

ASSURANCEDIMENSIONS

Financial Statements and Independent Auditor's Report

**The Reserve at James Island Condominium  
Association, Inc.**

December 31, 2018

# The Reserve at James Island Condominium Association, Inc.

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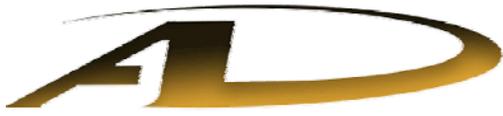
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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
**The Reserve at James Island Condominium Association, Inc.**

We have audited the accompanying financial statements of **The Reserve at James Island Condominium Association, Inc.** (the "Association"), which comprise the balance sheet as of December 31, 2018, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

### 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2018 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ASSURANCE DIMENSIONS CERTIFIED PUBLIC ACCOUNTANTS & ASSOCIATES

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### Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on Future Major Repairs and Replacements on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Assurance Dimensions*

Jacksonville, Florida  
April 12, 2019

**ASSURANCE DIMENSIONS CERTIFIED PUBLIC ACCOUNTANTS & ASSOCIATES**

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# The Reserve at James Island Condominium Association, Inc.

## Balance Sheet

As of December 31, 2018

|   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u>        |
|---|---------------------------|-----------------------------|---------------------|
| <b><u>Assets</u></b>                        |                           |                             |                     |
| ASSETS                                      |                           |                             |                     |
| Cash and cash equivalents                   | \$ 595,701                | \$ 741,799                  | \$ 1,337,500        |
| Assessments receivable, net                 | 11,393                    | -                           | 11,393              |
| Due to due from                             | 140,737                   | (140,737)                   | -                   |
| Prepaid expenses and other assets           | 87,623                    | -                           | 87,623              |
| Deposit                                     | 35,100                    | -                           | 35,100              |
| Total assets                                | <u>\$ 870,554</u>         | <u>\$ 601,062</u>           | <u>\$ 1,471,616</u> |
| <b><u>Liabilities and Fund Balances</u></b> |                           |                             |                     |
| LIABILITIES                                 |                           |                             |                     |
| Accounts payable and accrued expenses       | \$ 58,232                 | \$ -                        | \$ 58,232           |
| Prepaid assessments                         | 28,949                    | -                           | 28,949              |
| Deferred revenue                            | 278,221                   | -                           | 278,221             |
| Prepaid cable marketing fees                | 35,300                    | -                           | 35,300              |
| Security deposit                            | 45,400                    | -                           | 45,400              |
| Total liabilities                           | <u>446,102</u>            | <u>-</u>                    | <u>446,102</u>      |
| FUND BALANCES                               | <u>424,452</u>            | <u>601,062</u>              | <u>1,025,514</u>    |
| Total liabilities and fund balances         | <u>\$ 870,554</u>         | <u>\$ 601,062</u>           | <u>\$ 1,471,616</u> |

The accompanying notes are an integral part of this financial statement.

**The Reserve at James Island Condominium Association, Inc.**  
**Statement of Revenues and Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2018**

|   | <b>Operating<br/>Fund</b> | <b>Replacement<br/>Fund</b> | <b>Total</b>        |
|---|---------------------------|-----------------------------|---------------------|
| <b>REVENUES</b>                         |                           |                             |                     |
| Assessment revenues                     | \$ 994,934                | \$ 146,688                  | \$ 1,141,622        |
| Other income                            | 137,106                   | -                           | 137,106             |
| Interest income                         | 5,328                     | 5,467                       | 10,795              |
| Total revenue                           | <u>1,137,368</u>          | <u>152,155</u>              | <u>1,289,523</u>    |
| <b>EXPENSES</b>                         |                           |                             |                     |
| Contract services                       | 326,884                   | -                           | 326,884             |
| Employee expenses                       | 323,899                   | -                           | 323,899             |
| Maintenance                             | 138,676                   | 140,904                     | 279,580             |
| Utilities                               | 95,688                    | -                           | 95,688              |
| Insurance                               | 91,121                    | -                           | 91,121              |
| Management fees                         | 42,312                    | -                           | 42,312              |
| General and administrative              | 40,511                    | -                           | 40,511              |
| Total expenses                          | <u>1,059,091</u>          | <u>140,904</u>              | <u>1,199,995</u>    |
| <b>Excess of revenues over expenses</b> | 78,277                    | 11,251                      | 89,528              |
| Fund balances at the beginning of year  | 346,175                   | 589,811                     | 935,986             |
| <b>Fund balances at the end of year</b> | <u>\$ 424,452</u>         | <u>\$ 601,062</u>           | <u>\$ 1,025,514</u> |

The accompanying notes are an integral part of this financial statement.

