

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

For the year ended December 31, 2023

C O N T E N T S

| | <u>Pages</u> |
|---|--------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| FINANCIAL STATEMENTS: | |
| Balance Sheet | 3 |
| Statement of Revenues, Expenses, and Changes in Fund Balance | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 10 |
| SUPPLEMENTARY INFORMATION: | |
| Supplementary Information on Future Repairs and Replacements | 11 |

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Riverside Condominium Association, Inc.
Daytona Beach, Florida

Opinion

We have audited the accompanying financial statements of Riverside Condominium Association, Inc. which comprise the balance sheet as of December 31, 2023, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Riverside Condominium Association, Inc. as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Riverside Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Riverside Condominium Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Riverside Condominium Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Riverside Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on page 11 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.

Keston & Gregory, LLC

Daytona Beach, Florida
March 20, 2024

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Balance Sheet
December 31, 2023

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|-----------------------------|---------------------------|-----------------------------|---------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 101,117 | \$ 1,247,534 | \$ 1,348,651 |
| Assessments receivable, net | 95,709 | - | 95,709 |
| Prepaid expenses | 24,022 | - | 24,022 |
| Property and equipment, net | 4,868 | - | 4,868 |
| Refundable deposits | 2,520 | - | 2,520 |
| Due from other fund | 16,488 | - | 16,488 |
| | <u>\$ 244,724</u> | <u>\$ 1,247,534</u> | <u>\$ 1,492,258</u> |

LIABILITIES AND FUND BALANCE

| | | | |
|---------------------------------------|-------------------|---------------------|---------------------|
| Accounts payable and accrued expenses | \$ 81,116 | \$ - | \$ 81,116 |
| Assessments paid in advance | 53,176 | - | 53,176 |
| Due to other fund | - | 16,488 | 16,488 |
| Contract liabilities | - | 1,231,046 | 1,231,046 |
| | <u>134,292</u> | <u>1,247,534</u> | <u>1,381,826</u> |
| Fund balance | <u>110,432</u> | <u>-</u> | <u>110,432</u> |
| | <u>\$ 244,724</u> | <u>\$ 1,247,534</u> | <u>\$ 1,492,258</u> |

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Statement of Revenues, Expenses, and
Changes in Fund Balance
For the year ended December 31, 2023

| | Operating Fund | Replacement Fund | Total |
|----------------------------------|-------------------|---------------------|-------------------|
| Revenues: | | | |
| Members' assessments | \$ 1,144,286 | \$ 70,783 | \$ 1,215,069 |
| Members' special assessments | 435,000 | - | 435,000 |
| Laundry income | 40,391 | - | 40,391 |
| Interest and other income | 45,032 | 31,251 | 76,283 |
| | <u>1,664,709</u> | <u>102,034</u> | <u>1,766,743</u> |
| Expenses: | | | |
| Utilities | 537,327 | - | 537,327 |
| Insurance | 474,485 | - | 474,485 |
| Wages and benefits | 249,604 | - | 249,604 |
| Building maintenance and repairs | 81,563 | 102,034 | 183,597 |
| Management fees | 51,600 | - | 51,600 |
| Grounds maintenance and repairs | 26,728 | - | 26,728 |
| Pool maintenance and supplies | 18,434 | - | 18,434 |
| Administrative | 16,787 | - | 16,787 |
| Elevator maintenance and repairs | 15,700 | - | 15,700 |
| Professional fees | 12,756 | - | 12,756 |
| Depreciation | 4,621 | - | 4,621 |
| Taxes, fees, and licenses | 2,013 | - | 2,013 |
| | <u>1,491,618</u> | <u>102,034</u> | <u>1,593,652</u> |
| Excess of revenues over expenses | 173,091 | - | 173,091 |
| Fund deficit, beginning of year | <u>(62,659)</u> | <u>-</u> | <u>(62,659)</u> |
| Fund balance, end of year | <u>\$ 110,432</u> | <u>\$ -</u> | <u>\$ 110,432</u> |

