

**Coral Hammock Homeowners  
Association, Inc.**

**FINANCIAL STATEMENTS (AND  
SUPPLEMENTARY INFORMATION)**

**December 31, 2019**



**CRI** CARR  
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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

To the Board of Directors and Members  
Coral Hammock Homeowners Association, Inc.  
Key West, Florida

We have reviewed the accompanying financial statements of Coral Hammock Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenue, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion on the Financial Statements**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

## Supplementary Information

The supplementary information in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and in the Schedule of Operating Fund Revenue and Expenses – Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any form of assurance on it.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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, which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have compiled the required supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any form of assurance on it.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida

April 13, 2020

**Coral Hammock Homeowners Association, Inc.**  
**Balance Sheet**

*December 31,*

**2019**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 52,832	\$ 123,006	\$ 175,838
Certificates of deposit	22,088	22,088	44,176
Accounts receivable	6,385	-	6,385
Prepaid expenses	21,824	-	21,824
<b>Total assets</b>	<b>\$ 103,129</b>	<b>\$ 145,094</b>	<b>\$ 248,223</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,926	\$ -	\$ 4,926
Prepaid assessments	67,890	-	67,890
Security deposits payable	2,248	-	2,248
Performance obligation	-	145,094	145,094
<b>Total liabilities</b>	<b>75,064</b>	<b>145,094</b>	<b>220,158</b>
<b>Fund balance</b>	<b>28,065</b>	<b>-</b>	<b>28,065</b>
<b>Total liabilities and fund balance</b>	<b>\$ 103,129</b>	<b>\$ 145,094</b>	<b>\$ 248,223</b>

*See accompanying notes and independent accountants' review report.*

**Coral Hammock Homeowners Association, Inc.**  
**Statement of Revenue, Expenses and Changes in Fund Balance**

*For the year ended December 31,*

**2019**

	Operating Fund	Replacement Fund	Total
<b>Revenue</b>			
Regular assessments	\$ 276,300	\$ 33,877	\$ 310,177
Special assessments	110,000	-	110,000
Interest and late fees	2,446	720	3,166
Rental income	25,575	-	25,575
<b>Total revenue</b>	<b>414,321</b>	<b>34,597</b>	<b>448,918</b>
<b>Expenses</b>			
Administrative	2,350	-	2,350
Depreciation	110	-	110
Insurance	12,569	-	12,569
Legal and professional	195,581	-	195,581
Maintenance and repairs	130,586	34,597	165,183
Management and personnel	69,724	-	69,724
Rental expenses	654	-	654
Utilities	38,779	-	38,779
<b>Total expenses</b>	<b>450,353</b>	<b>34,597</b>	<b>484,950</b>
<b>Excess (deficit) of revenue over expenses</b>	<b>(36,032)</b>	<b>-</b>	<b>(36,032)</b>
<b>Beginning fund balance, restated</b>	<b>61,447</b>	<b>-</b>	<b>61,447</b>
<b>Capital contributions</b>	<b>2,650</b>	<b>-</b>	<b>2,650</b>
<b>Ending fund balance</b>	<b>\$ 28,065</b>	<b>\$ -</b>	<b>\$ 28,065</b>

