

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

**AUDITED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION**

For the year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Riverside Condominium Association, Inc. which comprise the balance sheet as of December 31, 2018, 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 Riverside Condominium Association, Inc. as of December 31, 2018, 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.

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 ten 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
April 17, 2019

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Balance Sheet
December 31, 2018

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 390,134	\$ 366,712	\$ 756,846
Certificates of deposit	50,507	379,340	429,847
Assessments receivable, net	15,313	-	15,313
Prepaid expenses	3,291	-	3,291
Property and equipment, net	26,036	-	26,036
Refundable deposits	2,520	-	2,520
Due from other fund	34,282	-	34,282
	\$ 522,083	\$ 746,052	\$ 1,268,135

LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$ 99,754	\$ -	\$ 99,754
Assessments paid in advance	59,232	-	59,232
Deferred insurance proceeds	277,810	-	277,810
Due to other fund	-	34,282	34,282
	436,796	34,282	471,078
 Fund balance	85,287	711,770	797,057
	\$ 522,083	\$ 746,052	\$ 1,268,135

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, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Members' assessments	\$ 860,466	\$ 121,416	\$ 981,882
Insurance proceeds	207,325	-	207,325
Interest and other income	30,865	5,637	36,502
Laundry income	29,751	-	29,751
	<u>1,128,407</u>	<u>127,053</u>	<u>1,255,460</u>
Expenses:			
Utilities	415,442	-	415,442
Building maintenance and repairs	273,939	9,593	283,532
Wages and benefits	200,139	-	200,139
Insurance	172,432	-	172,432
Grounds maintenance and repairs	23,072	-	23,072
Management fees	15,600	-	15,600
Administrative	14,763	-	14,763
Elevator maintenance and repairs	9,838	-	9,838
Professional fees	9,767	-	9,767
Depreciation	7,333	-	7,333
Pool maintenance and supplies	4,941	-	4,941
Bad debts	3,846	-	3,846
Taxes, fees, and licenses	2,175	-	2,175
	<u>1,153,287</u>	<u>9,593</u>	<u>1,162,880</u>
Excess (deficit) of revenues over expenses	(24,880)	117,460	92,580
Fund balance, beginning of year	94,492	609,985	704,477
Transfer between funds	(10,000)	10,000	-
Transfer of equipment between funds	25,675	(25,675)	-
Fund balance, end of year	<u>\$ 85,287</u>	<u>\$ 711,770</u>	<u>\$ 797,057</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, 2018

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Cash received from members' assessments	\$ 881,329	\$ 121,416	\$ 1,002,745
Cash received from interest and other income	60,616	5,637	66,253
Cash received from insurance proceeds	11,650	-	11,650
Cash paid to vendors for services and goods	(1,142,039)	(9,593)	(1,151,632)
Net cash provided by (used in) operating activities	(188,444)	117,460	(70,984)
Cash flows from investing activities:			
Purchase of equipment	-	(25,675)	(25,675)
Purchase of certificates of deposit	(50,507)	(276,419)	(326,926)
Maturities of certificates of deposit	-	261,216	261,216
Net cash used in investing activities	(50,507)	(40,878)	(91,385)
Cash flows from financing activities:			
Transfer between funds	(10,000)	10,000	-
Interfund borrowings	(34,292)	34,292	-
Net cash provided by (used in) financing activities	(44,292)	44,292	-
Net increase (decrease) in cash and cash equivalents	(283,243)	120,874	(162,369)
Cash and cash equivalents, beginning of year	673,377	245,838	919,215
Cash and cash equivalents, end of year	\$ 390,134	\$ 366,712	\$ 756,846
Reconciliation of Excess (Deficit) of Revenues Over Expenses to Net Cash Provided By (Used In) Operating Activities:			
Excess (deficit) of revenues over expenses	\$ (24,880)	\$ 117,460	\$ 92,580
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:			
Depreciation	7,333	-	7,333
Provision for bad debts	3,846	-	3,846
(Increase) decrease in:			
Accounts receivable	(6,846)	-	(6,846)
Increase (decrease) in:			
Accounts payable and accrued expenses	69	-	69
Assessments paid in advance	27,709	-	27,709
Deferred insurance proceeds	(195,675)	-	(195,675)
Net cash provided by (used in) operating activities	\$ (188,444)	\$ 117,460	\$ (70,984)

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2018

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 every day 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 and money market accounts 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, 2018, \$66,692 of the Association's funds were not fully insured.

