# Harbour Place Condominium Association, Inc. FINANCIAL STATEMENTS

December 31, 2021

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#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of Harbour Place Condominium Association, Inc. Key West, Florida

#### **Opinion**

We have audited the accompanying financial statements of Harbour Place Condominium Association, Inc., which comprise the balance sheet as of December 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbour Place Condominium Association, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to
  fraud or error, and design and perform audit procedures responsive to those risk. Such procedures
  include examining, on a test basis, evidence regarding the amounts and disclosures in the financial
  statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures
  that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the
  effectiveness of Harbour Place Condominium Association, Inc.'s internal control. Accordingly, no
  such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harbour Place Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

#### **Report on Summarized Comparative Information**

We have previously audited Harbour Place Condominium Association, Inc.'s 2020 financial statements, and our report dated February 8, 2021 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information contained in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and 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 financial statements. Such information is the responsibility of the Association's management and, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements 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.

CARR, RIGGS & INGRAM, LLC

Can, Rigge & Ingram, L.L.C.

Miramar Beach, Florida March 23, 2022

### Harbour Place Condominium Association, Inc. Balance Sheet

December 31,			2021			2020
					T	otal (For
	Operating	Re	placement		Со	mparative
	Fund		Fund	Total	Р	urposes)
Assets						
Cash	\$ 353,216	\$	498,724	\$ 851,940	\$	662,852
Accounts receivable	132		-	132		1,215
Prepaid expenses	105,065		-	105,065		77,038
Utility deposits	16,214		-	16,214		16,214
Interfund balance	(9,696)		9,696	-		-
Total assets	\$ 464,931	\$	508,420	\$ 973,351	\$	757,319
Liabilities and fund balance						
Liabilities						
Accounts payable	\$ 14,047	\$	-	\$ 14,047	\$	14,273
Prepaid assessments	129,247		-	129,247		48,511
Performance obligation	-		426,420	426,420		353,803
Total liabilities	143,294		426,420	569,714		416,587
Fund balance	321,637		82,000	403,637		340,732
Total liabilities and fund balance	\$ 464,931	\$	508,420	\$ 973,351	\$	757,319

### Harbour Place Condominium Association, Inc. Statement of Revenue, Expenses and Changes in Fund Balance

For the year ended December 31,				2021				2020
							7	Total (For
		Operating	Re	placement			Co	mparative
		Fund		Fund		Total	P	Purposes)
Revenue								
	\$	629 626	۲	140.002	Ļ	760 610	۲	752.649
Regular assessments Interest income	Ş	628,636 440	\$	140,983	\$	769,619 440	\$	752,648 918
		440		-		440		
Bad debt recovery		-		82,000		82,000		11,275
Insurance proceeds Miscellaneous income		12 207		82,000		•		12 222
wiscellaneous income		13,297		-		13,297		13,322
Total revenue		642,373		222,983		865,356		778,163
Expenses								
Administrative		96,344		-		96,344		96,377
Insurance		225,932		-		225,932		176,947
Maintenance and repairs		253,364		140,983		394,347		445,837
Utilities		85,828		-		85,828		87,865
Total expenses		661,468		140,983		802,451		807,026
Excess (deficit) of revenue over								
expenses		(19,095)		82,000		62,905		(28,863)
Beginning fund balance		340,732		-		340,732		369,595
Ending fund balance	\$	321,637	\$	82,000	\$	403,637	\$	340,732

### Harbour Place Condominium Association, Inc. Statement of Cash Flows

For the year ended December 31,				2021				2020
							Т	otal (For
	Operating		Re	placement			Comparative	
		Fund		Fund		Total	Р	urposes)
Operating activities								
Excess (deficit) of revenue								
over expenses	\$	(19,095)	\$	82,000	\$	62,905	\$	(28,863)
Changes in operating assets								
and liabilities:								
Accounts receivable		1,083		-		1,083		75
Prepaid expenses		(28,027)		-		(28,027)		(11,157)
Accounts payable		(226)		-		(226)		(8,553)
Prepaid assessments		80,736		-	80,736			(70,375)
Performance obligation		-		72,617		72,617		27,200
Interfund balance		537		(537)		-		
Net cash provided (used in)								
operating activities		35,008		154,080		189,088		(91,673)
Cash at beginning of year		318,208		344,644		662,852		754,525
		252 242		400 70 7		074 055		660.056
Cash at end of year	\$	353,216	\$	498,724	\$	851,940	\$	662,852

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

Harbour Place Condominium Association, Inc. ("Association"), a Florida not-for-profit corporation, was formed on April 16, 1990. Membership in the Association consists of the 62 residential unit owners of this Florida condominium. The condominium is located on approximately 2.75 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 building components, parking areas, pool, landscaping, fencing, and recreational areas and facilities. Disposition of common area property requires consent of the members in accordance with the governing documents and Florida Statutes.

All policy decisions, including the annual budget and owners' assessments, are formulated by the Board of Directors. Decisions are referred to the general Association membership before action is taken, when so required by the governing documents of the Association.

Management and accounting services are provided to the Association by The Community Association Company. The Association does not operate a rental program; instead, individual unit owners have contracted with various other real estate companies to lease their individual rental units.

#### **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). The financial statements include certain prior year summarized comparative information in total but not by fund. Also, certain prior year disclosures are not included. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2020 from which the summarized information was derived.

#### **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.

#### 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 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.

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 pooled reserve component.

#### 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 collectable at December 31, 2021, 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.

#### **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, 2021. 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

The Association recognizes 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, March 23, 2022 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.