*See accompanying notes and independent accountants' review report.*

**Coral Hammock Homeowners Association, Inc.**  
**Statement of Cash Flows**

*For the year ended December 31,*

**2019**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Operating activities</b>			
Excess (deficit) of revenue			
over expenses	\$ (36,032)	\$ -	\$ (36,032)
Adjustments to reconcile excess (deficit)			
of revenue over expenses to net cash			
provided (used) by operating activities:			
Depreciation expense	110	-	110
Changes in operating assets and liabilities:			
Accounts receivable	(2,540)	-	(2,540)
Prepaid expenses	(2,776)	-	(2,776)
Accounts payable	(3,708)	-	(3,708)
Prepaid assessments	63,125	-	63,125
Income tax payable	(819)	-	(819)
Accrued liabilities	5	-	5
Performance obligation	-	(9,877)	(9,877)
Net cash provided (used)			
by operating activities	17,365	(9,877)	7,488
<b>Investing activities</b>			
Purchase of certificates of deposit	(720)	(720)	(1,440)
Net cash provided (used)			
by investing activities	(720)	(720)	(1,440)
<b>Financing activities</b>			
Capital contribution	2,650	-	2,650
Net cash provided			
by financing activities	2,650	-	2,650
<b>Net change in cash</b>	<b>19,295</b>	<b>(10,597)</b>	<b>8,698</b>
<b>Cash at beginning of year</b>	<b>33,537</b>	<b>133,603</b>	<b>167,140</b>
<b>Cash at end of year</b>	<b>\$ 52,832</b>	<b>\$ 123,006</b>	<b>\$ 175,838</b>
<b>Income taxes paid</b>	<b>\$ 3,222</b>	<b>\$ -</b>	<b>\$ 3,222</b>

*See accompanying notes and independent accountants' review report.*

## **Coral Hammock Homeowners Association, Inc.**

### **Notes to Financial Statements**

#### **NOTE 1: DESCRIPTION OF THE ORGANIZATION**

Coral Hammock Homeowners Association, Inc., a Florida not-for-profit Corporation, was formed on January 1, 2003. Membership in the Association consists of the 55 residential unit owners of the Coral Hammock Homeowners Association, Inc. The development is located on approximately 3.23 acres in Key West, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including a parking areas, recreational area, greenbelts, a swimming pool, and a clubhouse. Disposition of common area property requires consent of the members according to the governing documents and Florida Statutes.

Most policy decisions, except the annual budget and owners' assessments which are approved by the owners, are formulated by the Board of Directors. Major decisions are referred to the general Association membership before action is taken.

Management and accounting services are provided to the Association by The Community Association Company.

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

##### ***Estimates***

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, 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.



## **Coral Hammock Homeowners Association, Inc.**

### **Notes to Financial Statements**

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***Funds***

The Association is a not-for-profit organization which employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors, the Association voting membership, or applicable Florida Statute. The financial statements segregate the accounting for such funds as either Operating or Replacement Funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

The Operating Fund is used to account for financial resources available for the general operation of the Association. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors and the Association's management.

The Replacement Fund is generally used to account for assessments made for major repair and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund is maintained in the Replacement Fund.

##### ***Cash Equivalents***

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity of 90 days or less.

##### ***Accounts Receivable from Owners and Allowance for Doubtful Accounts***

Accounts receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectable, they are written off by charging the allowance and crediting the receivable. Since management considers all receivables to be collectible at December 31, 2019, no allowance has been established at this time.

##### ***Prepaid Expenses***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage periods.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Capitalization and Depreciation***

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that does not meet the criteria to capitalize is identified in Note 1.

***Contract Assets and Liabilities***

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the Balance Sheet as of December 31, 2019. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the Balance Sheet as prepaid assessments and performance obligation liabilities.

***Revenue Recognition***

Effective January 1, 2019, the Association adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This topic requires the recognition of revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For purposes of this Association, the definition of customers includes the Association's members.

***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 13, 2020 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Recently Adopted Accounting Guidance***

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification. The Association elected to adopt the revenue recognition standard effective January 1, 2019 using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption.

The cumulative adjustment recorded upon adoption of ASC 606 consisted of changes in the recognition of replacement fund assessments, and accordingly the accumulated funds for future major repairs and replacements are now largely classified as a performance obligation and not fund balance. As a result, the Association has restated its beginning fund balance as follows:

<u>December 31,</u>	<u>2019</u>
Beginning replacement fund balance, before restatement	\$154,971
Cummulative effect of change in accounting principle	(154,971)
<u>Beginning replacement fund balance, as restated</u>	<u>\$ -</u>

**NOTE 3: OWNERS' ASSESSMENTS**

Revenue and expenses are allocated to the unit owners equally, and accordingly, assessment rates are established using this formula. The rate for 2019 was \$455 per unit per month. Budgeted assessments for the year ended December 31, 2019 totaled \$300,300, of which \$24,000 was allocated to the Replacement Fund.