**The Reserve at James Island Condominium Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

|   | <b>Operating<br/>Fund</b> | <b>Replacement<br/>Fund</b> | <b>Total</b>        |
|---|---------------------------|-----------------------------|---------------------|
| <b>Cash flows from operating activities:</b>  |                           |                             |                     |
| Excess of revenues over expenses:   | \$ 78,277                 | \$ 11,251                   | \$ 89,528           |
| Adjustments to reconcile excess of revenues over expenses<br>to net cash provided (used) by operating activities: |                           |                             |                     |
| Change in:  |                           |                             |                     |
| Assessment receivable, net  | 12,659                    | -                           | 12,659              |
| Prepaid expenses and other assets   | 4,226                     | -                           | 4,226               |
| Due to due from   | (112,948)                 | 112,948                     | -                   |
| Accounts payable and accrued expenses   | (9,454)                   | -                           | (9,454)             |
| Prepaid assessments   | 3,216                     | -                           | 3,216               |
| Deferred revenue  | (103,733)                 | -                           | (103,733)           |
| Prepaid cable marketing fee   | -                         | -                           | -                   |
| Security deposits   | 3,300                     | -                           | 3,300               |
| Net cash provided (used) by operating activities  | <u>(124,457)</u>          | <u>124,199</u>              | <u>(258)</u>        |
| <b>Net increase (decrease) in cash</b>  | (124,457)                 | 124,199                     | (258)               |
| <b>Cash, beginning of period</b>  | <u>720,158</u>            | <u>617,600</u>              | <u>1,337,758</u>    |
| <b>Cash, end of period</b>  | <u>\$ 595,701</u>         | <u>\$ 741,799</u>           | <u>\$ 1,337,500</u> |

The accompanying notes are an integral part of this financial statement

# The Reserve at James Island Condominium Association, Inc.

## Notes to the Financial Statements

December 31, 2018

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### Note A – Organization

The Reserve at James Island Condominium Association, Inc. (the “Association”) is a statutory condominium association organized as a Florida corporation not for profit for the purposes of maintaining and preserving common property. The condominium association consists of 354 residential units located in Jacksonville, Florida. The Association began its operations in May 2006, and is governed by a Board of Directors (the “Board”). The Association’s operation and financial activities are governed by Florida Statutes, Chapter 718, and the related Florida Administrative Code sections.

### Note B – Summary of Significant Accounting Policies

#### Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. The effective date for this Standard for nonpublic entities is annual reporting periods beginning after December 15, 2018, with early adoption permitted for annual periods beginning after December 15, 2016. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration an organization expects to receive in exchange for those goods or services. The Association is currently assessing the impact that adopting this new accounting guidance will have on its financial statements and footnote disclosures.

#### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in banks and money market accounts. As of December 31, 2018, the Company had approximately \$341,000 in excess of FDIC limits.

#### Recognition of Assets and Depreciation Policy

The Association’s policy for recognizing common property as assets in its balance sheet is to recognize (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds. The Association does not own any personal property or have title to any real property at this time. Real and personal property and common areas acquired from the Developer and related improvements to such property are not recorded in the Association’s financial statements because those properties are owned by the individual unit owners in common and not by the Association.

#### Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds, and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes.

#### Interest Earned

The Association's policy is to allocate to each fund interest earned on all cash accounts net of income taxes.

# The Reserve at James Island Condominium Association, Inc.

## Notes to the Financial Statements

December 31, 2018

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### **Note B – Summary of Significant Accounting Policies (continued)**

#### **Property and Equipment**

The Association's policy on property and equipment has been to not capitalize the property and equipment in accordance with industry practices. The title of the property and equipment is with the unit owners in an undivided interest and not in the Association's name. At December 31, 2018, the property not capitalized included sidewalks, access roads, greenbelts, swimming pool, tennis courts, clubhouse, and other structures. Members must approve of the disposal of any real property.

#### **Concentrations**

The Association's primary sources of income are assessments paid by the owners.

The Association's cash balances at December 31, 2018, and at other times during the year then ended, respectively, exceeded federally insured limits. The Association periodically assesses the financial condition of the institutions and believes that the risk of loss is minimal.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Note C – Owners' Assessments**

Monthly assessments to owners ranged from \$192 to \$314 in 2018. Of this amount a range of \$25 to \$40 was designated to the replacement fund.

The annual budget and assessments of owners are determined by the Association and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

### **Note D – Assessments Receivable**

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are considered delinquent. As of December 31, 2018, the Association had assessments receivable of approximately \$12,000, of which approximately \$6,000 was delinquent. It is the opinion of the Board that the Association will ultimately prevail against most of the homeowners whose assessments are delinquent, and, accordingly, a \$200 allowance for uncollectible accounts is deemed necessary.

### **Note E – Marketing Agreement**

In December 2017, the Association entered into a 10-year marketing contract with its television provider. Per the agreement, the Association will receive \$35,300 and was recorded as prepaid cable marketing fees on the accompanying balance sheet. Income on this payment will be amortized evenly over the contracted 10-year period into other income once the contract commences on January 1, 2020.