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Statement of Cash Flows

For the year ended December 31, 2023

| | Operating Fund | Replacement Fund | Total |
|---|--------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | |
| Cash received from members' assessments | \$ 1,532,119 | \$ 165,420 | \$ 1,697,539 |
| Cash received from interest and other income | 85,423 | 31,251 | 116,674 |
| Cash paid to vendors for services and goods | <u>(1,507,375)</u> | <u>(102,034)</u> | <u>(1,609,409)</u> |
| Net cash provided by operating activities | <u>110,167</u> | <u>94,637</u> | <u>204,804</u> |
| Cash flows from financing activities: | | | |
| Interfund borrowings | <u>(127,102)</u> | <u>127,102</u> | <u>-</u> |
| Net cash provided by (used in) financing activities | <u>(127,102)</u> | <u>127,102</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | (16,935) | 221,739 | 204,804 |
| Cash and cash equivalents, beginning of year | <u>118,052</u> | <u>1,025,795</u> | <u>1,143,847</u> |
| Cash and cash equivalents, end of year | <u>\$ 101,117</u> | <u>\$ 1,247,534</u> | <u>\$ 1,348,651</u> |
| Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities: | | | |
| Excess of revenues over expenses | \$ 173,091 | \$ - | \$ 173,091 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | | |
| Depreciation | 4,621 | - | 4,621 |
| (Increase) decrease in: | | | |
| Accounts receivable | (46,224) | - | (46,224) |
| Prepaid expenses | 11,760 | - | 11,760 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | (32,138) | - | (32,138) |
| Assessments paid in advance | (943) | - | (943) |
| Contract liabilities | <u>-</u> | <u>94,637</u> | <u>94,637</u> |
| Net cash provided by operating activities | <u>\$ 110,167</u> | <u>\$ 94,637</u> | <u>\$ 204,804</u> |

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2023

1. Nature of Organization:

Riverside Condominium Association, Inc. (the Association) was incorporated on February 11, 1981 as a not-for-profit corporation pursuant to Chapter 718 of the Florida Statutes. The primary purpose of the Association is to maintain and protect the property owned in common by members. The Association consists of 288 residential units located in Daytona Beach, Florida. Recreational facilities include pools, community room and boat docks.

Policy decisions in regard to normal everyday operations of the Association are formulated by the Board of Directors, who are elected by the general membership. Major policy decisions, as outlined in the documents of the Association, are referred to the general Association membership. Assessments and expenses are allocated based upon the size of each unit type.

2. Summary of Significant Accounting Policies:

Fund Accounting:

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

The Operating Fund reflects the operating assessments paid by unit owners to meet the regular, recurring costs of operation. Expenditures of this fund are limited to those connected with the day-to-day functions of the Association.

The Replacement Fund is composed of assessments paid by the 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 the assessments were levied.

Cash and Cash Equivalents:

Cash includes all funds invested in checking, money market accounts, and certificates of deposit which may be liquidated within ninety days. The Association has deposits at local banks that are federally insured up to \$250,000 under FDIC protection. At December 31, 2023, \$14,250 of the Association's funds were not fully insured.

Property and Equipment:

Real property and common areas 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. The Association capitalizes personal property at cost and depreciates it using the straight-line method over five years.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies: (Continued)

Assessments:

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 and expenses are allocated based upon the size of each unit type as stated in the Declaration of Condominium. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. Assessments paid in advance at the balance sheet date represent fees paid in advance by unit owners. These fees are not recorded as income until they are earned. The Association is dependent upon the receipt of members' monthly assessments for operating and reserve expenses. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Allowance for Doubtful Accounts:

The Association provides an allowance for accounts receivable it believes it may not collect in full. Management has made an assessment of uncollectible receivables and determined that an allowance for uncollectible accounts of \$15,000 is needed as of December 31, 2023.

