

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

Twelve Months Ended December 31, 2019

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Reserve at James Island Condominium Association, Inc.  
Jacksonville, Florida

We have audited the accompanying financial statements of The Reserve at James Island Condominium Association, Inc. (a nonprofit association) which comprise the balance sheet as of December 31, 2019, and the related statement of revenues and expenses and changes in fund balances, 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 audits. We conducted our audits 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 entity'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 entity'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.

THE FORDE FIRM, LLC

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 Reserve at James Island Condominium Association, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*The Forde Firm LLC*

The Forde Firm, LLC  
Jacksonville, Florida  
April 6, 2020

Reserve at James Island Condominium Association, Inc.

Balance Sheet

December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents (Note 2)	\$ 494,489	\$ 742,606	\$ 1,237,095
Assessments receivable, net	4,261	-	4,261
Accounts receivable, net	2,190	-	2,190
Prepaid expenses	59,657	-	59,657
Due to and due from	157,300	(157,300)	-
Total Current Assets	717,897	585,306	1,303,203
Deposit	23,100	-	23,100
Total Assets	<u>\$ 740,997</u>	<u>\$ 585,306</u>	<u>\$ 1,326,303</u>
<b><u>LIABILITIES</u></b>			
Accounts payable and accrued expenses	\$ 41,315	\$ -	\$ 41,315
Prepaid assessments	29,287	-	29,287
Tenant security deposits	46,900	-	46,900
Total Current Liabilities	117,502	-	117,502
Deferred revenue	149,717	-	149,717
Prepaid cable marketing fees	68,635	-	68,635
Total Liabilities	335,854	-	335,854
<b><u>FUND BALANCES</u></b>	<u>405,143</u>	<u>585,306</u>	<u>990,449</u>
Total Liabilities and Fund Balances	<u>\$ 740,997</u>	<u>\$ 585,306</u>	<u>\$ 1,326,303</u>

See Notes to Financial Statements

Reserve at James Island Condominium Association, Inc.

Statement of Revenues and Expenses and Changes in Fund Balances

For The Year Ended December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Member assessments	\$ 996,498	\$ 146,688	\$ 1,143,186
Other income	166,827	-	166,827
Interest income	714	5,416	6,130
Total Revenues	<u>1,164,039</u>	<u>152,104</u>	<u>1,316,143</u>
<b><u>EXPENSES</u></b>			
Contract services	356,833	167,860	524,693
Employee expenses	300,601	-	300,601
Maintenance	199,407	-	199,407
Utilities	105,039	-	105,039
Insurance	105,604	-	105,604
Management Fees	42,312	-	42,312
General and administrative	48,474	-	48,474
Total Expenses	<u>1,158,270</u>	<u>167,860</u>	<u>1,326,130</u>
Increase (Decrease) in Fund Balances	5,769	(15,756)	(9,987)
FUND BALANCES, BEGINNING OF YEAR	<u>399,374</u>	<u>601,062</u>	<u>1,000,436</u>
FUND BALANCES, END OF YEAR	<u>\$ 405,143</u>	<u>\$ 585,306</u>	<u>\$ 990,449</u>

See Notes to Financial Statements

Reserve at James Island Condominium Association, Inc.

Statement of Cash Flows

For The Year Ended December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Excess of revenues over expenses	\$ 5,769	\$ (15,756)	\$ (9,987)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
(Increase) Decrease in Operating Assets:			
Assessments receivable	7,132	-	7,132
Accounts receivable	(37,490)	-	(37,490)
Prepaid expenses	27,966	-	27,966
Due from operating fund	(16,563)	16,563	-
Deposit	-	-	-
Increase (Decrease) in Operating Liabilities:			
Accounts payable and accrued expenses	5,305	-	5,305
Prepaid assessments	338	-	338
Tenant security deposits	1,500	-	1,500
Deferred revenue	(128,504)	-	(128,504)
Prepaid cable marketing fees	33,335	-	33,335
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(101,212)</u>	<u>807</u>	<u>(100,405)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>595,701</u>	<u>741,799</u>	<u>1,337,500</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 494,489</u>	<u>\$ 742,606</u>	<u>\$ 1,237,095</u>

Supplementary Information:

Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019

1. Nature of Association:

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.