#### **NOTE 3: OWNERS' ASSESSMENTS**

Revenue and expenses are allocated to the unit owners based on common interest, and accordingly, assessment rates are established using this formula. The rates for 2021 ranged from \$2,569 to \$5,769 per quarter. Budgeted assessments for the year ended December 31, 2021 totaled \$842,236, of which \$213,600 was allocated to the replacement fund.

#### **NOTE 3: OWNERS' ASSESSMENTS**

The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the statement of revenues, expenses and changes in fund balance:

For the year ended December 31,				2021	
	Operating Replacement				
		Fund		Fund	Total
Budgeted regular assessments	\$	628,636	\$	213,600	\$ 842,236
Less additions to performance obligation		-		(213,600)	(213,600)
Add releases from performance obligation		-		140,983	140,983
Total assessments	\$	628,636	\$	140,983	\$ 769,619

#### **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 condominium. 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. December 31, 2021, the Association has reported a performance obligation liability totaling \$426,420, 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 assessments, the Association recognizes revenue at the point in time when reserve expenses are incurred. ASC Topic 606 does not apply to insurance proceeds, which are recognized as revenue when the amount is estimable and collection is probable.

#### **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 revenues and cash flows. The following chart contains disaggregated revenue information that reflects these qualitative factors:

For the year ended December 31,		2021
Recognized over time		
Operating fund assessments	\$	628,636
Miscellaneous income		13,297
Recognized at a point in time		
Replacement fund assessments		140,983
Not subject to ASC Topic 606		
Insurance proceeds		82,000
Interest income		440
Total rayanya	Ś	065 356
Total revenue	<del>)</del>	865,356

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

For the year ended December 31,	 2021
Accounts receivable - beginning balance Accounts receivable - ending balance	\$ 1,215 132
Contract liabilities	
Prepaid assessments - beginning balance	48,511
Prepaid assessments - ending balance	129,247
Performance obligation liabilities - beginning balance	353,803
Performance obligation liabilities - ending balance	426,420

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

The Association's governing documents and Florida Statutes 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 estimated future major repairs and replacements through regular assessments. The Association is using 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. Where applicable, licensed contractors and architects are consulted regarding useful lives and replacement costs. The Board of Directors last performed a review of the estimated replacement costs, remaining lives, and funding requirements for the reserve components in 2021.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on the study's estimates of replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding amount of \$213,600, based on a full funding plan, was included in the 2021 budget.

Actual expenditures 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 2021 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, 2021, the Association net non-membership income was \$0. The Association has a net operating loss carryforward amount of \$2,409, which can be carried forward indefinitely to offset up to 80% of taxable income in a future year, if needed.

#### **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, 2021, 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, 2021, 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 2018.

#### **NOTE 7: 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 condominium 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.

The Association places its cash with federally insured financial institutions. At times, the balances at these financial institutions may exceed the FDIC insured limit.

#### **NOTE 8: WINDSTORM DEDUCTIBLE**

The insurance policy for windstorm coverage renewed June 2021. The deductible amount for named hurricane storms is estimated at \$640,500, which represents 3% of the insured value of the residential building.

#### **NOTE 9: INSURANCE CLAIM PROCEEDS**

In September 2021, the Association suffered significant damage to the elevator system on property, which is an exterior or outdoor system, as a result of storm water damage. As a result, an insurance claim was filed to pay for the repairs and the Association was awarded \$82,000 from their insurance company.

#### **NOTE 9: INSURANCE CLAIM PROCEEDS (Continued)**

As of December 31, 2021 and through issuance, none of the actual repairs related to the claim have been made but all funds received were deposited into the replacement fund and represent the ending replacement fund balance as of December 31, 2021. The Association was able to repair the damaged elevators with spare parts and the Board of Directors is still exploring options to fully replace the elevator system. These insurance proceeds will be used for the full replacement of the elevator system once a decision is made.



# Harbour Place Condominium Association, Inc. Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements

For the year ended December 31,				20	021		
	В	eginning					Ending
Component		Balance	Α	dditions	Sul	otractions	Balance
Pooled items:							
Mechanical equipment					\$	62,805	
Painting						220	
Pool						7,622	
Roof						9,850	
Building components						60,486	
Total	\$	353,803	\$	295,600	\$	140,983	\$ 508,420
December 31,							2021
Performance obligation liability							\$ 426,420
Replacement fund balance							82,000
Total							\$ 508,420

### Harbour Place Condominium Association, Inc. Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,	2021								
		Actual		Budget naudited)	Fa (Un	/ariance avorable favorable) naudited)			
Revenue									
Regular assessments	\$	628,636	\$	628,636	\$	-			
Interest income		440		1,200		(760)			
Miscellaneous income		13,297		13,200		97			
Total revenue		642,373		643,036		(663)			
Expenses									
Administrative		96,344		100,174		3,830			
Insurance		225,932		203,990		(21,942)			
Maintenance and repairs		253,364		250,344		(3,020)			
Utilities		85,828		98,100		12,272			
Total expenses		661,468		652,608		(8,860)			
Excess (deficit) of revenue over expenses	\$	(19,095)	\$	(9,572) *	* \$	(9,523)			

<sup>\*</sup> Noted budget deficit comes from surplus rolled over from the prior year.

# Harbour Place Condominium Association, Inc. Supplementary Information on Future Major Repairs and Replacements (Unaudited)

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

Component	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost			ccumulated Funds at 2/31/2021
Pooled items:					
Mechanical equipment	0-15	\$	593,200		
Painting	1-5	·	223,000		
Paving	0-21		76,000		
Pool	0-17		133,600		
Roof	5-15		609,500		
Building components	0-22		575,800		
Total		\$	2,211,100	\$	508,420