

**ST. AUGUSTINE OCEAN & RACQUET CLUB
CONDOMINIUM ASSOCIATION, INC.**

**Financial Statements
Supplementary Information
and
Independent Auditors' Report
For the Year Ended September 30, 2020**

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
September 30, 2020

Table of Contents

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6
SUPPLEMENTARY INFORMATION:	
COMPARISON OF OPERATING FUND REVENUES AND EXPENSES TO BUDGET	15
COMPARISON OF RENTAL FUND REVENUES AND EXPENSES TO BUDGET	17
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS	18



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Augustine Ocean & Racquet Club Condominium Association, Inc.
St. Augustine, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of St. Augustine Ocean & Racquet Club Condominium Association, Inc. (the "Association"), which comprise the balance sheet as of September 30, 2020, and the related statements of revenues, 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.

Auditors' 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 of material misstatement.

An audit includes 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.

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

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
September 30, 2020

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Augustine Ocean & Racquet Club Condominium Association, Inc. as of September 30, 2020, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The "Comparison of Operating Fund Revenues and Expenses to Budget" on pages 15-16 and the "Comparison of Rental Fund Revenues and Expenses to Budget" on page 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the "Supplementary Information on Future Major Repairs and Replacements" on page 18 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.

Lake Brown Williams CPAs and Consultants, Inc.

St. Augustine, Florida
December 8, 2020

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
At September 30, 2020

Balance Sheet

	Operating Fund	Replacement Fund	Rental Fund	Total
Assets				
Current assets:				
Cash and cash equivalents:				
Unrestricted	\$578,929		\$80,095	\$659,024
Restricted			150,531	150,531
Designated		\$792,202		792,202
Total cash and cash equivalents	578,929	792,202	230,626	1,601,757
Fees and assessments receivable, less allowance for uncollectible accounts of \$500				
	3,002			3,002
Other receivables	1,059		3,590	4,649
Interfund receivable/(payable)	12,407	(12,407)		
Prepaid expenses	2,860		4,072	6,932
Prepaid insurance	161,235			161,235
Total current assets	759,492	779,795	238,288	1,777,575
Property and equipment, less accumulated depreciation of \$136,913				
	14,333			14,333
Total assets	<u>\$773,825</u>	<u>\$779,795</u>	<u>\$238,288</u>	<u>\$1,791,908</u>
Liabilities and Fund Balances				
Current liabilities:				
Accounts payable and accrued expenses	\$5,864	\$5,130	\$17,404	\$28,398
Prepaid fees and assessments	50,899			50,899
Other liabilities			8,302	8,302
Prepaid rents			107,772	107,772
Refundable deposits			17,053	17,053
Loan payable, current portion	48,208			48,208
Total current liabilities	104,971	5,130	150,531	260,632
Loan payable, less current portion				
	38,628			38,628
Contract liabilities				
		774,665		774,665
Total liabilities	143,599	779,795	150,531	1,073,925
Fund balances				
	630,226		87,757	717,983
Total liabilities and fund balances	<u>\$773,825</u>	<u>\$779,795</u>	<u>\$238,288</u>	<u>\$1,791,908</u>

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Statement of Revenues, Expenses and Changes in Fund Balances

	Operating Fund	Replacement Fund	Rental Fund	Total
Revenues				
Member assessments	\$946,616	\$185,375		\$1,131,991
Guard/parking fees	43,992			43,992
Rental income	6,600			6,600
Late fees	925			925
Rental management fees			\$273,749	273,749
Cleaning income, less expenses			19,513	19,513
Linen restock income			2,805	2,805
Booking fees			94,562	94,562
Service order income			29,492	29,492
Cancellation fees			133	133
Grant revenue			10,000	10,000
Interest and other income	5,908	6,015	2,088	14,011
Total revenues	1,004,041	191,390	432,342	1,627,773
Expenses				
Administrative	274,173		60,219	334,392
Building maintenance	48,645			48,645
Grounds maintenance	67,523			67,523
Utilities	401,212		7,500	408,712
Gate and pool	162,648			162,648
Payroll	206,014		128,113	334,127
Unit cleaning and supplies			30,018	30,018
Advertising and promotion			30,275	30,275
Major repairs and replacements		191,390		191,390
Total expenses	1,160,215	191,390	256,125	1,607,730
Surplus/(deficit) of revenues over expenses	(156,174)		176,217	20,043
Fund balances, beginning of year, restated	613,434		84,506	697,940
Interfund transfers	172,966		(172,966)	
Fund balances, end of year	\$630,226		\$87,757	\$717,983