In July 2019, the Association levied a special assessment to fund legal fees related to a unit owner's lawsuit with Monroe County regarding short term rental rights. Since this issue impacts all unit owners, in addition to the unit owner filing the lawsuit, membership agreed to and approved of the levy of the special assessment to assist the unit owner in payment of legal fees related to the case. Other than assisting the unit owner in this lawsuit by helping fund legal fees, the Association has no other involvement or liability in regard to this case. The special assessment, which was levied and due in July 2019, was \$2,000 per unit owner or a total of \$110,000. In 2019, the Association incurred \$192,016 of legal fee expenses and the majority of these fees were related to the short term rental rights case with Monroe County. Thus the full amount of the special assessment levied was also recognized in 2019.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 3: OWNERS' ASSESSMENTS (Continued)**

The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the Statement of Revenue, Expenses and Changes in Fund Balance:

<i>For the year ended December 31,</i>	<b>2019</b>		
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
Budgeted regular assessments	\$276,300	\$ 24,000	\$300,300
Add releases from performance obligation	-	9,877	9,877
<b>Total assessments</b>	<b>\$276,300</b>	<b>\$ 33,877</b>	<b>\$310,177</b>

**NOTE 4: REVENUE RECOGNITION**

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are unit owners within the development. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the unit owners.

***Performance Obligations***

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve assessments, which are being recognized at a point in time. As of December 31, 2019, the Association has reported a performance obligation liability totaling \$145,094, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the Replacement Fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

***Significant Judgments***

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation. For operating fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For replacement fund amounts, the Association recognizes revenue at the point in time when reserve expenses are incurred.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 4: REVENUE RECOGNITION (Continued)**

***Disaggregated Revenue***

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenue and cash flows.

The following chart contains disaggregated revenue information that reflects these qualitative factors.

<i>For the year ended December 31,</i>	<b>2019</b>
<b><i>Recognized over time</i></b>	
Operating fund assessments	\$ 276,300
<b><i>Recognized at a point in time</i></b>	
Replacement fund assessments	33,877
Special assessment	110,000
<b><i>Not subject to ASC Topic 606</i></b>	
Interest and late fees	3,166
Rental income	25,575
Total revenue	\$ 448,918

The following table presents information about accounts receivable, contract assets, and contract liabilities:

<i>For the year ended December 31,</i>	<b>2019</b>
Accounts receivable - beginning balance	\$ 3,845
Accounts receivable - ending balance	6,385
Contract assets - no beginning or ending balance for the year	-
Contract liabilities:	
Prepaid assessments - beginning balance	4,765
Prepaid assessments - ending balance	67,890
Performance obligation liabilities - beginning balance	154,971
Performance obligation liabilities - ending balance	145,094

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for future major repairs and replacements through regular assessments. The Association uses the cash flow method of funding the Replacement Fund, which pools the reserve components.

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund utilizing a professional study performed in 2014.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on their study's estimates of replacement costs and considering amounts previously accumulated in the Replacement Fund. Accordingly, the funding amount of \$24,000, based on a full funding plan, was included in the 2019 budget.

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

**NOTE 6: INCOME TAXES**

The Association elected to file its tax return for 2019 as a regular corporation on Form 1120. As such, the Association must comply with Internal Revenue Code (IRC) Section 277, which applies to certain membership organizations. Under IRC Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended December 31, 2019, the Association had a net non-membership loss of \$1,555, which can be carried forward to offset up to 80% of future net non-membership income annually, if needed. No federal or state taxes are due for 2019.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 6: INCOME TAXES (Continued)**

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's policy is to record interest expense or penalties related to income tax in (operating) expense. For the year ended December 31, 2019, no interest or penalties were paid or accrued. The Association is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2016.

**NOTE 7: CERTIFICATES OF DEPOSIT**

At December 31, 2019, the Association had \$22,088 of Operating Fund monies and \$22,088 of Replacement Fund monies in certificates of deposit at a financial institution. The carrying value of these certificates of deposit is at cost plus accrued interest, which approximates fair value. These certificates mature at various times in 2022 and bear interest at 1.75%.

