

**Railway Condominium  
Association, Inc.**

**FINANCIAL STATEMENTS (AND  
SUPPLEMENTARY INFORMATION)**

**December 31, 2019**



**CRI** CARR  
RIGGS &  
INGRAM

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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

We have reviewed the accompanying financial statements of Railway 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 13, 2020

**Railway Condominium Association, Inc.**  
**Balance Sheet**

December 31,

2019

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash	\$ 73,616	\$ 109,426	\$ 183,042
Certificates of deposit	31,539	22,346	53,885
Accounts receivable	2,200	-	2,200
Prepaid expenses	18,631	-	18,631
Deposits	3,468	-	3,468
<b>Total assets</b>	<b>\$ 129,454</b>	<b>\$ 131,772</b>	<b>\$ 261,226</b>
<b>Liabilities and Fund Balance</b>			
Liabilities			
Accounts payable	\$ 1,038	\$ -	\$ 1,038
Performance obligation	-	130,974	130,974
Prepaid assessments	10,836	-	10,836
<b>Total liabilities</b>	<b>11,874</b>	<b>130,974</b>	<b>142,848</b>
<b>Fund balance</b>	<b>117,580</b>	<b>798</b>	<b>118,378</b>
<b>Total liabilities and fund balance</b>	<b>\$ 129,454</b>	<b>\$ 131,772</b>	<b>\$ 261,226</b>

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

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

*For the year ended December 31,*

**2019**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenue</b>			
Regular assessments	\$ 126,960	\$ -	\$ 126,960
Interest income	1,764	798	2,562
Miscellaneous income	875	-	875
<b>Total revenue</b>	<b>129,599</b>	<b>798</b>	<b>130,397</b>
<b>Expenses</b>			
Administrative	1,274	-	1,274
Contracted services	21,258	-	21,258
Insurance	48,295	-	48,295
Maintenance and repairs	6,925	-	6,925
Professional fees	32,917	-	32,917
Utilities	7,402	-	7,402
<b>Total expenses</b>	<b>118,071</b>	<b>-</b>	<b>118,071</b>
<b>Excess of revenue over expenses</b>	<b>11,528</b>	<b>798</b>	<b>12,326</b>
<b>Beginning fund balance, restated</b>	<b>106,052</b>	<b>-</b>	<b>106,052</b>
<b>Ending fund balance</b>	<b>\$ 117,580</b>	<b>\$ 798</b>	<b>\$ 118,378</b>

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

**Railway Condominium Association, Inc.**  
**Statement of Cash Flows**

*For the year ended December 31,*

**2019**

	Operating Fund	Replacement Fund	Total
<b>Operating activities</b>			
Excess of revenue over expenses	\$ 11,528	\$ 798	\$ 12,326
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,565)	-	(1,565)
Prepaid expenses	359	-	359
Accounts payable	379	-	379
Prepaid assessments	3,682	-	3,682
Performance obligation	-	14,400	14,400
<b>Net cash provided by operating activities</b>	<b>14,383</b>	<b>15,198</b>	<b>29,581</b>
<b>Investing activities</b>			
Purchase of certificates of deposit	(1,539)	(500)	(2,039)
<b>Net cash provided (used) by investing activities</b>	<b>(1,539)</b>	<b>(500)</b>	<b>(2,039)</b>
<b>Net change in cash</b>	<b>12,844</b>	<b>14,698</b>	<b>27,542</b>
<b>Cash at beginning of year</b>	<b>60,772</b>	<b>94,728</b>	<b>155,500</b>
<b>Cash at end of year</b>	<b>\$ 73,616</b>	<b>\$ 109,426</b>	<b>\$183,042</b>

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

## **Railway Condominium Association, Inc.**

### **Notes to Financial Statements**

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

Railway Condominium Association, Inc., a Florida not-for-profit Corporation, was formed on November 30, 2007. Membership in the Association consists of the 38 residential unit owners of the Railway Condominium Association, Inc. The development is located on approximately .38 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 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.

The Association is regulated by the "Key West Work Force Housing Code" means Section 122-1465 etc., seq. of the City of Key West Code and subject to a 99 year land lease (at \$1 per year) to Old Town Key West Development, LLC.

#### **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.



## **Railway 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.

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.

## **Railway 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 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.

