

Financial Statements (and Supplementary Information)

December 31, 2020



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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members of Shark Key Homeowner's Association, Inc. Key West, Florida

We have reviewed the accompanying financial statements of Shark Key Homeowner's Association, Inc., which comprise the balance sheet as of December 31, 2020, 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 and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

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, LLC

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

Miramar Beach, Florida April 16, 2021

Shark Key Homeowner's Association, Inc. Balance Sheet

December 31, **2020**

		Operating Replacement			t Total		
Assets							
Cash and cash equivalents	\$	339,564	\$	810,906	\$	1,150,470	
Accounts receivable	·	558	·	-	•	558	
Prepaid expenses		14,758		-		14,758	
Intefund balance		2,635		(2,635)			
Total assets	\$	357,515	\$	808,271	\$	1,165,786	
Liabilities and Fund Balance							
Liabilities							
Accounts payable	\$	16,899	\$	-	\$	16,899	
Prepaid assessments		110,633		-		110,633	
Security deposits payable		56,192		-		56,192	
Performance obligation		-		808,271		808,271	
Total liabilities		183,724		808,271		991,995	
Fund balance		173,791		-		173,791	
Total liabilities and fund balance	\$	357,515	\$	808,271	\$	1,165,786	

Shark Key Homeowner's Association, Inc. Statement of Revenue, Expenses and Changes in Fund Balance

For the year ended December 31,

2020

	Operating		Replacement			
		Fund		Fund		Total
Revenue						
Regular assessments	\$	326,056	\$	94,692	\$	420,748
Special assessments	·	30,129	•	, -	·	30,129
Interest and late fees		1,583		2,324		3,907
Miscellaneous income		500		-		500
Total revenue		358,268		97,016		455,284
Expenses						
Administrative		3,295		_		3,295
Insurance		27,380		_		27,380
Legal and professional		3,416		-		3,416
Maintenance and repairs		233,664		97,016		330,680
Management and personnel		51,500		-		51,500
Utilities		12,821		-		12,821
Total company		222.076		07.046		420.002
Total expenses		332,076		97,016		429,092
Excess of revenue over expenses		26,192		-		26,192
Beginning fund balance, restated		147,599		-		147,599
Ending fund balance	\$	173,791	\$	-	\$	173,791

Shark Key Homeowner's Association, Inc. Statement of Cash Flows

For the year ended December 31,	2020				
		Operating Replacement			
		Fund Fund		Total	
Operating activities					
Excess of revenue					
over expenses	\$	26,192	\$	- \$	26,192
Adjustments to reconcile excess	Ψ	20,132	۲	Ψ	20,232
of revenue over expenses to net cash					
provided (used) by operating activities:					
Changes in operating assets and liabilities:					
Accounts receivable		2,793		_	2,793
Prepaid expenses		(452)		_	(452)
Accounts payable		14,965	` '		14,965
Prepaid assessments		(30,316)		-	(30,316)
Income tax payable		(1,019)		-	(1,019)
Interfund balances		(2,635)		2,635	-
Performance obligation		-		(10,692)	(10,692)
Net cash provided (used)					<u> </u>
by operating activities		9,528		(8,057)	1,471
Financing activities					
Payments received from escrow deposits		20,102		-	20,102
Net cash provided					
by financing activities		20,102		-	20,102
Net change in cash		29,630		(8,057)	21,573
Cash & cash equivalents at beginning of year		309,934		818,963	1,128,897
Cash & cash equivalents at beginning of year a	\$	339,564	\$	810,906 \$	1,150,470
Income taxes paid	\$	1,019	\$	- \$	1,019

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Shark Key Homeowner's Association, Inc. (The "Association"), a Florida not-for-profit corporation, was formed on January 27, 1987. Membership in the Association consists of 74 residential lots. The development is located in Monroe County Florida, at Shark Key, which is a Key seven miles north of Key West, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including parking areas, roadways, recreational areas, green spaces, a swimming pool, gates, fences 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. 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.

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.

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 allocated to the pooled components.

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, 2020, 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, 2020. 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, 2020, 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 16, 2021, 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 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, 2020 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:

December 31,	2020
Beginning replacement fund balance, before restatement	\$818,963
Cummulative effect of change in accounting princple	(818,963)
Beginning replacement fund balance, as restated	\$ -

NOTE 3: OWNERS' ASSESSMENTS

Revenue and expenses are allocated to the lot owners equally, and accordingly, assessment rates are established using this formula. The rate for 2020 was \$1,360 per lot per quarter. Budgeted assessments for the year ended December 31, 2020 totaled \$402,560, of which \$84,000 was allocated to the Replacement Fund.

