

**Oceanside Residential Condominium
Association, Inc.**

**FINANCIAL STATEMENTS (AND
SUPPLEMENTARY INFORMATION)**

December 31, 2019



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Oceanside Residential Condominium Association, Inc.
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December 31, 2019

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Carr, Riggs & Ingram, LLC
Certified Public Accountants
500 Grand Boulevard
Suite 210
Miramar Beach, Florida 32550

(850) 837-3141
(850) 654-4619 (fax)
CRlcpa.com

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members
Oceanside Residential Condominium Association, Inc.
Key West, Florida

We have reviewed the accompanying financial statements of Oceanside Residential Condominium 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 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 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

March 20, 2020

Oceanside Residential Condominium Association, Inc.
Balance Sheet

December 31,

2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash	\$ 77,954	\$ 81,060	\$ 159,014
Accounts receivable	1,649	-	1,649
Prepaid expenses	34,532	-	34,532
Deposits	1,690	-	1,690
Interfund balance	(17)	17	-
Total assets	\$ 115,808	\$ 81,077	\$ 196,885
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 11,909	\$ -	\$ 11,909
Insurance finance agreement	34,481	-	34,481
Prepaid assessments	19,370	-	19,370
Performance obligation	-	81,077	81,077
Total liabilities	65,760	81,077	146,837
Fund balance	50,048	-	50,048
Total liabilities and fund balance	\$ 115,808	\$ 81,077	\$ 196,885

See accompanying notes and independent accountants' review report.

**Oceanside Residential Condominium Association, Inc.
Statement of Revenue, Expenses and Changes in Fund Balance**

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Revenue			
Regular assessments	\$ 226,320	\$ 12,958	\$ 239,278
Interest and late fees	1,417	-	1,417
Total revenue	227,737	12,958	240,695
Expenses			
Administrative	2,663	-	2,663
Contract services	77,206	-	77,206
Insurance	71,094	-	71,094
Interest	292	-	292
Maintenance and repairs	5,293	12,958	18,251
Professional fees	44,478	-	44,478
Utilities	34,345	-	34,345
Total expenses	235,371	12,958	248,329
Excess (deficit) revenue over expenses	(7,634)	-	(7,634)
Beginning fund balance, restated	57,682	-	57,682
Ending fund balance	\$ 50,048	\$ -	\$ 50,048

See accompanying notes and independent accountants' review report.

Oceanside Residential Condominium Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Operating activities			
Excess (deficit) of revenue over expenses	\$ (7,634)	\$ -	\$ (7,634)
Changes in operating assets and liabilities:			
Accounts receivable, net	1,796	-	1,796
Accounts payable	5,033	-	5,033
Prepaid assessments	10,771	-	10,771
Performance obligation	-	18,122	18,122
Net cash provided by operating activities	9,966	18,122	28,088
Financing activities			
Payments on insurance finance agreement	8,663	-	8,663
Payments on note payable	(20,505)	-	(20,505)
Net cash provided (used) by financing activities	(11,842)	-	(11,842)
Net change in cash	(1,876)	18,122	16,246
Cash at beginning of year	79,830	62,938	142,768
Cash at end of year	\$ 77,954	\$ 81,060	\$ 159,014

See accompanying notes and independent accountants' review report.

Oceanside Residential Condominium Association, Inc. Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Oceanside Residential Condominium Association, Inc., a Florida not-for-profit Corporation, was formed on March 13, 2003. Membership in the Association consists of the 22 residential unit owners of the Oceanside Residential Condominium Association, Inc. The development is located on approximately 1.15 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 pool, recreational areas, green areas, parking garage, etc. 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. 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.

Oceanside Residential Condominium 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. 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.

Oceanside Residential Condominium 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, March 20, 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.

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.

Oceanside Residential Condominium Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Guidance (Continued)

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:

<i>December 31,</i>	2019
Beginning replacement fund balance, before restatement	\$ 62,955
Cummulative effect of change in accounting principle	(62,955)
Beginning replacement fund balance, as restated	\$ -

NOTE 3: OWNERS' ASSESSMENTS

Revenues and expenses are allocated to the unit owners equally, and accordingly, assessment rates are established using this formula. The rate for 2019 was \$975 per unit per month. Budgeted assessments for the year ended December 31, 2019 totaled \$257,400, of which \$31,080 was allocated to the Replacement Fund.

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:

<i>For the year ended December 31,</i>	2019		
	Operating Fund	Replacement Fund	Total
Budgeted regular assessments	\$ 226,320	\$ 31,080	\$ 257,400
Less additions to performance obligation	-	(18,122)	(18,122)
Total assessments	\$ 226,320	\$ 12,958	\$ 239,278

Oceanside Residential Condominium Association, Inc. Notes to Financial Statements

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. As of December 31, 2019, the Association has reported a performance obligation liability totaling \$81,077, 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.

