

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

AND SUPPLEMENTARY INFORMATION

For the year ended December 31, 2019

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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, 2019, 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, 2019, 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.

Change in Accounting Principle

As discussed in Notes 2 and 7 to the financial statements, the Association changed its method of accounting for revenue recognition in 2019 as required by the provisions of FASB Accounting Standards Update 606. Our opinion is not modified with respect to that matter.

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 & Gugory, LLC

Daytona Beach, Florida

February 29, 2020

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Balance Sheet

December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 173,229	\$ 376,570	\$ 549,799
Certificates of deposit	-	501,730	501,730
Assessments receivable, net	9,529	-	9,529
Prepaid expenses	30,283	-	30,283
Property and equipment, net	19,288	-	19,288
Refundable deposits	2,520	-	2,520
Due from other fund	55,950	-	55,950
	<u>\$ 290,799</u>	<u>\$ 878,300</u>	<u>\$ 1,169,099</u>

LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$ 37,440	\$ -	\$ 37,440
Assessments paid in advance	64,051	-	64,051
Deferred insurance proceeds	118,788	-	118,788
Due to other fund	-	55,950	55,950
Contract liabilities	-	822,350	822,350
	<u>220,279</u>	<u>878,300</u>	<u>1,098,579</u>
Fund balance	<u>70,520</u>	<u>-</u>	<u>70,520</u>
	<u>\$ 290,799</u>	<u>\$ 878,300</u>	<u>\$ 1,169,099</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, 2019

	Operating Fund	Replacement Fund	Total
Revenues:			
Members' assessments	\$ 897,281	\$ 10,836	\$ 908,117
Insurance proceeds	159,022	-	159,022
Interest and other income	46,164	10,832	56,996
Laundry income	30,469	-	30,469
	1,132,936	21,668	1,154,604
Expenses:			
Utilities	412,239	-	412,239
Building maintenance and repairs	235,096	21,668	256,764
Wages and benefits	192,288	-	192,288
Insurance	168,221	-	168,221
Management fees	48,000	-	48,000
Grounds maintenance and repairs	22,358	-	22,358
Pool maintenance and supplies	20,291	-	20,291
Administrative	16,430	-	16,430
Professional fees	12,340	-	12,340
Elevator maintenance and repairs	9,619	-	9,619
Depreciation	6,748	-	6,748
Taxes, fees, and licenses	2,136	-	2,136
Bad debts	1,937	-	1,937
	1,147,703	21,668	1,169,371
Deficit of revenues over expenses	(14,767)	-	(14,767)
<hr/>			
Fund balance, beginning of year	85,287	-	85,287
Fund balance, end of year	\$ 70,520	\$ -	\$ 70,520

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Statement of Cash Flows

For the year ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Cash received from members' assessments	\$ 905,947	\$ 121,416	\$ 1,027,363
Cash received from interest and other income	76,633	10,832	87,465
Cash paid to vendors for services and goods	<u>(1,228,324)</u>	<u>(21,668)</u>	<u>(1,249,992)</u>
Net cash provided by (used in) operating activities	<u>(245,744)</u>	<u>110,580</u>	<u>(135,164)</u>
Cash flows from investing activities:			
Purchase of certificates of deposit	50,507	(329,171)	(278,664)
Maturities of certificates of deposit	-	206,781	206,781
Net cash provided by used in investing activities	<u>50,507</u>	<u>(122,390)</u>	<u>(71,883)</u>
Cash flows from financing activities:			
Interfund borrowings	<u>(21,668)</u>	21,668	-
Net cash provided by (used in) financing activities	<u>(21,668)</u>	<u>21,668</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(216,905)	9,858	(207,047)
Cash and cash equivalents, beginning of year	390,134	366,712	756,846
Cash and cash equivalents, end of year	<u>\$ 173,229</u>	<u>\$ 376,570</u>	<u>\$ 549,799</u>
Reconciliation of Deficit of Revenues Over Expenses to Net Cash Provided By (Used In) Operating Activities:			
Deficit of revenues over expenses	\$ (14,767)	\$ -	\$ (14,767)
Adjustments to reconcile deficit of revenues over expenses to net cash provided by (used in) operating activities:			
Depreciation	6,748	-	6,748
Provision for bad debts	1,937	-	1,937
(Increase) decrease in:			
Accounts receivable	3,847	-	3,847
Prepaid expenses	(26,992)	-	(26,992)
Increase (decrease) in:			
Accounts payable and accrued expenses	(62,314)	-	(62,314)
Assessments paid in advance	4,819	-	4,819
Deferred insurance proceeds	(159,022)	-	(159,022)
Contract liabilities	-	110,580	110,580
Net cash provided by (used in) operating activities	<u>\$ (245,744)</u>	<u>\$ 110,580</u>	<u>\$ (135,164)</u>

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

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, 2019, all of the Association's funds were fully insured.

Certificates of Deposit:

The Association has certificates of deposit at five commercial banks. The instruments earn interest at 1.40% to 2.23% and have original maturities ranging from one to seven years. Interest earned on the certificates of deposit was \$9,938 for the year ended December 31, 2019.

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, 2019

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. 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, 2019.

