
Cash and Cash Equivalents	\$ 17,021	\$ 67,578	\$ -	\$ 84,599	\$ 73,562
Assessments Receivable, Net	81,806	-	-	81,806	36,627
Due from Developer	10,822	-	-	10,822	-
Prepaid Expenses	5,042	-	-	5,042	22,174
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 114,691</u>	<u>\$ 67,578</u>	<u>\$ -</u>	<u>\$ 182,269</u>	<u>\$ 132,363</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 104,310	\$ -	\$ -	\$ 104,310	\$ 10,080
Deferred CSA Fees	9,457	-	-	9,457	9,609
Due to Developer	-	-	-	-	36,322
Due to (from) Other Funds	(35)	35	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	113,732	35	-	113,767	56,011
FUND BALANCES					
	959	67,543	-	68,502	76,352
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 114,691</u>	<u>\$ 67,578</u>	<u>\$ -</u>	<u>\$ 182,269</u>	<u>\$ 132,363</u>

See accompanying Notes to Financial Statements.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

	Operating Fund	Capital Fund	Replacement Fund	Totals	
				2016	2015
REVENUES					
Member Assessments	\$ 578,407	\$ -	\$ -	\$ 578,407	\$ 546,067
Comprehensive Service Agreement	948,031	-	-	948,031	821,700
Interest Income	95	-	-	95	-
Other Income	-	-	-	-	6,296
Total Revenues	1,526,533	-	-	1,526,533	1,374,063
EXPENSES					
Administrative	6,489	-	-	6,489	6,788
Bad Debt Expense	-	-	-	-	57,869
Comprehensive Service Agreement	948,031	-	-	948,031	821,700
Insurance	15,311	-	-	15,311	15,359
Repairs and Maintenance					
Grounds Maintenance	56,519	-	-	56,519	22,286
Landscape Contract	258,000	-	-	258,000	255,982
Landscaping Replacement	93,958	-	-	93,958	73,143
Repairs	116,710	-	-	116,710	33,346
Management Fees	47,700	-	-	47,700	47,700
Professional Services	29,542	-	-	29,542	8,380
Utilities	1,417	-	-	1,417	1,575
Total Expenses	1,573,677	-	-	1,573,677	1,344,128
EXCESS OF REVENUES OVER EXPENSES BEFORE DEVELOPER SUBSIDY					
	(47,144)	-	-	(47,144)	29,935
Developer Subsidy	47,144	-	-	47,144	(29,935)
EXCESS OF REVENUES OVER EXPENSES					
	-	-	-	-	-
Fund Balances - Beginning of Year	959	58,393	-	59,352	63,053
Members' Capital Contributions	-	9,150	-	9,150	13,299
FUND BALANCES - END OF YEAR	\$ 959	\$ 67,543	\$ -	\$ 68,502	\$ 76,352

See accompanying Notes to Financial Statements.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

	Operating Fund	Capital Fund	Replacement Fund	Totals	
				2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Member Assessments	\$ 533,228	\$ -	\$ -	\$ 533,228	\$ 414,526
Cash Received from CSA Assessment	947,879	-	-	947,879	824,705
Cash Received from Interest Income	95	-	-	95	-
Cash Received from Other Income	-	-	-	-	6,296
Cash Paid to Suppliers	(1,479,315)	-	-	(1,479,315)	(1,294,133)
Net Cash Provided (Used) by Operating Activities	1,887	-	-	1,887	(48,606)
CASH FLOWS FROM FINANCING ACTIVITIES					
Change in Interfund Borrowings	(95)	95	-	-	-
Members' Capital Contributions	-	9,150	-	9,150	13,299
Net Cash Provided (Used) by Financing Activities	(95)	9,245	-	9,150	13,299
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,792	9,245	-	11,037	(35,307)
Cash and Cash Equivalents - Beginning of Year	15,229	58,333	-	73,562	108,869
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 17,021</u>	<u>\$ 67,578</u>	<u>\$ -</u>	<u>\$ 84,599</u>	<u>\$ 73,562</u>