2. Summary of Significant Accounting Policies:

Cash and Cash Equivalents:

Cash and cash equivalents include checking accounts, savings accounts, certificates of deposit, and money funds.

Recognition of Assets and Depreciation Policy:

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, 2019, 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.

Fund Accounting:

The association uses fund accounting, which requires that funds, such as operating funds, deferred maintenance funds, and funds designated for future major repairs and replacements, be classified separately for accounting and related purposes. Disbursements from the operating fund are generally at the discretion of the board of directors. Disbursements from the replacement fund generally may be made only for designated purposes.

Interest Earned:

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

Donated Services:

The Association's Board of Directors and its Officers serve without compensation. The value of these services is not recorded in the financial statements.



THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019

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Concentration of Credit Risk:

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

New Accounting Pronouncements:

On April 14, 2016, FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing. The update outlines steps that should be taken by entities when recognizing revenue from customers. These steps include (1) identifying the contract with a customer, (2) identifying the performance obligation in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligation in the contract, and (5) recognizing revenue when or as the entity satisfies a performance obligation. The Association has recognized revenue from contracts with customers in accordance with this new pronouncement.

On April 28, 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. The update addresses the diversity in how transfers between cash and restricted cash are transferred as operating, investing, or financing activities, or a combination of those activities in the statement of cash flows. The Association has adjusted the presentation of these statements accordingly.

Revenue and Revenue Recognition

The Association recognizes revenue from homeowner assessments over the assessment period, which is generally one year, during which time members have continuous access to amenities, common areas, other services, and community events. The assessments are used to cover the costs of operating the Association, maintaining the common elements and improvements, and providing for facility repair and replacement. Assessments for 2019 ranged from \$201 to \$335 monthly per site.

Recreation programs, facility rentals, product sales, and community events revenue is recognized when the programs, rentals, product sales, or community events take place.

Homeowner assessments paid in advance are deferred to the assessment period to which they relate. All other amounts paid in advance are deferred to the period in which the underlying program, rental, product delivery, or community event takes place. Due to the nature and timing of the performance and/or transfer of services and products, substantially all deferred revenue at December 31 of each year is recognized in the following year.

Use of Estimates:

Preparation of the Association's 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.

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019

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Income Taxes:

The Association has elected to file as a homeowners' association in accordance with Internal Revenue Code 528, using Form 1120-H. Under this section, exemption function income is excluded by the Association, which generally consists of revenue from uniform assessments to owners. The Association's investment income and other nonexempt income are 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, 2019. The Association's federal income tax returns for 2017, 2018, and 2019 are subject to examination by the Internal Revenue Service, generally for three years after the federal income tax returns were filed.

3. Owners' Assessments:

Monthly assessments to owners ranged from \$201 to \$335 during 2019. Of this amount, a range of \$26 to \$43 was designated to the replacement fund.

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

4. Assessments Receivable:

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are considered delinquent after 90 days past due. As of December 31, 2019, the Association had assessments receivable of \$10,401 of which approximately \$5,970 was delinquent. It is the opinion of the board of directors that the Association will ultimately prevail against the homeowners whose assessments are delinquent for up to twelve months of assessments, and accordingly, the allowance for doubtful accounts was assessed at \$6,140.

5. 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 lawsuit, 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

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019  
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Deferred Revenue (cont'd):

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, 2019, the Association spent approximately \$128,504 on maintenance related to the construction deficiencies. As of December 31, 2019, the balance remaining in deferred revenue was approximately \$149,717 and is reflected in the accompanying balance sheet.

6. Revenue from Contracts with Customers

The following table provides information about significant changes in the homeowner assessments paid in advance and deferred revenue for the year ended December 31, 2019.