The Association levied a special parcel assessment for annual mangrove trimming costs related to each lot owner's property. Since this cost impacts all lot owners differently based upon based upon the levels of mangrove trimming needed on each lot, the Association agreed to and approved that each lot owner would pay a special assessment fee based upon the square footage of mangrove trimming that its vendor charge for a particular lot. Thus, the special parcel assessment fee levied in 2020 ranged from \$247 to \$1,760 per lot owner for a total of \$30,129 for year ended December 31, 2020. In 2020, the Association incurred \$41,047 in mangrove trimming expense, which is included in operating fund repair and maintenance expense in the accompanying financial statements. The the full amount of the special parcel assessment of \$30,129 levied was recognized in 2020 since all related special parcel assessment project expenses have been incurred in 2020 as well.

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:

For the year ended December 31,

2020

	Operating	Re	placement	
	Fund		Fund	Total
Budgeted regular assessments	\$318,559	\$	84,000	\$402,559
Vacant lot assessments	10,440		-	10,440
Less: owner discounts for prepayment of assessment fees	(2,943)		-	(2,943)
Add releases from performance obligation	-		10,692	10,692
Total assessments	\$326,056	\$	94,692	\$420,748

NOTE 4: REVENUE RECOGNITION

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are lot 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 lot 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, 2020, the Association has reported a performance obligation liability totaling \$808,271, 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.

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.

For the year ended December 31,	2020
Recognized over time	
Operating fund assessments	\$ 326,056
Recognized at a point in time	
Replacement fund assessments	94,692
Special assessment	30,129
Miscellaneous	500
Not subject to ASC Topic 606	
Interest and late fees	3,907
Total revenue	\$ 455,284

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

For the year ended December 31,		2020
Accounts receivable - beginning balance Accounts receivable - ending balance	\$	3,351 558
Contract assets - no beginning or ending balance for the year		
Contract liabilities:		
Prepaid assessments - beginning balance		140,949
Prepaid assessments - ending balance		110,633
Performance obligation liabilities - beginning balance	;	818,963
Performance obligation liabilities - ending balance	:	808,271

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 Board study performed 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 \$84,000, based on a full funding plan, was included in the 2020 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 2020 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, 2020, the Association had a net non-membership income of \$0. No federal or state taxes are due for 2020.

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, 2020, 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, 2020, 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 2017.

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: WINDSTORM DEDUCTIBLE

The insurance policy for windstorm coverage renewed September 13, 2020. The deductible amount for named storms is estimated at \$12,400, which represents 3% of the insured value of the clubhouse building.

NOTE 9: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Association. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meeting, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



Shark Key Homeowner's Association, Inc. Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements

For the year ended December 3	1,		2020				
	Вє	ginning				E	nding
Component	В	Balance	Additions	Su	btractions	В	alance
Beach				\$	(2,634)		
Beach furniture					(3,650)		
Clubhouse					(1,500)		
Entrance					(27,351)		
Clubhouse furniture					(715)		
Gatehouse					(13,629)		
Lighting entrance					(1,322)		
Landscape replacements					(13,600)		
Security/phone/gate system					(1,992)		
Sprinkler system					(5,750)		
Streets & sidewalks					(250)		
Tennis					(618)		
Other					(24,005)		
Total	\$	818,963	\$ 86,324	\$	(97,016) \$	5	808,271
		<u> </u>	<u> </u>		<u> </u>		
December 31,							2020
D (10 0 0 100							000 274
Performance obligation liability	,				Ç	•	808,271
Replacement fund balance							
Total					ç	5	808,271

Shark Key Homeowner's Association, Inc. Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,			2020		
		Actual	Budget	Fa	ariance - avorable favorable)
Revenue					
Regular assessments	\$	326,056	\$ 326,360	\$	(304)
Special assessments	·	30,129	30,000		129
Interest and late fees		1,583	3,000		(1,417)
Miscellaneous income		500	900		(400)
Total revenue		358,268	360,260		(1 002)
Total revenue		330,200	300,200		(1,992)
Expenses					
Administrative		3,295	3,201		(94)
Income taxes		-	100		100
Insurance		27,380	28,061		681
Legal and professional		3,416	9,250		5,834
Maintenance and repairs		233,664	236,531		2,867
Management and personnel		51,500	51,500		-
Utilities		12,821	12,100		(721)
Total expenses		332,076	340,743		8,667
Excess of revenue over expenses	\$	26,192	\$ 19,517	\$	6,675

Shark Key Homeowner's 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:

Components	Estimated Remaining Life (Years)	_	stimated placement Cost	Fu	umulated unds at 2/31/20
Paving	0 - 8	\$	447,000		
Painting	0 - 4		27,500		
Roofing	8 - 28		75,000		
Street signs	0 -9		26,400		
Gates, fences, controllers	7 - 8		57,000		
Lighting & electrical	2 - 8		14,700		
Irrigation & plumbing	0 - 5		9,500		
Mechanical	1 - 6		14,000		
Guardrails	0 - 13		97,500		
Mailboxes	8 - 13		41,500		
Building	8 - 18		190,500		
Recreational	0 - 4		101,250		
Hurricane	3		90,000		
Total		\$	1,191,850	\$	808,271