See accompanying Notes to Financial Statements.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

	Operating	Capital	Replacement	Totals	
	Fund	Fund	Fund	2016	2015
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Excess of Revenues Over Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Used By Operating Activities:					
Bad Debt Expense	-	-	-	-	57,869
(Increase) Decrease in:					
Assessments Receivable	(45,179)	-	-	(45,179)	(30,116)
Due from Developer	(10,822)	-	-	(10,822)	(6,387)
Prepaid Expenses	132	-	-	132	(17,289)
Increase (Decrease) in:					
Accounts Payable and Accrued Expenses	94,230	-	-	94,230	9,415
Deferred CSA Fees	(152)	-	-	(152)	3,005
Due to Developer	(36,322)	-	-	(36,322)	-
Assessments Received in Advance	-	-	-	-	(101,425)
Due to Developer	-	-	-	-	36,322
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,887</u>	<u>\$ (48,606)</u>

See accompanying Notes to Financial Statements.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lely Resort Master Property Owners Association, Inc. (the Association) is a corporation that was formed on March 8, 1990, under the laws of Florida as a corporation nonprofit, to operate and manage Lely Resort, a master association, located in Collier County, Florida. The Association is eventually expected to consist of approximately 5,300 units in various condominium and homeowners' associations within Lely development. As of December 31, 2016, the Association consisted of approximately 4,976 units within 49 condominium and homeowners' associations. The owners of all units in the development are the only members.

Fund Accounting

The financial statements of the Association are prepared on the accrual basis of accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

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

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

Capital Fund – This fund is used to account for transactions designated as capital in nature.

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

Liquidity

Assets are presented in the accompanying balance sheet according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash is defined as interest bearing and noninterest bearing demand deposits. The Association maintains bank accounts with balances which, at times, may exceed federally insured limits.

Member Assessments

The Association's current policy is to assess each member quarterly, a fixed amount based on the annual budget determined by the board of directors (board). Each member's assessment is based on a proportional share of common element income and expense. The Association's policy is to first attempt collections through the neighborhood associations, and if unsuccessful, they have the right to place liens on the units of members whose assessments are delinquent. Management has evaluated the existing accounts receivable and has recorded no bad debt expense for the year ended December 31, 2016.

Comprehensive Service Agreement

The Association has established a Comprehensive Service Agreement (CSA) with the Lely Resort Community Development District (the District) to provide irrigation, lake maintenance, street light repair, and roving patrols for the specified areas of the Association that is not covered under the District's boundaries. The Association assesses each applicable neighborhood, a fixed amount based on an annual budget determined by the District.

The billing cycle of the District ends September 30, and the Association collects and remits these fees to the District. The Association adjusts, on a calendar year basis, the amounts necessary to fund the District's assessments. The Association's policy is to recognize revenue to the extent of expenses and defer amounts over/under billed and recognized when billed and due to the District.

Commonly Owned Assets

Real common property acquired by the Association is not capitalized because its use and disposition by the Association's board of directors is restricted. Common property not capitalized includes roadways, sidewalks, fence and the entrance area.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. As a homeowners' association, exempt function income is exempt from taxation and the Association is taxed only on its nonexempt function income, such as interest earnings, at a flat 30% rate. The financial statements have been prepared under the assumption the Association will elect to be taxed as a homeowner's association. The Association had no income tax expense for the year ended December 31, 2016.

The Association follows the income tax standard for uncertain tax positions. As a result of the implementation, the Association evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2016.