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Statement of Cash Flows

	Operating Fund	Replacement Fund	Rental Fund	Total
Cash flows from operating activities:				
Regular assessments received	\$955,326	\$308,884		\$1,264,210
Interest and other funds received	57,425	6,015	\$1,637,260	1,700,700
Cash paid for goods and services	(1,163,030)	(186,260)	(1,489,930)	(2,839,220)
Net cash provided by/(used in) operating activities	(150,279)	128,639	147,330	125,690
Cash flows from investing activities:				
Interfund transfers	172,966		(172,966)	
Purchase of property and equipment	(1,299)			(1,299)
Net cash provided by/(used in) investing activities	171,667		(172,966)	(1,299)
Cash flows from financing activities:				
Loan proceeds	86,836			86,836
Net cash provided by financing activities	86,836			86,836
Increase/(decrease) in cash and cash equivalents,	108,224	128,639	(25,636)	211,227
Beginning of year	470,705	663,563	256,262	1,390,530
End of year	\$578,929	\$792,202	\$230,626	\$1,601,757
Adjustments to reconcile surplus/(deficit) of revenues over expenses to net cash provided by/(used in) operating activities:				
Surplus/(deficit) of revenues over expenses	(\$156,174)		\$176,217	\$20,043
Add back: depreciation expense	886			886
<i>(Increase)/decrease in:</i>				
Fees and assessments receivable	3,117			3,117
Other receivables	(1,059)		5,284	4,225
Prepaid expenses	(18)		(361)	(379)
Prepaid insurance	(6,094)			(6,094)
<i>Increase/(decrease) in:</i>				
Accounts payable/accrued expenses	3,470	\$5,130	6,312	14,912
Prepaid fees and assessments	5,593			5,593
Other liabilities			(966)	(966)
Prepaid rents			(45,904)	(45,904)
Refundable deposits			6,748	6,748
Contract liabilities		123,509		123,509
Net cash provided by/(used in) operating activities	(\$150,279)	\$128,639	\$147,330	\$125,690
Supplemental disclosures of cash flow information:				
Cash paid for interest				None
Cash paid for taxes				None

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The St. Augustine Ocean & Racquet Club Condominium Association, Inc. (the "Association") is a statutory condominium association organized on September 17, 1981 as a not-for-profit corporation, under the laws of the State of Florida, for the purposes of maintaining and preserving the common property of the phased condominium developments known as St. Augustine Ocean & Racquet Club One, Two and Three, respectively. During 1996, the Association modified certain provisions of the Declaration and deleted the requirement for separate budgets and financial reporting for each phase. The condominium is a residential condominium located in St. Augustine Beach, St. Johns County, Florida. The Developer was St. Augustine Ocean & Racquet Club, Inc., a Florida corporation. The community consists of eight three-story buildings with a total of 279 units in an area approximating 11.5 acres. There are certain common areas (clubhouse, swimming pools, jacuzzis, tennis courts, racquetball courts, fishing ponds, roads and parking, landscaping, entranceways and signage) within the community that require maintenance expenses to be shared by all the owners.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting means that revenues are recorded when they are earned and expenses are recorded when they are incurred. Assessments are considered earned during the year for which they are levied by the Board of Directors. The owners are assessed their share of the cost of maintaining and operating the common property. Many owners pay the assessments early. Early collections of assessments are shown as prepaid assessments on the balance sheet.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using 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. The assets, liabilities and fund balances of the Association are reported in three self-balancing fund groups. The operating fund reflects the operating assessments paid by owners to meet the regular, recurring costs of operation. Expenditures from this fund are limited to those connected with the day-to-day operations. The replacement fund is composed of assessments paid by owners to fund future major repairs and replacements. Interest earned on the replacement fund is retained in the fund net of applicable income taxes. These funds may be used only for authorized reserve expenditures unless their use for other purposes is approved in advance by a majority of owners. The rental fund reflects the operating activity of the rental management provided by the Association to unit owners. Expenditures from this fund are limited to those connected with the operation of the rental management activity.

Concentration of Credit Risk

The Association's primary source of income is assessments paid by unit owners.