**NOTE 8: CREDIT RISK**

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual units. Should the collection of any such liens be enforced by the sale of the unit, the collectability of the receivable is dependent on the quick sale market value of the unit, and the amount of any such other liens that have priority. Market value may be influenced by the real estate market in Key West, Florida.

**NOTE 9: DEED RESTRICTIONS**

The Association is subject to a Monroe County Planning Department Affordable/Employee Housing Deed Restriction for a period of at least 30 years. Pursuant to the Restriction signed February 14, 2006, the Association was authorized to construct two employee housing units which are now apartments in the Association's clubhouse. The two unfurnished, one bedroom, one bath units are currently leased wherein the tenants must derive at least 70% of their household income from gainful employment in Monroe County and meet the requirements for affordable housing per Monroe County Code Section 9.5-4(A-5) and 9.5-266. The tenants are responsible for utilities and maintenance.

**Coral Hammock Homeowners Association, Inc.**  
**Notes to Financial Statements**

**NOTE 10: CONTINGENCIES**

The insurance policy for windstorm coverage renewed June 2019. The deductible amount for named storms is estimated at \$33,600, which represents 5% of the insured value of the residential building. In addition, the Association's windstorm policy is underwritten by the State of Florida's Citizens Property Insurance Corporation (Citizens). In the event Citizens incurs a deficit that exceeds the amount collected via regular premiums, an emergency assessment may be levied. The Association may be required to pay substantially more in insurance premiums relating to the year for which the emergency assessment is levied.





## **Supplementary Information**

**Coral Hammock Homeowners Association, Inc.**  
**Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements**

<i>For the year ended December 31,</i>		<b>2019</b>		
<b>Component</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Subtractions</b>	<b>Ending Balance</b>
Infrastructure			\$ (21,012)	
Painting			(1,700)	
Pool and pool equipment			(11,885)	
<b>Total</b>	\$ 154,971	\$ 24,720	\$ (34,597)	\$ 145,094

<i>December 31,</i>		<b>2019</b>	
Performance obligation liability		\$	145,094
Replacement fund balance			-
<b>Total</b>		\$	145,094

*See independent accountants' review report.*

**Coral Hammock Homeowners Association, Inc.**  
**Schedule of Operating Fund Revenue and Expenses – Budget and Actual**

*For the year ended December 31,*

**2019**

	Actual	Budget	Variance - Favorable (Unfavorable)
<b>Revenue</b>			
Regular assessments	\$ 276,300	\$ 276,300	\$ -
Special assessments	110,000	-	110,000
Interest and late fees	2,446	1,560	886
Rental income	25,575	21,900	3,675
Total revenue	414,321	299,760	114,561
<b>Expenses</b>			
Administrative	2,350	2,460	110
Depreciation	110	-	(110)
Income taxes	-	45,774	45,774
Insurance	12,569	14,232	1,663
Legal and professional	195,581	26,350	(169,231)
Maintenance and repairs	130,586	136,834	6,248
Management and personnel	69,724	72,870	3,146
Rental expenses	654	3,600	2,946
Utilities	38,779	39,800	1,021
Total expenses	450,353	341,920	(108,433)
Excess (deficit) of revenue over expenses	\$ (36,032)	\$ (42,160)	\$ 6,128

*See independent accountant's review report.*

**Coral Hammock Homeowners Association, Inc.**  
**Supplementary Information on Future Major Repairs and Replacements**

The following table is based on the Board’s review and presents significant information about the components of common property:

<b>Pooled Components</b>	<b>Estimated Remaining Life (Years)</b>	<b>Estimated Replacement Cost</b>	<b>Accumulated Funds at 12/31/19</b>
Infrastructure	0-15	\$ 85,000	
Painting	0-3	22,000	
Paving	12-16	105,000	
Pool and equipment	0-11	45,500	
Roof	15	24,000	
<b>Total</b>		<b>\$ 281,500</b>	<b>\$ 145,094</b>

*See independent accountant’s review report.*