Oceanside Residential Condominium 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 revenues and cash flows.

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

<i>For the year ended December 31,</i>	2019
<i>Recognized over time</i>	
Operating fund assessments	\$ 226,320
<i>Recognized at a point in time</i>	
Replacement fund assessments	12,958
<i>Not subject to ASC Topic 606</i>	
Interest and late fees	1,417
Total revenue	\$ 240,695

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

<i>For the year ended December 31,</i>	2019
Accounts receivable, net - beginning balance	\$ 3,445
Accounts receivable, net - ending balance	1,649
Contract assets - no beginning or ending balance for the year	-
Contract liabilities:	
Prepaid assessments - beginning balance	8,599
Prepaid assessments - ending balance	19,370
Performance obligation liabilities - beginning balance	62,955
Performance obligation liabilities - ending balance	81,077

Oceanside Residential Condominium 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 based on an independent study prepared in 2015 and updated by the Board in 2019.

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 \$31,080 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 homeowner association on Form 1120-H. As such, the Association must comply with Internal Revenue Code (IRC) Section 528, which applies specifically to homeowner associations. Under IRC Section 528, the Association is not taxed on income and expenses directly related to its exempt purpose, which is the management, maintenance and protection of Association property. However, net nonexempt function income. Such as interest income and revenues from nonmembers, is taxed for federal purposes at a flat 30% rate. For the year ended December 31, 2019, the Association had no net nonexempt income. Thus, the Association had no federal income tax for the year ended December 31, 2019. State income taxes do not apply to associations that qualify under IRC Section 528.

Oceanside Residential Condominium 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: 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 8: LINE OF CREDIT

The Association has secured a line of credit with a financial institution with a maximum borrowing potential of \$100,000 and a variable interest rate based on the bank's prime lending rate. The line will expire July 15, 2022. As of December 31, 2019, the Association did not have an outstanding balance on the line of credit.

NOTE 9: INSURANCE FINANCE AGREEMENT

The Association has obtained a short-term note payable with a financial institution to finance its annual insurance premiums. The note is payable in monthly installments of \$5,747, bears interest at 6.74% and matures in August 2020. As of December 31, 2019, the outstanding balance of this insurance finance agreement is \$34,481.

Oceanside Residential Condominium Association, Inc.
Notes to the Financial Statements

NOTE 10: WINDSTORM DEDUCTIBLE

The insurance policy for windstorm coverage renewed August 12, 2019. The deductible amount for named hurricane storms is approximately \$420,850, which represents 5% of the insured value of the residential building.

NOTE 11: SUBSEQUENT EVENT

The Association had 2019 litigation with a local hotel operator regarding the ingress/egress to a garage on the hotel's property which was settled in January 2020. The Association has been provided a parking easement for 8 parking spaces in an area owned by the hotel. The litigation is considered settled and closed.



Supplementary Information

Oceanside Residential Condominium Association, Inc.
Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements

<i>For the year ended December 31,</i>		2019		
Component	Beginning Balance	Additions	Subtractions	Ending Balance
Infrastructure			\$ (1,840)	
Painting			(11,118)	
Total	\$ 62,955	\$ 31,080	\$ (12,958)	\$ 81,077

<i>December 31,</i>		2019
Performance obligation liability		\$ 81,077
Replacement fund balance		-
Total		\$ 81,077

See independent accountants' review report.

Oceanside Residential Condominium Association, Inc.
Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,

2019

	Actual	Budget	Variance - Favorable (Unfavorable)
Revenue			
Regular assessments	\$ 226,320	\$ 226,320	\$ -
Interest and late fees	1,417	720	697
Total revenue	227,737	227,040	697
Expenses			
Administrative	2,663	2,355	(308)
Bad debt/contingency	-	41,092	41,092
Contract services	77,206	65,000	(12,206)
Insurance	71,094	60,964	(10,130)
Interest	292	-	(292)
Maintenance and repairs	5,293	7,800	2,507
Professional fees	44,478	36,500	(7,978)
Utilities	34,345	33,860	(485)
Total expenses	235,371	247,571	12,200
Excess (deficit) of revenue over expenses	\$ (7,634)	\$ (20,531)	\$ 12,897

See independent accountant's review report.

**Oceanside Residential Condominium 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:

Pooled component	Estimated Remaining Life (Years)	Estimated Replacement Cost	Accumulated Funds at 12/31/19
Infrastructure	15-17	\$ 45,000	
Painting	0	80,000	
Paving	27	100,000	
Pool and equipment	2-18	55,000	
Roof	17	250,000	
Total		\$ 530,000	\$ 81,077

See independent accountant’s review report.