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, 2019, the Association incurred income taxes in the amount of \$1,644 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 \$11,218. These credit carryovers will begin to expire at December 31, 2031. 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 2016.

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, 2019

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.

Adoption of New Accounting Standard:

On January 1, 2019, the Association adopted FASB Accounting Standards Codification 606, Revenue from Contracts with Customers (FASB ASC 606), which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Association applied the modified retrospective method to contracts that were not completed as of January 1, 2019. Results for the reporting period beginning after January 1, 2019, are presented under FASB ASC 606. See Members' Assessments and Contract Liabilities (assessments received in advance) policies in this note for the Association's revenue recognition policies. The adoption of this standard resulted in the restatement of the Association's fund balance as of January 1, 2019. See Note 7 for additional information on the effect of the change in accounting principle.

Subsequent Events:

The Association has evaluated events and transactions for potential recognition or disclosure in the financial statements through February 29, 2020, 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, 2019. The deductible amount for named hurricane storms is estimated at \$472,296 which represents 2% of the insured value of the residential buildings and swimming pools, which is estimated to be \$23,614,807. Other deductibles apply to the basic insurance coverage as well.

4. Property and Equipment:

Property and equipment and their respective lives at December 31, 2019 are as follows:

		<u>Lives</u>
Machinery and equipment	\$ 47,863	5 years
Less accumulated depreciation	(28,575)	
	<u>\$ 19,288</u>	

5. 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 2019, 2018, 2017, and 2016, the Association earned interest on these funds of \$380, \$1,410, \$2,268 and \$529, respectively.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

5. Deferred Insurance Proceeds: (Continued)

For the years ended December 31, 2019, 2018, 2017, and 2016, \$159,402, \$208,735, \$274,921 and \$4,391 was expended for repairs. The remaining balance of \$118,788 is recorded as deferred revenue and will be recognized as income as the related expenditures are incurred.

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 2019 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 contract liabilities for the year ended December 31, 2019 is as follows:

	Beginning Balance	Funding	Interest Income	Expenditures	Ending Balance
Building and grounds	\$ 76,422	\$ 15,765	\$ 1,406	\$ (2,475)	\$ 91,118
Elevators	38,442	5,524	493	-	44,459
Furniture and finishings	12,091	6,888	614	-	19,593
Laundry equipment	19,115	13,863	1,237	-	34,215
Mechanical/Electrical/Plumbing	132,955	22,325	1,992	-	157,272
Exterior painting	108,800	14,430	1,287	-	124,517
Paving	81,616	10,783	963	(14,900)	78,462
Casualty loss/Emergency	35,439	-	-	-	35,439
Roofing	91,672	12,142	1,084	-	104,898
Seawall and dock	74,111	9,087	811	(4,293)	79,716
Pools	41,107	10,609	945	-	52,661
	<u>\$ 711,770</u>	<u>\$ 121,416</u>	<u>\$ 10,832</u>	<u>\$ (21,668)</u>	<u>\$ 822,350</u>

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2019

7. FASB ASC 606 New Accounting Guidance Implementation:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate—Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Fund balance, as previously reported, at January 1, 2019	\$ 711,770
Adjustment	(711,770)
Fund balance, as adjusted, at January 1, 2019	\$ -

The effect of the adoption is a decrease in 2019 assessments by \$110,580 and a recording of a contract liability (assessments received in advance-replacement fund) at December 31, 2019, of \$822,350. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our financial statements as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
Contract liabilities	-	822,350	822,350
Ending fund balance	822,350	(822,350)	-
Members' assessments	121,416	(110,580)	10,836
Excess of revenues over expenses	110,580	(110,580)	-

SUPPLEMENTARY INFORMATION

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Supplementary Information
on Future Repairs and Replacements
December 31, 2019

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 2020 replacement reserve policy based upon modifications of the estimates developed by the independent study.

The 2020 budget assessment allocation for the replacement reserve amounted to \$148,344. The Association's members voted for partially funding for such major repairs and replacements for 2020. The following table presents significant information concerning the replacement fund:

Component	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Contract Liabilities December 31, 2019	Estimated 2020 Full Funding Requirement	2020 Budgeted Funding
Building and grounds	5-36	19	\$ 618,213	\$ 91,118	\$ 27,742	\$ 13,110
Elevators	15-30	19	213,838	44,459	8,915	4,247
Furniture and finishings	10-18	0	121,039	19,593	101,446	51,030
Laundry equipment	5	3	35,000	34,215	262	252
Mechanical/Electrical/Plumbing	1-40	11	383,536	157,272	20,569	9,511
Exterior painting	7	6	217,551	124,517	15,506	6,787
Paving	4-16	0	140,590	78,462	62,128	24,096
Casualty loss/Emergency	0	0	-	35,439	-	-
Roofing	15-18	9	620,000	104,898	57,234	25,810
Seawall and dock	24-50	19	577,873	79,716	26,219	12,367
Pools	2-20	14	85,734	52,661	2,362	1,134
			<u>\$ 3,013,374</u>	<u>\$ 822,350</u>	<u>\$ 322,383</u>	<u>\$ 148,344</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.