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Tangible personal property acquired by using the Association's funds is recorded at cost. The property consists of buildings and improvements, computers and software, furniture, and equipment, and is depreciated over the estimated useful lives of the assets, ranging from five to thirty-nine years using the straight-line method of depreciation. Real 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.

Owners' Assessments

Association members are subject to equal monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. Prepaid assessments at the balance sheet date represent fees paid in advance by unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. The Association provides for bad debt based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for uncollectible accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. 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 fiscal year, if any, for use in future periods.

The Association treats uncollectible assessments as variable consideration. Methods, inputs and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$6,619 and \$3,502, respectively.

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$651,156 and \$774,665, respectively.

Cash, Cash Equivalents and Fair Value of Financial Instruments

The Association considers cash, money market accounts and certificates of deposit as cash and cash equivalents. Unless otherwise indicated, the fair values of all reported assets and liabilities that represent financial instruments (none of which are held for trading purposes) approximate the value of such assets and liabilities. The Association's certificates of deposit mature between October and December 2020 and the yields at September 30, 2020 range from 0.095% to 0.10%.

Interest Income

Interest income earned by the replacement fund is retained in that fund. Other interest income earned by the operating and rental fund cash accounts is credited to those fund accounts.

Advertising

The Association does not capitalize advertising costs, but rather expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the year ended September 30, 2020 was \$30,275.

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 reported amounts of 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 2 - DATE OF MANAGEMENT'S REVIEW AND SUBSEQUENT EVENTS

The Association has evaluated events and transactions for potential recognition or disclosure through December 8, 2020, the date that the financial statements were available to be issued. Based upon this evaluation, the Association has determined that no subsequent events have occurred that require adjustment to the financial statements. However, see Note 11 for disclosure regarding the subsequent request for forgiveness of the Payroll Protection Program loan.

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 3 - OWNERS' ASSESSMENTS

For the year ended September 30, 2020, monthly assessments to unit owners were \$375. Of that amount, \$92.26 per unit per month was designated as a contribution to the replacement fund. Delinquent assessments totaled \$3,502 at year end. As of September 30, 2020, an allowance for uncollectible accounts in the amount of \$500 has been recorded since collection of certain delinquent assessments and related expenses is doubtful.

NOTE 4 - CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts with balances, at times, in excess of amounts insured by the Federal Deposit Insurance Corporation and assessments receivable. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote. The Association's assessments receivable are related to billed assessments. The Association monitors the collectability of these assessments receivable and pursues collection. Management routinely assesses the uncollectibility of the Association's assessments receivable and provides for allowances for doubtful accounts based on this assessment.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment owned by the Association consists of the following at September 30, 2020:

Buildings and improvements	\$52,866
Computers and software	36,363
Furniture and equipment	62,017
Less: accumulated depreciation	<u>(136,913)</u>
Property and equipment, net	<u>\$14,333</u>

Depreciation expense for the year ended September 30, 2020 was \$886.

NOTE 6 - RENTAL FUND

The Association operates a rental program under Chapter 509 of the Florida Statutes. The Association serves as the non-exclusive rental agent of the condominium units owned by members of the Association. As of September 30, 2020, the program was responsible for the rental management of approximately 105 units. Operating revenues consist of management fees assessed on rentals collected on behalf of unit owners, cleaning and other fees charged to renters. The management fee rate was 18% during the fiscal year. Rental revenues for the current period include the following:

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 6 - RENTAL FUND (CONTINUED)

Gross rental proceeds	\$1,512,540
Less: payments to owners	<u>(1,238,791)</u>
Net proceeds (rental management fees)	<u>\$273,749</u>

A total of \$172,966 was transferred from the rental fund to the operating fund during the year ended September 30, 2020.

In December 2019, a novel strain of coronavirus (“COVID-19”) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. The spread of this virus began causing business disruptions domestically beginning in January 2020. On March 27, 2020, the Governor of Florida issued Executive Order 20-87 that completely banned short-term vacation rentals in Florida. The ban was lifted in May 2020 and tourism resumed, although business disruptions are anticipated to continue for the foreseeable future. Due to the nature of the Association, this matter has had a negative impact on its rental program. The extent of the impact of the COVID-19 pandemic on the Association's rental program and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel restrictions, all of which are highly uncertain and cannot be predicted.