Certificates of Deposit:

The Association has certificates of deposit at five commercial banks. The instruments earn interest at 1.40% to 2.37% and have original maturities ranging from one to seven years. Interest earned on the certificates of deposit was \$5,711 for the year ended December 31, 2018.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2018

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. 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 \$41,000 is needed as of December 31, 2018.

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.

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, 2018, the Association incurred income taxes in the amount of \$909 which was offset by the small employer health insurance premiums credit carryover.

The Association has a small employer health insurance premiums credit carryover in the amount of \$12,862. These credit carryovers will begin to expire at December 31, 2030. The Association files income tax returns in the US federal jurisdiction. With few exceptions, the Association is no longer subject to federal income tax examinations by tax authorities for years before 2015.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies: (Continued)

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.

Subsequent Events:

The Association has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 17, 2019, 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 on March 3, 2018. The deductible amount for named hurricane storms is estimated at \$709,099 which represents 3% of the insured value of the residential buildings and swimming pools, which is estimated to be \$23,636,619. Other deductibles apply to the basic insurance coverage as well.

4. Deferred Insurance Proceeds:

During 2016, the Association sustained extensive damages to the building and common property from Hurricane Matthew. In November 2016, the Association's insurance company advanced the Association \$750,000 to make the necessary repairs. During 2018, an additional \$11,650 was received. No additional insurance recoveries are expected. During 2018, 2017, and 2016, the Association earned interest on these funds of \$1,410, \$2,268 and \$529, respectively. For the years ended December 31, 2018, 2017, and 2016, \$208,735, \$274,921 and \$4,391 was expended for repairs. The remaining balance of \$277,810 is recorded as deferred revenue and will be recognized as income as the related expenditures are incurred.

5. Property and Equipment:

Property and equipment and their respective lives at December 31, 2018 are as follows:

		<u>Lives</u>
Machinery and equipment	\$ 47,863	5 years
Less accumulated depreciation	<u>(21,827)</u>	
	<u>\$ 26,036</u>	

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2018

6. 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 2018 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.

The activity within the replacement fund for the year ended December 31, 2018 is as follows:

	Beginning Balance	Funding and Transfers	Interest Income	Transfers and Expenditures	Ending Balance
Building and grounds	\$ 58,627	\$ 17,063	\$ 732	\$ -	\$ 76,422
Elevators	32,207	5,979	256	-	38,442
Furniture and finishings	6,222	7,455	320	(1,906)	12,091
Laundry equipment	29,141	15,006	643	(25,675)	19,115
Mechanical/Electrical/Plumbing	107,755	24,163	1,037	-	132,955
Exterior painting	92,511	15,619	670	-	108,800
Paving	69,445	11,670	501	-	81,616
Casualty loss/Emergency	35,439	-	-	-	35,439
Roofing	77,967	13,141	564	-	91,672
Seawall and dock	63,854	9,835	422	-	74,111
Pools	36,817	11,485	492	(7,687)	41,107
	<u>\$ 609,985</u>	<u>\$ 131,416</u>	<u>\$ 5,637</u>	<u>\$ (35,268)</u>	<u>\$ 711,770</u>

SUPPLEMENTARY INFORMATION

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Supplementary Information
on Future Repairs and Replacements
December 31, 2018

In 2012, 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 2019 replacement reserve policy based upon modifications of the estimates developed by the independent study.

The 2019 budget assessment allocation for the replacement reserve amounted to \$121,416. The Association's members voted for partially funding for such major repairs and replacements for 2019. 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>Replacement Fund Balance December 31, 2018</u>	<u>Estimated 2019 Full Funding Requirement</u>	<u>2019 Budgeted Funding</u>
Building and grounds	5-36	22	\$ 618,213	\$ 76,422	\$ 24,627	\$ 15,765
Elevators	15-30	22	213,838	38,442	7,973	5,524
Furniture and finishings	10-18	0	121,039	12,091	108,948	6,888
Laundry equipment	5	5	35,000	19,115	3,177	13,863
Mechanical/Electrical/Plumbing	1-40	14	383,536	132,955	17,899	22,325
Exterior painting	7	0	217,551	108,800	108,751	14,430
Paving	4-16	0	140,590	81,616	58,974	10,783
Casualty loss/Emergency	0	0	-	35,439	-	-
Roofing	15-18	12	620,000	91,672	44,027	12,142
Seawall and dock	24-50	22	577,873	74,111	22,898	9,087
Pools	2-20	17	85,734	41,107	2,625	10,609
			<u>\$ 3,013,374</u>	<u>\$ 711,770</u>	<u>\$ 399,899</u>	<u>\$ 121,416</u>

Funds are being accumulated, at less than full funding, in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Additionally, 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.