Assessments paid in advance, beginning of year	\$ 28,949
Homeowner assessments and fees revenue recognized	1,143,186
Collections of homeowner assessments and fees	<u>(1,142,848)</u>
Assessments paid in advance, end of year	<u>\$ 29,287</u>

7. Marketing Agreements:

In December 2017, the Association entered into a 10-year marketing contract with its telecommunications provider. Per the agreement, the Association received \$35,300 in exchange for the telecommunications provider to have the right to deploy a property wide fiber optic network and or other similar systems and for the right to market its services to residents. The amount received was recorded as prepaid cable marketing fees on the accompanying balance sheet. Income on this payment is being amortized evenly over the contracted 10-year period into other income once the contract commences on January 1, 2020.

In June 2019, the Association entered into a 10-year marketing contract with its broadband communications provider. Per the agreement, the Association received \$35,400 in exchange for the communications provider to have the right to provide its services to the premises and its residents. They amount received was recorded as prepaid cable marketing fees on the accompanying balance sheet. Income on this payment is being amortized evenly over the contracted 10-year period into other income and began when the contract commenced in June, 2019. Income of \$2,065 was recognized in the fiscal year ending December 31, 2019.

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019  
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Marketing Agreement (cont'd):

Performance obligations will be completed at the end of the contracted period and revenue is recognized annually as the Association satisfies the obligation. Future revenue from prepaid marketing fees as of December 31, 2019 are as follows:

2020	\$ 7,070
2021	7,070
2022	7,070
2023	7,070
2024	7,070
Thereafter	<u>33,285</u>
 Total	 \$ 68,635

Economic factors, such as uncertainty in the telecommunications industry, changes in the overall economy, or changes in the economy in Northeast Florida could impact the timing and certainty of future cash flows.

8. Concentrations of Risk:

The Association places its cash and cash equivalents with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Association has several bank accounts with financial institutions. The total of these accounts exceeding the federally insured limit of \$250,000 was \$109,326 on December 31, 2019.

9. 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 in normal operations.

The Board had a formal reserve study completed in May 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The Board used this information combined with their own estimates to produce the estimates in the table included in the unaudited supplementary information on Future Major Repairs and Replacements.

The Board is funding 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.

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2019  
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Future Major Repairs and Replacements (cont'd):

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.

In 2019, the Association funded the full budgeted amount and there was no amount due to the replacement fund.

Replacement fund reserves designated for future major repairs and replacements have been accumulated as follows:

	<i>December 31,</i> <i>2018</i>	<i>Additions</i>	<i>Interest</i>	<i>Charges</i>	<i>December 31,</i> <i>2019</i>
Pooled reserves	\$ 601,062	\$ 146,688	\$ 5,416	\$ (167,860)	\$ 585,306

10. Commitments and Contingencies:

The Association may be periodically involved in legal actions and claims that arise as 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.

The Association received a letter in December 2019 from a third-party lot owner, seeking reimbursement of \$16,500 for mold remediation. The Association's legal counsel has responded in January 2020 explaining the lack of liability. A loss was not accrued, as the loss is not probable.

11. Subsequent Events:

In preparing these financial statements, the Association evaluated events and transactions for potential recognition or disclosure through April 6, 2020, the date of the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2019 that would require recognition or disclosure in the financial statements.

**SUPPLEMENTARY INFORMATION**

THE RESERVE AT JAMES ISLAND CONDOMINIUM ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION (UNAUDITED)  
Year Ended December 31, 2019

Future Major Repairs and Replacement (unaudited)

The Board of Directors had a formal reserve study completed in May 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The Board of Directors used this information combined with their own estimates to produce the estimates in the table included below. The estimates were based on current estimated replacement costs and on actual current cost and estimates made by management for major repairs and replacements made in 2019. Funding requirements take into consideration an annual inflation rate and annual interest rate for amounts funded for future major repairs and replacements.

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 Lives</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement (Costs)</u>
Roof	18	0 - 18	\$ 560,000
Conversion reserve	N/A	N/A	N/A
Exterior painting	7	1	230,100
Pools	8 – 35	0 – 20	160,000
Fencing	12	0	75,000
Gates	12	0	36,000
Common plumbing	40	24	141,600
HVAC	15	11	45,000
Paving/Streets	6	0	5,200
Exercise equipment	10	0	18,000
Fire sprinklers & alarm	25 – 30	10	70,800
Reserve interest	N/A	N/A	<u>N/A</u>
			<u>\$ 1,341,700</u>