In response to the COVID-19 pandemic, the U.S. government approved the Economic Injury Disaster Loan (EIDL) program to be administered by the Small Business Administration. The Association was awarded a \$10,000 EIDL Advance in May 2020 that was contributed to the rental fund. This advance has been recorded as grant revenue and does not have to be repaid. Businesses who received an EIDL Advance in addition to the Paycheck Protection Program (PPP) loan will have the amount of the EIDL Advance subtracted from the forgiveness amount of their PPP loan (see Note 11 - Note Payable).

NOTE 7 - INSURANCE MATTERS

The Association is responsible for losses incurred by a named hurricane based upon a 2.00% deductible per building per calendar year as defined in its property insurance policy. In addition, in the event of a disaster, the Association could be exposed to losses for damages in excess of insurance coverage limits.

NOTE 8 - 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. Management reviews the validity of such actions and acts accordingly. The financial statements do not include any adjustments for such actions. The Association also has entered into various contracts for services including management, lawn care and pest control.

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Association engages Sovereign-Jacobs Property Management Companies, LLC to provide property management services, including: accounting, collections, closings, administration, property management, employment of personnel, and maintenance of common elements. Total compensation for Association management fees under this contract was \$32,400 for the year ended September 30, 2020. The agreement also provided for rental management services for a fee totaling \$42,000 for the year. In addition, the Association reimburses the management company for the cost of office supplies and out-of-pocket expenses for services and charges incurred on the Association's behalf.

NOTE 9 - INCOME TAXES

Condominium associations may elect to be taxed as regular corporations or as homeowner associations. The Association elected to be taxed as a regular corporation for the year ended September 30, 2020. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as investment earnings and rents, at regular federal and state corporate rates. The Association's investment income and other nonexempt income were subject to tax at a flat federal rate of 21%. After utilizing loss carry-forwards from prior years, there was no remaining federal or state taxable income.

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 September 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently 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 2016-2017.

NOTE 10 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes require that funds be presented in the proposed operating budget for future major repairs and replacements. Accumulated funds, which total \$774,665 and are presented on the accompanying balance sheet as a contract liability (assessments received in advance-replacement fund) at September 30, 2020, consist of cash in several interest-bearing bank accounts and certificates of deposit generally not available for operating purposes.

The Board of Directors engaged Association Reserves, an independent reserve analyst, to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. The study assumed an annual return on investments rate of 1% and an annual inflation rate of 3%. The reserve study, which was originally dated May 7, 2018, was updated on August 9, 2019

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 10 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

and recommended funding in the amount of \$316,606 for the fiscal year 2020-2021. The Board of Directors took guidance from the study and included the amount of \$316,606 in the 2020-2021 budget (\$258,464 funding from owner assessments and \$58,142 interfund transfer from prior years' operating surplus).

The table included in the unaudited "Supplementary Information on Future Major Repairs and Replacements" provides an analysis of the replacement fund as of September 30, 2020. Expenditures from this fund during the current year totaled \$191,390, and included the beach walkover project, elevator modernization, fire alarm systems, and other major repairs.

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 estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future needs for major repairs and replacements. The Association has the right, subject to membership approval, to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

NOTE 11 - NOTE PAYABLE

In response to the COVID-19 pandemic, the U.S. government approved a stimulus package including Payroll Protection Program loans to be administered by the Small Business Administration. In May 2020, the Association was approved for a loan with Valley National Bank in the amount of \$86,836, for the purpose of funding payroll and related taxes over the following eight weeks. Repayments are deferred for the first six months with the first payment in the amount of \$4,874.89 due December 1, 2020. The term loan has an interest rate of 1.00% per annum, and matures on May 1, 2022. The outstanding balance on this obligation was \$86,836 at September 30, 2020 and future obligations are as follows:

Year ended September 30,	
2021	\$48,208
2022	<u>38,628</u>
Total	<u><u>\$86,836</u></u>

Prior to the due date of the first payment, the Association applied for forgiveness of the loan amount. At the date of this report, the forgiveness process was not yet complete. However, management believes the Association met the requirements for forgiveness.

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

Prior period adjustments have been recorded to the operating fund and replacement fund as of September 30, 2020, to reclassify the golf cart purchased in 2015 for \$12,407 from operating fixed assets to the replacement fund in accordance with the reserve study. This item has been recorded as a restatement of the beginning fund balances rather than in the current year revenues and expenses in order to avoid overstating the current year activities.

