

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2019

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
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, 2019, and the related statements of revenues, 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 the 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's 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 State of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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.

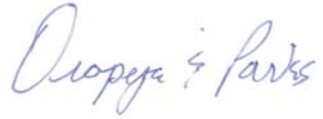
Supplementary Information

The supplementary information in the schedule of operating fund revenues and expenses - actual to budget 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 compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AIPCA. We have not audited or reviewed the supplementary information and we do not express an opinion, a conclusion, nor provide any 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 on pages 14 through 15 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 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 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.

A handwritten signature in blue ink that reads "Oropaya & Parks". The signature is written in a cursive, flowing style.

February 22, 2020

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2019

ASSETS

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash and Cash Equivalents	309,934	818,963	\$ 1,128,897
Assessments Receivable	3,351	-	3,351
Prepaid Insurance	14,306	-	14,306
Total Current Assets	327,591	818,963	1,146,554
Total Assets	\$ 327,591	\$ 818,963	\$ 1,146,554

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES			
Accounts Payable	\$ 1,934	\$ -	\$ 1,934
Income Tax Payable	1,019	-	1,019
ARB Escrow Deposits	36,090	-	36,090
Assessments Received in Advance	140,949	-	140,949
Total Current Liabilities	179,992	-	179,992
FUND BALANCE	147,599	818,963	966,562
Total Liabilities and Fund Balance	\$ 327,591	\$ 818,963	\$ 1,146,554

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Member Assessments	\$ 262,760	\$ 89,944	\$ 352,704
Late and Other Fees	735	-	735
Special Assessment – Mangrove	33,286	-	33,286
Special Assessment – Vacant Lot	10,080	-	10,080
Interest Income	707	3,367	4,074
	<u>307,568</u>	<u>93,311</u>	<u>400,879</u>
Total Revenues			
EXPENSES			
Administration			
Accounting and Legal Fees	3,588	-	3,588
Bank Fees	371	-	371
Insurance	28,448	-	28,448
Management Fees	50,000	-	50,000
Miscellaneous	61	-	61
Office Supplies	241	-	241
Postage and Printing	576	-	576
	<u>83,285</u>	<u>-</u>	<u>83,285</u>
Total Administration			
Maintenance			
Grounds and Landscaping	114,539	-	114,539
Mangrove Trimming	42,609	-	42,609
Vacant Lot Maintenance	9,000	-	9,000
Repairs and Maintenance	14,286	14,498	28,784
	<u>180,434</u>	<u>14,498</u>	<u>194,932</u>
Total Maintenance			
Utilities			
Electricity	5,149	-	5,149
Telephone	633	-	633
Water	7,397	-	7,397
	<u>13,179</u>	<u>-</u>	<u>13,179</u>
Total Utilities			

See accompanying notes and Accountant's Review Report

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
Taxes			
Federal Income Tax	1,019	-	1,019
Total Taxes	<u>1,019</u>	<u>-</u>	<u>1,019</u>
Total Expenses	<u>277,917</u>	<u>14,498</u>	<u>292,415</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	29,651	78,813	108,464
FUND BALANCE, BEGINNING OF YEAR	<u>180,187</u>	<u>677,911</u>	<u>858,098</u>
Prior Year Adjustment	(62,239)	62,239	-
FUND BALANCE, END OF YEAR	<u>\$ 147,599</u>	<u>\$ 818,963</u>	<u>\$ 966,562</u>

See accompanying notes and Accountant's Review Report

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from:			
Member Assessments	\$ 344,010	\$ 89,944	\$ 433,954
Interest Income	707	3,367	4,074
Late and Other fees	735	-	735
Other Income	43,366	-	43,366
Cash paid for:			
Administrative and Other	(54,837)	-	(54,837)
Income Tax	(1,019)	-	(1,019)
Insurance	(27,035)	-	(27,035)
Repairs and Maintenance	(185,282)	(14,498)	(199,780)
Utilities	(13,179)	-	(13,179)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>107,466</u>	<u>78,813</u>	<u>186,279</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund Transfer	<u>16,909</u>	<u>(16,909)</u>	<u>-</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>16,909</u>	<u>(16,909)</u>	<u>-</u>
NET INCREASE IN CASH	124,375	61,904	186,279
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2018	<u>185,559</u>	<u>757,059</u>	<u>942,618</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2019	<u>\$ 309,934</u>	<u>\$ 818,963</u>	<u>\$ 1,128,897</u>

See accompanying notes and Accountant's Review Report

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
RECONCILIATION OF REVENUES OVER/(UNDER) EXPENSES TO NET CASH USED BY OPERATIONS:			
Excess of revenues over expenses	\$ 29,651	\$ 78,813	\$ 108,464
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities:			
Decrease (increase) in:			
Assessments receivable	2,070	-	2,070
Prepaid expenses	1,413	-	1,413
Increase (decrease) in:			
Accounts payable	(4,848)	-	(4,848)
Prepaid assessments	79,180	-	79,180
	<u>77,815</u>	<u>-</u>	<u>77,815</u>
TOTAL ADJUSTMENTS	<u>77,815</u>	<u>-</u>	<u>77,815</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 107,466</u></u>	<u><u>\$ 78,813</u></u>	<u><u>\$ 186,279</u></u>

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Shark Key Homeowner's Association, Inc. (the "Association") was incorporated in the State of Florida on January 27, 1987, as a domestic not-for-profit corporation.