Income Taxes:

Condominium associations may be taxed as either a homeowners' association or a regular corporation. The Association elected to be taxed as a homeowners' association in accordance with Internal Revenue Code, Section 528, for the current year. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable, however non-membership income such as interest and laundry income is taxable. For the year ended December 31, 2023, the Association incurred \$7,017 in income taxes which was offset by the small employer health insurance premiums credit.

The Association has a small employer health insurance premiums credit carryover in the amount of \$2,549. This credit carryover will expire at December 31, 2034. The Association files income tax returns in the US federal jurisdiction. With a few exceptions, the Association is no longer subject to federal income tax examinations by tax authorities for years before 2020.

Estimates:

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

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies: (Continued)

Contract Liabilities (Assessments received in advance-replacement fund):

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

Subsequent Events:

The Association has evaluated events and transactions for potential recognition or disclosure in the financial statements through March 20 2024, the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

3. Windstorm Insurance:

The Association's insurance policy for windstorm coverage was renewed in June 2023. The deductible amount for named hurricane storms is estimated at \$1,012,170 which represents 3% of the insured value of the residential buildings, improvements, and swimming pools, which is estimated to be \$33,739,000. Other deductibles apply to the basic insurance coverage as well.

4. Property and Equipment:

Property and equipment and their respective lives at December 31, 2023 are as follows:

| | | |
|-------------------------------|-----------------|-------------------------|
| Machinery and equipment | \$ 47,604 | <u>Lives</u> 5 years |
| Less accumulated depreciation | <u>(42,736)</u> | |
| | <u>\$ 4,868</u> | |

5. Replacement Reserves:

Florida Statutes and the Association's documents require funds to be accumulated for future major repairs and replacements. The Association's current policy is to assess each unit owner a monthly assessment to meet all future replacement and major repair costs. These funds are held in separate accounts and are generally not available for operating purposes. Interest earned on these funds is allocated to the specific reserve components, based upon their average monthly assessment.

In 2012, the Association had an independent study conducted to estimate the remaining useful lives and the replacement costs of the common property components. The Budget Committee formulated the 2022 reserve policy based upon modifications of the estimates developed by the independent study. The Association's members voted for partially funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2023

5. Replacement Reserves: (Continued)

The activity within the replacement fund contract liabilities for the year ended December 31, 2023 is as follows:

| | Beginning Balance | Funding | Interest Income | Expenditures | Ending Balance |
|--------------------------------|----------------------|------------|--------------------|--------------|-------------------|
| Building and grounds | \$ 59,817 | \$ 31,219 | \$ 5,897 | \$ (24,440) | \$ 72,493 |
| Elevators | 65,367 | 8,746 | 1,652 | - | 75,765 |
| Furniture and finishings | 91,985 | 4,671 | 881 | (1,959) | 95,578 |
| Laundry equipment | 28,107 | 1,668 | 315 | - | 30,090 |
| Mechanical/Electrical/Plumbing | 186,649 | 19,640 | 3,710 | (38,770) | 171,229 |
| Exterior painting | 147,461 | 22,033 | 4,163 | - | 173,657 |
| Paving | 121,452 | 4,928 | 931 | (1,879) | 125,432 |
| Casualty loss/Emergency | 35,439 | - | - | - | 35,439 |
| Roofing | 214,368 | 31,882 | 6,023 | (19,355) | 232,918 |
| Seawall and dock | 150,181 | 34,748 | 6,566 | (6,067) | 185,428 |
| Pools | 35,583 | 5,885 | 1,113 | (9,564) | 33,017 |
| | \$ 1,136,409 | \$ 165,420 | \$ 31,251 | \$ (102,034) | \$ 1,231,046 |

New mandatory reserve requirements for condominiums:

The State of Florida passed new mandatory reserve requirements and restrictions for condominiums in May 2022 with a beginning effective date of December 31, 2024. The legislation is aimed at protecting the long-term structural safety and integrity of multi-story buildings in the State of Florida. At least every ten years, associations must now complete a so-called Structural Integrity Reserve Study (“SIRS”) for each building in the condominium that is three stories or taller by a licensed engineer or architect.

