

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

For the year ended December 31, 2020

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WESTON & GREGORY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

*100 La Costa Lane, Suite 100
Daytona Beach, FL 32114-8158
386.274.2747*

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, 2020, 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, 2020, 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 10 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 & Grogan, LLC

Daytona Beach, Florida
April 13, 2021

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Balance Sheet
December 31, 2020

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 173,809	\$ 221,387	\$ 395,196
Certificates of deposit	-	715,397	715,397
Assessments receivable, net	10,771	-	10,771
Prepaid expenses	31,022	-	31,022
Property and equipment, net	20,887	-	20,887
Refundable deposits	2,520	-	2,520
Due from other fund	69,849	-	69,849
	<u>\$ 308,858</u>	<u>\$ 936,784</u>	<u>\$ 1,245,642</u>

LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$ 106,045	\$ -	\$ 106,045
Assessments paid in advance	40,593	-	40,593
Deferred insurance proceeds	104,081	-	104,081
Due to other fund	-	69,849	69,849
Contract liabilities	-	866,935	866,935
	<u>250,719</u>	<u>936,784</u>	<u>1,187,503</u>
 Fund balance	<u>58,139</u>	<u>-</u>	<u>58,139</u>
	<u>\$ 308,858</u>	<u>\$ 936,784</u>	<u>\$ 1,245,642</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, 2020

	Operating Fund	Replacement Fund	Total
Revenues:			
Members' assessments	\$ 901,741	\$ 103,759	\$ 1,005,500
Laundry income	33,117	-	33,117
Interest and other income	15,233	10,345	25,578
Insurance proceeds	14,707	-	14,707
	<u>964,798</u>	<u>114,104</u>	<u>1,078,902</u>
Expenses:			
Utilities	397,672	-	397,672
Wages and benefits	198,165	-	198,165
Insurance	176,452	-	176,452
Building maintenance and repairs	83,946	105,610	189,556
Management fees	48,600	-	48,600
Grounds maintenance and repairs	23,020	-	23,020
Elevator maintenance and repairs	15,508	-	15,508
Administrative	11,754	-	11,754
Pool maintenance and supplies	11,094	-	11,094
Professional fees	9,861	-	9,861
Depreciation	8,740	-	8,740
Taxes, fees, and licenses	861	-	861
	<u>985,673</u>	<u>105,610</u>	<u>1,091,283</u>
Excess (deficit) of revenues over expenses	(20,875)	8,494	(12,381)
Fund balance, beginning of year	70,520	-	70,520
Transfer equipment between funds	<u>8,494</u>	<u>(8,494)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 58,139</u>	<u>\$ -</u>	<u>\$ 58,139</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, 2020

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Cash received from members' assessments	\$ 877,041	\$ 148,344	\$ 1,025,385
Cash received from interest and other income	48,350	10,345	58,695
Cash paid to vendors for services and goods	(909,067)	(105,610)	(1,014,677)
Net cash provided by operating activities	16,324	53,079	69,403
Cash flows from investing activities:			
Purchase of equipment	(1,845)	(8,494)	(10,339)
Purchase of certificates of deposit	-	(609,563)	(609,563)
Maturities of certificates of deposit	-	395,896	395,896
Net cash used in investing activities	(1,845)	(222,161)	(224,006)
Cash flows from financing activities:			
Interfund borrowings	(13,899)	13,899	-
Net cash provided by (used in) financing activities	(13,899)	13,899	-
Net increase (decrease) in cash and cash equivalents	580	(155,183)	(154,603)
Cash and cash equivalents, beginning of year	173,229	376,570	549,799
Cash and cash equivalents, end of year	\$ 173,809	\$ 221,387	\$ 395,196
Reconciliation of Excess (Deficit) of Revenues Over Expenses to Net Cash Provided By Operating Activities:			
Excess (deficit) of revenues over expenses	\$ (20,875)	\$ 8,494	\$ (12,381)
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by operating activities:			
Depreciation	8,740	-	8,740
(Increase) decrease in:			
Accounts receivable	(1,242)	-	(1,242)
Prepaid expenses	(739)	-	(739)
Increase (decrease) in:			
Accounts payable and accrued expenses	68,605	-	68,605
Assessments paid in advance	(23,458)	-	(23,458)
Deferred insurance proceeds	(14,707)	-	(14,707)
Contract liabilities	-	44,585	44,585
Net cash provided by operating activities	\$ 16,324	\$ 53,079	\$ 69,403

See accompanying notes to financial statements
and independent auditors' report

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

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, 2020, \$499,156 of the Association's funds were not fully insured.