Fair Value of Financial Instruments

The Association currently does not measure any of its assets or liabilities at fair value and is not required under generally accepted accounting principles to disclose the fair value of its financial instruments.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Association has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 8, 2018, the date the financial statements were available to be issued.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

NOTE 2 ASSESSMENTS RECEIVABLE, NET

Assessments receivable, net, at December 31, 2016, consists of the following:

	2016
Assessments Receivable	\$ 85,191
Less Allowance for Doubtful Accounts	(3,385)
	\$ 81,806

Outstanding balances at December 31, 2016, consists of receivables from the following associations:

	2016
Hawthorne at Lely Resort Condominium Association, Inc.	\$ 9,037
Cottesmore	11,582
Lakoya	64,572
	\$ 85,191

NOTE 3 COMPREHENSIVE SERVICE AGREEMENT

The District billed the Association \$948,031 during the year ended December 31, 2016 consisting of amounts due under the Comprehensive Service Agreement. During the year ended December 31, 2016, the Association billed its members \$948,031. Amounts deferred due to timing differences in the District's budget period and the Association's budget period totaled \$9,457 at December 31, 2016.

The Association and the Developer have filed a claim against the District for amounts potentially overbilled to the Association's members. The claim was settled as described in Note 7.

NOTE 4 CAPITAL CONTRIBUTIONS

Units are assessed, upon transfer of title from the developer and through subsequent third party sales, a \$30 fee at the time of closing. These amounts are classified as capital contributions and are used for unbudgeted expenditures that are capital in nature and benefit the community as a whole. During the year ended December 31, 2016, the Association collected \$9,150, in capital contributions and had no expenditures attributable to non-development capital improvements to the common areas. The capital account balance totaled \$67,543 at December 31, 2016.

**LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 5 RELATED PARTY TRANSACTIONS

In accordance with the Association's governing documents, the Developer, in any given year, shall elect to pay: (i) the portion of the actual expenses, less any provision for reserves that does not exceed budgeted amounts and which were properly incurred by the master property owners association during that year, which is greater than the sums received from the master property owners association from the payment of assessments for that year by the owners other than the Declarant; or (ii) such amounts it would otherwise be obligated to pay based on the plots owned by it within the property. For the year ended December 31, 2016, the Developer elected to fund the deficit of the Association.

The obligation under this guarantee for the year ended December 31, 2016, is as follows:

YEAR ENDED DECEMBER 31, 2016

Total Operating Fund Expenditures	\$ 1,573,677	
Less Expenses with Direct Attributed Revenue		
Income Tax Preparation	(95)	
Comprehensive Service Agreement	(948,031)	
Less Association Income Other Than		
Guarantor Allocable to the Period from		
January 1, 2016 through December 31, 2016	(578,407)	
Required Funding of the Operating Fund		\$ 47,144
Payments Made during the year ended		
December 31, 2016		-
Balance Due to Developer Beginning of Year		(36,322)
Balance Due from Developer for Underfunding of		
Guarantee through December 31, 2016		\$ 10,822

As of December 31, 2016, the developer owned approximately 150 units.

LELY RESORT MASTER PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents state that the board of directors may, but are not obligated to, annually prepare a reserve budget to take into account the number and nature of replaceable assets owned, controlled, or maintained by the Master Association. The Association has not currently established such a fund or estimated the remaining useful lives or replacement costs of future capital expenditures, and in accordance with Florida Statutes, the following disclosure is noted: *"The budget of the association does not provide for reserve accounts for capital expenditures and deferred maintenance that may result in special assessments. Owners may elect to provide for reserve accounts pursuant to the provisions of section 720.303(6), Florida statutes, upon the approval of not less than a majority of the total voting interests of the Association."*

NOTE 7 SUBSEQUENT EVENTS

During 2016 the Association was a party to a lawsuit against the Lely CDD. The lawsuit was settled as of February 23, 2017. On this date the amount was settled resulting in the Association being due \$900,000 for reimbursement of over-assessed amounts to the unit owners. During the period of the lawsuit, the Developer funded all legal costs until it was determinable that the outcome would be favorable to the Association. Total legal costs directly related to the claim were \$436,625. Lely Master Association paid \$16,842 directly and the remaining \$419,783 was paid directly by the Developer. Due to the favorable outcome the Developer submitted \$300,000 in direct legal costs to the Association for reimbursement when funds related to the claim are received.