At a minimum, the SIRS must identify and state the remaining useful life and replacement cost, or deferred maintenance expense of the common areas being visually inspected and based upon such visual inspection, provide a recommended annual reserve amount that should be included in the association’s annual budget for those common areas. Several specific “structural” components of every building must now be visually inspected and evaluated, including the roof, load-bearing walls, foundation, floor, plumbing, electrical systems, waterproofing and fireproofing, windows, and any other item with a deferred maintenance expense or replacement cost exceeding \$10,000 that would “negatively affect” any of the foregoing items if not maintained or replaced.

Not only are associations now legally required to have reserve studies completed, but they will also soon be prohibited from waiving or reducing funding for many of the reserve items in their annual budgets. For decades, condominium associations have been legally required to include reserve accounts in their annual budget. However, associations were permitted, by a majority vote of the unit owners, to waive or only partially fund reserves, irrespective of the particular reserve item. Beginning December 31, 2024, however, unit owners will no longer be legally permitted to make that decision for the structural reserve items required to be listed in the SIRS.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2023

5. Replacement Reserves: (Continued)

Similarly, effective December 31, 2024, associations will no longer be permitted to use reserve funds collected for the structural items listed in a SIRS for any other purpose, even if a majority of the owners vote to do so.

6. Special Assessment:

In July 2023, the Board of Directors approved a special assessment totaling \$435,000 for insurance premiums. The assessment was due by September 1, 2023 or in four equal monthly payments starting on September 1, 2023 and ending on December 1, 2023. These assessments are based on the size of each unit type as stated in the Declaration of Condominium.

SUPPLEMENTARY INFORMATION

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Supplementary Information
on Future Repairs and Replacements
December 31, 2023

In 2023, an independent study was conducted to estimate the useful lives, remaining useful lives and current replacement costs of the common property components. The Budget Committee formulated the 2024 replacement reserve policy based upon modifications of the estimates developed by the independent study.

The 2024 budget assessment allocation for the replacement reserve amounted to \$182,929. The following table presents significant information concerning the replacement fund:

| <u>Component</u> | <u>Estimated Useful Life (Years)</u> | <u>Estimated Remaining Useful Life (Years)</u> | <u>Estimated Current Replacement Cost</u> | <u>Contract Liabilities December 31, 2023</u> | <u>2024 Estimated Full Funding Requirement</u> | <u>2024 Budgeted Funding</u> |
|--------------------------------|--------------------------------------|--|---|---|--|------------------------------|
| Building and grounds | 5-36 | 16 | \$ 618,213 | \$ 72,493 | \$ 34,108 | \$ 33,233 |
| Elevators | 15-30 | 16 | 213,838 | 75,765 | 8,630 | 8,626 |
| Furniture and finishings | 10-18 | 1 | 121,039 | 95,578 | 25,461 | 34,616 |
| Laundry equipment | 5 | 3 | 35,000 | 30,090 | 1,637 | 1,713 |
| Mechanical/Electrical/Plumbing | 1-40 | 21 | 383,536 | 171,229 | 10,110 | 16,115 |
| Exterior painting | 7 | 3 | 217,551 | 173,657 | 14,631 | 15,718 |
| Paving | 4-16 | 3 | 140,590 | 125,432 | 5,053 | 4,656 |
| Casualty loss/Emergency | 0 | 0 | - | 35,439 | - | - |
| Roofing | 15-18 | 13 | 620,000 | 232,918 | 29,776 | 29,861 |
| Seawall and dock | 24-50 | 11 | 577,873 | 185,428 | 35,677 | 35,271 |
| Pools | 2-20 | 14 | 85,734 | 33,017 | 3,766 | 3,120 |
| | | | <u>\$ 3,013,374</u> | <u>\$ 1,231,046</u> | <u>\$ 168,849</u> | <u>\$ 182,929</u> |

Actual expenditures may vary from the estimated future 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 replacements. If additional funds are needed, the Association has the authority to pass special assessments, or delay major repairs and replacements until sufficient funds are available.