Certificates of Deposit:

The Association has certificates of deposit at two commercial banks. The instruments earn interest at 1.40% to 1.60% and have original maturities ranging from one to seven years. Interest earned on the certificates of deposit was \$9,563 for the year ended December 31, 2020.

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, 2020

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, 2020.

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, 2020, the Association incurred income taxes in the amount of \$1,652 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 \$9,566. 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 2017.

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, 2020

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 April 13, 2021, 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, 2020. The deductible amount for named hurricane storms is estimated at \$262,295 which represents 1% of the insured value of the residential buildings and swimming pools, which is estimated to be \$26,229,496. Other deductibles apply to the basic insurance coverage as well.

4. Property and Equipment:

Property and equipment and their respective lives at December 31, 2020 are as follows:

		<u>Lives</u>
Machinery and equipment	\$ 45,824	5 years
Less accumulated depreciation	(24,937)	
	<u>\$ 20,887</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 2020, 2019, 2018, 2017, and 2016, the Association earned interest on these funds of \$80, \$380, \$1,410, \$2,268, and \$529, respectively.

For the years ended December 31, 2020, 2019, 2018, 2017, and 2016, \$14,787, \$159,402, \$208,735, \$274,921, and \$4,391 was expended for repairs. The remaining balance of \$104,081 is recorded as deferred revenue and will be recognized as income as the related expenditures are incurred.

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

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 2020 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, 2020 is as follows:

	Beginning Balance	Funding	Interest Income	Transfers and Expenditures	Ending Balance
Building and grounds	\$ 91,118	\$ 13,110	\$ 915	\$ (61,105)	\$ 44,038
Elevators	44,459	4,247	296	-	49,002
Furniture and finishings	19,593	51,030	3,559	-	74,182
Laundry equipment	34,215	252	17	(8,494)	25,990
Mechanical/Electrical/Plumbing	157,272	9,511	663	-	167,446
Exterior painting	124,517	6,787	474	-	131,778
Paving	78,462	24,096	1,680	-	104,238
Casualty loss/Emergency	35,439	-	-	-	35,439
Roofing	104,898	25,810	1,799	-	132,507
Seawall and dock	79,716	12,367	862	-	92,945
Pools	52,661	1,134	80	(44,505)	9,370
	<u>\$ 822,350</u>	<u>\$ 148,344</u>	<u>\$ 10,345</u>	<u>\$ (114,104)</u>	<u>\$ 866,935</u>

SUPPLEMENTARY INFORMATION

RIVERSIDE CONDOMINIUM ASSOCIATION, INC.

Supplementary Information
on Future Repairs and Replacements
December 31, 2020

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 2021 replacement reserve policy based upon modifications of the estimates developed by the independent study.

The 2021 budget assessment allocation for the replacement reserve amounted to \$139,992. The Association voted to transfer an additional \$110,697 from the operating fund to the replacement fund to fully fund the replacement fund for 2021. 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, 2020	Estimated 2021 Full Funding Requirement	2021 Budgeted Funding
Building and grounds	5-36	19	\$ 618,213	\$ 44,038	\$ 30,220	\$ 23,897
Elevators	15-30	19	213,838	49,002	8,676	8,691
Furniture and finishings	10-18	1	121,039	74,182	46,857	50,416
Laundry equipment	5	3	35,000	25,990	3,003	533
Mechanical/Electrical/Plumbing	1-40	11	383,536	167,446	19,645	19,705
Exterior painting	7	6	217,551	131,778	14,296	14,375
Paving	4-16	6	140,590	104,238	6,059	34,878
Casualty loss/Emergency	0	0	-	35,439	-	-
Roofing	15-18	9	620,000	132,507	54,166	54,366
Seawall and dock	24-50	19	577,873	92,945	25,523	25,568
Pools	2-20	14	85,734	9,370	5,455	28,253
Interest Income			-	-	-	(9,993)
			<u>\$ 3,013,374</u>	<u>\$ 866,935</u>	<u>\$ 213,900</u>	<u>\$ 250,689</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.