The Association was established for the purpose of operating and maintaining a residential neighborhood located on a private peninsula located seven miles north of Key West. The peninsula includes approximately 74 bay front single family residential lots. On December 30, 2015, the Developer, Shark Key Development Corporation, handed over control of the Association to the homeowners.

The accounting policies of the Association conform to accounting principles generally accepted in the United States of America. The following is a summary of the more significant policies:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The Association documents provide certain guidelines governing its financial activities. To ensure observation of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose.

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association. Disbursements from this fund are generally at the discretion of the property manager pursuant to the annual budget. Expenditures not contemplated in the annual budget are approved by the Board of Directors.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements. Disbursements from this fund may be made only for designated purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all cash, time deposits and certificates of deposits with an original maturity of three months or less to be cash equivalents.

Credit Risk

Financial instruments, which potentially subject the Association to concentrations of credit risk, consist principally of cash and maintenance assessments receivable. The Association tries to limit the amount of its credit exposure by placing its cash with high credit quality financial institutions. To reduce credit risk with respect to receivables, the Association's policy is to retain legal counsel to enforce its liens on any unpaid assessments. It is the opinion of the Board of Directors that the Association will ultimately prevail against the member whose assessments are delinquent.

Assessments and Expenses

Revenues are derived from monthly assessments charged to members based upon estimated annual operating expenses. Such assessments are due in equal quarterly installments. Assessments receivable at the balance sheet date represent fees due from lot owners. Any excess assessments at year-end are retained by the Association for use in the succeeding year. Late fees and interest are charged on outstanding receivables. The

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessments and Expenses (continued)

Association's policy allows the Board the right to retain legal counsel and place liens on the properties of owners whose installment for assessments are delinquent.

Capital Stock

The Association has not issued any shares of stock. Membership in the Association consists of all legal owners of individual lots. On matters on which membership is entitled to vote, the owner or owners of each lot may exercise voting rights in a manner as provided in the Articles of Incorporation, Declaration of Covenants and the By-Laws of the Corporation.

Recognition of Assets and Depreciation

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the members. Property and equipment acquired by the Association are recorded at cost. Capitalized common property is depreciated over its estimated useful life using straight line and double declining balance methods of depreciation. Real common property, donated to the Association by the Developer, is not recognized in the Association's financial statements and disposition by the Association's Board of Directors is restricted. The property ownership is vested in the lot owners and these assets are not deemed to be severable. Accordingly, real common property, primarily consisting of sidewalks, roadways, greenbelts, entry walls and neighborhood signs are not recognized as assets. Replacements, major repairs and the purchase of commonly owned assets are also not capitalized but are recorded as expenditures in the operating fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, assessments receivable, deposits, prepaid insurance and other expenses, payables and assessments received in advance – The carrying amounts reported in the balance sheet approximate fair values due to the relatively short maturities of these instruments.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2020, the date that the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

The Association maintains cash at three institutions located in Key West and South Florida with one account an Insured Cash Sweep account. Balances at each institution are insured by the Federal Deposit Insurance Corporation (FDIC). The carrying balances with the financial institutions at December 31, 2019 was \$796,385. At December 31, 2019 the Association did not have any uninsured balances for cash.

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

The Association maintains cash in a brokerage account with a national institution with a location in Key West. The balance for the brokerage account is federally insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000, including \$250,000 in claims for cash awaiting investment. However, cash held in deposit programs is insured up to and under the conditions of the FDIC. The carrying amount of cash held in deposit programs was \$230,849. At December 31, 2019 the Association did not have any uninsured cash balances for investments.

NOTE 3 – ASSESSMENTS RECEIVABLE

Assessments receivable from four members on December 31, 2019 was 3,351.

NOTE 4 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association included assessments of \$89,944 for 2019, for Florida statutory reserves. Under chapter 720 of the Florida statutes, these reserves are for, but not limited to, recreational grounds, recreation facilities, gatehouse and hurricane contingencies. Accumulated funds, which aggregate \$818,963 at December 31, 2019, are accounted for in separate funds and are generally not available for operating purposes. It is the Association's policy to allocate interest earned to the replacement fund.