##### ***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.

**Railway 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>	<b>2019</b>
Beginning replacement fund balance, before restatement	\$ 116,574
Cummulative effect of change in accounting principle	(116,574)
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 \$310 per unit per month. Budgeted assessments for the year ended December 31, 2019 totaled \$141,360, of which \$14,400 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>Year ended December 31,</i>	<b>2019</b>		
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
Budgeted regular assessments	\$ 126,960	\$ 14,400	\$ 141,360
Less additions to performance obligation	-	(14,400)	(14,400)
Total assessments	\$ 126,960	\$ -	\$ 126,960

## Railway 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 \$130,974, 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.

**Railway 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.

***Recognized over time***

Operating fund assessments	\$ 126,960
Other revenue	875

***Recognized at a point in time***

Replacement fund assessments	-
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***Not subject to ASC Topic 606***

Interest income	2,562
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Total revenue	\$ 130,397
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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, net - beginning balance	\$ 635
Accounts receivable, net - ending balance	2,200
Contract assets - no beginning or ending balance for the year	-
Contract liabilities:	
Prepaid assessments - beginning balance	7,154
Prepaid assessments - ending balance	10,836
Performance obligation liabilities - beginning balance	116,574
Performance obligation liabilities - ending balance	130,974

## **Railway 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 straight-line method of funding the Replacement Fund 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 \$14,400, 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. Therefore, no provision for federal income has been recorded for the year ended December 31, 2019. State income taxes do not apply to associations that qualify under IRC Section 528.

**Railway 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: WINDSTORM DEDUCTIBLE**

The insurance policy for windstorm coverage renewed July 2019 and April 2019. The deductible amount for named hurricane storms is estimated at \$165,700, which represents 3% 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.

**NOTE 9: CERTIFICATES OF DEPOSIT**

At December 31, 2019, the Association had \$31,539 of Operating Fund monies and \$22,346 of Replacement Fund monies in certificates of deposit at various financial institutions. The carrying value of these certificates of deposit is at cost plus accrued interest, which approximates fair value. These certificates bear interest at 2.25% and mature July 2022.



## **Supplementary Information**



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

*For the year ended December 31,*

**2019**

<b>Component</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Subtractions</b>	<b>Ending Balance</b>
Mechanical and electric	\$ 8,102	\$ 3,601	\$ -	\$ 11,703
Painting	26,959	8,217	-	35,176
Roads	10,916	1,598	-	12,514
Roof	67,479	463	-	67,942
Site improvements	3,118	1,319	-	4,437
<b>Total</b>	<b>\$ 116,574</b>	<b>\$ 15,198</b>	<b>\$ -</b>	<b>\$ 131,772</b>

*December 31,*

**2019**

Performance obligation liability	\$ 130,974
Replacement fund balance	798
<b>Total</b>	<b>\$ 131,772</b>

*See independent accountants' review report.*

**Railway Condominium Association, Inc.**  
**Schedule of Operating Fund Revenue and Expenses – Budget and Actual**

*For the year ended December 31,*

**2019**

	<b>Actual</b>	<b>Budget</b>	<b>Variance - Favorable (Unfavorable)</b>
<b>Revenue</b>			
Regular assessments	\$ 126,960	\$ 126,960	\$ -
Interest income	1,764	300	1,464
Miscellaneous income	875	-	875
<b>Total revenue</b>	<b>129,599</b>	<b>127,260</b>	<b>2,339</b>
<b>Expenses</b>			
Administrative	1,274	900	(374)
Bad debt and operating reserve	-	42,498	42,498
Contingency	-	5,690	5,690
Contracted services	21,258	20,800	(458)
Insurance	48,295	50,535	2,240
Maintenance and repairs	6,925	11,400	4,475
Professional fees	32,917	34,150	1,233
Utilities	7,402	7,200	(202)
<b>Total expenses</b>	<b>118,071</b>	<b>173,173</b>	<b>55,102</b>
<b>Excess (deficit) of revenue over expenses</b>	<b>\$ 11,528</b>	<b>\$ (45,913)</b>	<b>\$ 57,441</b>

*See independent accountants' review report.*

**Railway 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:

<b>Component</b>	<b>Estimated Remaining Life (Years)</b>	<b>Estimated Replacement Cost</b>	<b>Accumulated Funds at 12/31/19</b>
Mechanical and electric	8-18	\$ 40,210	\$ 11,703
Painting	4	57,000	35,176
Roads	10	19,025	12,514
Roof	13	59,395	67,942
Site improvements	13	14,822	4,437
<b>Total</b>		<b>\$ 190,452</b>	<b>\$ 131,772</b>

*See independent accountants’ review report.*