# The Reserve at James Island Condominium Association, Inc.

## Notes to the Financial Statements

December 31, 2018

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### Note F – Deferred Revenue

Pursuant to a written agreement with the Association, the developer filed a lawsuit against the general contractor of the original apartments for construction deficiencies. The lawsuit claimed damages for construction deficiencies. These damages consisted of hard costs of construction defect repairs together with attorney's fees and costs. The developer won this law suit, and all damages recovered in excess of the developer's expenditures for repairs to correct the deficiencies and reimbursement of the developer's legal expenses were paid to the Association for preventative maintenance and future repairs that may arise due to the general contractor's construction deficiencies. The Association received \$213,000, which was recorded as deferred revenue to properly match the revenue with the cost of preventative maintenance and future repairs related to the construction deficiencies. Two other lawsuits relating to this settlement were won by the Association and developer on April 1, 2014. The two settlements were for \$145,000 and \$100,000. A net amount of \$237,000 was added to deferred revenue during the year ended December 31, 2014. During the year ended December 31, 2018, the Association spent approximately \$104,000 on maintenance related to the construction deficiencies. As of December 31, 2018, the balance remaining in deferred revenue was approximately \$278,000 and included reflected in the accompanying balance sheet.

### Note G – Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in a separate savings account and generally are not available for expenditures for normal operations.

A formal third party study has not been completed to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is currently reserving for select components within their budget. The Board is funding for major repairs and replacements over the remaining useful lives of the components based on their estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As the Association made changes in its banking relationships during 2016, the Association temporarily transferred approximately \$483,000 from the operating fund to the replacement fund during 2016, which brought the total due from the replacement fund to the operating fund to approximately \$379,000. During 2017, the replacement fund repaid approximately \$351,000 to the operating fund. The Board intends to repay the balance and has, therefore, reflected approximately \$141,000 as an interfund receivable and payable.

Accumulated funds designated for future and major repairs and replacements as of December 31, 2018 are as follows:

|                 | December<br>31, 2017 | Additions | Interest | Charges   | December<br>31, 2018 |
|-----------------|----------------------|-----------|----------|-----------|----------------------|
| Pooled reserves | \$ 589,811           | 146,688   | 5,467    | (140,904) | \$ 601,062           |

# The Reserve at James Island Condominium Association, Inc.

## Notes to the Financial Statements

December 31, 2018

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### **Note H – Federal and State Taxes**

The Association has elected to file as a homeowners' association in accordance with Internal Revenue Code 528, using Form 1120-H. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment income and other nonexempt income were subject to tax.

The Association has evaluated the effect of an accounting standard relating to accounting for uncertainty in income taxes. The Association has determined that they had no uncertain income tax positions that could have a significant effect on the financial statements as of December 31, 2018. The Association's federal income tax returns for 2016, 2017, and 2018 are subject to examination by the Internal Revenue Service, generally for three years after the federal income tax returns were filed.

### **Note I – Commitments and Contingencies**

The Association may be periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The financial statements do not include any adjustments for such actions. The Association also has entered into various contracts for services including management and other services.

### **Note J – Subsequent Events**

Subsequent events have been evaluated through April 12, 2019, which is the date the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

# The Reserve at James Island Condominium Association, Inc.

## Supplemental Information (unaudited)

December 31, 2018

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### Future Major Repairs and Replacement (unaudited)

A formal third party study has not been completed to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is currently reserving for select components within their budget based on the estimated remaining useful lives and the replacement costs of the components of common property to produce the estimates in the table included below.

The following table is based on the above noted estimates and presents significant information about the components of common property.

| <u>Components</u>       | <u>Useful<br/>Lives</u> | <u>Estimated<br/>Remaining<br/>Useful Lives<br/>(Years)</u> | <u>Estimated<br/>Current<br/>Replacement<br/>Costs</u> |
|-------------------------|-------------------------|---|--|
| Roof                    | 18                      | 0   | \$ 726,000   |
| Conversion reserve      | N/A                     | N/A   | N/A  |
| Exterior painting       | 7                       | 2   | 230,100  |
| Pools                   | 8-35                    | 0-21  | 160,000  |
| Fencing                 | 12                      | 0   | 75,000   |
| Gates                   | 12                      | 0   | 36,000   |
| Common plumbing         | 40                      | 25  | 141,600  |
| HVAC                    | 15                      | 12  | 45,000   |
| Paving/Streets          | 6                       | 0   | 5,200  |
| Exercise equipment      | 10                      | 0   | 18,000   |
| Fire sprinklers & alarm | 25-30                   | 10-15   | 70,800   |
| Reserve interest        | N/A                     | N/A   | N/A  |
|                         |                         |   | <u>\$ 1,507,700</u>                                    |

See independent auditor's report.