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association is funding the replacement and/or major repair of commonly owned assets based on estimates of the useful lives of the assets and estimated replacement or repair costs as determined by the Board of Directors on an annual basis. The costs do not take into account the effects of inflation. Actual expenditures may vary from the estimated amounts and the variations may be material. As a result, amounts designated for future repairs and replacements may not be adequate. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 7 – INCOME TAXES

For federal income tax purposes, the Association files its tax return on a calendar year basis and may elect annually to be taxed as a homeowners association pursuant to Section 528 of the Internal Revenue code. The effect of the election is to exclude from taxation exempt function net income, which is the excess of revenue from lot owner assessments over expenditures for maintenance of common property.

For the year ended December 31, 2019, the Association was subject to \$1,019 in federal income tax on its non-exempt function income.

The federal income tax returns for the years ended December 31, 2019, 2018 and 2017 are subject to examination by taxing authorities.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

An adjust was made to beginning replacement fund due to a prior calculation error.

SUPPLEMENTARY INFORMATION

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES - ACTUAL TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>Variance Favorable/ (Unfavorable)</u>
REVENUES			
Member Assessments	262,760	\$ 262,256	\$ 504
Late and Other Fees	735	2,400	(1,665)
Special Assessment – Mangrove	33,286	30,000	3,286
Special Assessment – Vacant Lot	10,080	10,800	(720)
Interest Income	707	3,000	(2,293)
Total revenues	<u>307,568</u>	<u>308,456</u>	<u>(888)</u>
EXPENSES			
Administration			
Accounting and Legal Fees	3,588	9,250	5,662
Bank Fees	371	90	(281)
Insurance	28,448	32,287	3,839
Management Fees	50,000	50,000	-
Miscellaneous	61	2,933	2,872
Office Supplies	241	600	359
Postage and Printing	576	1,200	624
Total Administration	<u>83,285</u>	<u>96,360</u>	<u>13,075</u>
Maintenance			
Grounds and Landscaping	114,539	131,470	16,931
Mangrove Trimming	42,609	44,000	1,391
Vacant Lot Maintenance	9,000	10,800	1,800
Repairs and Maintenance	14,286	22,950	8,664
Total Maintenance	<u>180,434</u>	<u>209,220</u>	<u>28,786</u>
Utilities			
Electricity	5,149	3,900	(1,249)
Telephone	633	1,200	567
Water	7,397	1,800	(5,597)
Total Utilities	<u>13,179</u>	<u>6,900</u>	<u>(6,279)</u>

SHARK KEY HOMEOWNER'S ASSOCIATION, INC.
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES - ACTUAL TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>Variance Favorable/ (Unfavorable)</u>
Taxes			
Federal income tax	1,019	100	(919)
Total Taxes	<u>1,019</u>	<u>100</u>	<u>(919)</u>
Total Expenses	<u>277,917</u>	<u>312,580</u>	<u>34,663</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	<u>\$ 29,651</u>	<u>\$ (4,124)</u>	<u>\$ 33,775</u>

SHARK KEY HOMEOWNER'S ASSOCIATION, INC
SCHEDULE OF REPLACEMENT RESERVES COMPONENTS OF FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>RESERVE</u>	<u>BALANCE AT 12/31/18</u>	<u>PRIOR YEAR ADJUSTMENT</u>	<u>2019 FUNDING</u>	<u>INT/DIV INCOME</u>	<u>RESERVE EXPENDITURES</u>	<u>BALANCE AT 12/31/19</u>
Pooled Reserves	<u>677,911</u>	<u>62,239</u>	<u>89,944</u>	<u>3,367</u>	<u>14,498</u>	<u>818,963</u>

SHARK KEY HOMEOWNER'S ASSOCIATION, INC
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>RESERVE</u>	<u>ESTIMATED REMAINING USEFUL LIFE (YEARS)</u>	<u>ESTIMATED CURRENT REPLACEMENT COST</u>	<u>REPLACEMENT FUND BALANCE</u>
Paving	1 - 9	\$ 447,000	\$ 307,150
Painting	1 - 5	27,500	18,896
Roofing	9 - 29	75,000	51,535
Miscellaneous			
Street Signs	1 - 9	26,400	18,140
Gates, Fences, Controllers	8 - 9	57,000	39,167
Lighting & Electrical	3 - 9	14,700	10,101
Irrigation & Plumbing	1 - 6	9,500	6,528
Mechincal	2 - 7	14,000	9,620
Guardrails	1 - 14	97,500	66,996
Mailboxes	9 - 14	41,500	28,516
Building	9 - 19	190,500	130,899
Recreational	1 - 5	101,250	69,573
Hurricane	4	90,000	61,842
		<u>\$ 1,191,850</u>	<u>\$ 818,963</u>
Total		<u>\$ 1,191,850</u>	<u>\$ 818,963</u>