NOTE 13 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of October 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balances. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of October 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balances as of October 1, 2019:

Fund balances, as previously reported, at October 1, 2019	\$1,349,096
Adjustment	<u>(651,156)</u>
Fund balances, as adjusted, at October 1, 2019	<u><u>\$697,940</u></u>

The effect of the adoption is a decrease in 2019-2020 assessments by \$123,509 and a recording of a contract liability (assessments received in advance-replacement fund) at September 30, 2020 of \$774,665. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019-2020 financial statements. Following are the line items from our balance sheet as of September 30, 2020 that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Notes to the Financial Statements

NOTE 13 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (CONTINUED)

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Liabilities:</u>			
Contract liabilities (assessments received in advance- replacement reserve)	\$0	\$774,665	\$774,665
<u>Fund Balances:</u>			
Ending fund balances	\$1,492,648	(\$774,665)	\$717,983

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended September 30, 2020 that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Revenue:</u>			
Regular assessments	\$1,255,500	(\$123,509)	\$1,131,991
Surplus/(deficit) of revenues over expenses	\$143,552	(\$123,509)	\$20,043
<u>Cash Flows:</u>			
Surplus/(deficit) of revenues over expenses	\$143,552	(\$123,509)	\$20,043
Increase/(decrease) in contract liabilities (assessments received in advance- replacement reserve)	\$0	\$123,509	\$123,509

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Comparison of Operating Fund Revenues and Expenses to Budget

	Operating Fund	Unaudited Budget	Variance Over/(Under)
Revenues			
Member assessments	\$946,616	\$946,616	
Guard/parking fees	43,992	45,000	(\$1,008)
Rental income	6,600	7,200	(600)
Late fees	925	500	425
Interest and other income	5,908	10,000	(4,092)
Total revenues	1,004,041	1,009,316	(5,275)
Expenses			
<i>Administrative</i>			
Bank charges	1,683	1,600	83
Contingencies		1,000	(1,000)
Depreciation expense	886		886
Fees to the Division	1,116	1,116	
Insurance	211,490	213,396	(1,906)
Legal/accounting/professional	8,620	6,500	2,120
Licenses and fees	2,260	2,500	(240)
Management fees	32,400	32,400	
Office and administrative	9,351	14,571	(5,220)
Owner activities	2,122	3,000	(878)
Postage	3,245	4,000	(755)
RNS support		1,200	(1,200)
Social committee	1,000	1,000	
Total administrative	274,173	282,283	(8,110)
<i>Building maintenance</i>			
Building	39,361	40,000	(639)
Elevator	7,884	6,600	1,284
Termite bond	1,400	1,500	(100)
Total building maintenance	48,645	48,100	545
<i>Grounds maintenance</i>			
Insect control	5,320	4,580	740
Landscape contract	34,356	34,356	
Landscape maintenance	12,315	11,722	593
Mulch/tree trimming	15,532	11,000	4,532
Total grounds maintenance	67,523	61,658	5,865

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Comparison of Operating Fund Revenues and Expenses to Budget (Continued)

Expenses (Continued)	<u>Operating Fund</u>	<u>Unaudited Budget</u>	<u>Variance Over/(Under)</u>
<i>Utilities</i>			
Cable	\$175,401	\$180,200	(\$4,799)
Electricity	39,263	43,500	(4,237)
Gas		1,000	(1,000)
Trash service	20,093	26,000	(5,907)
Water/sewer	166,455	150,000	16,455
Total utilities	<u>401,212</u>	<u>400,700</u>	<u>512</u>
<i>Gate and pool</i>			
Community service officers	145,835	142,000	3,835
Pool maintenance	16,813	15,000	1,813
Total gate and pool	<u>162,648</u>	<u>157,000</u>	<u>5,648</u>
<i>Payroll</i>			
Maintenance	137,628	171,045	(33,417)
Office	57,559	46,496	11,063
Uniforms		500	(500)
Workers compensation	10,827	14,500	(3,673)
Total payroll	<u>206,014</u>	<u>232,541</u>	<u>(26,527)</u>
Total expenses	<u>1,160,215</u>	<u>1,182,282</u>	<u>(22,067)</u>
Deficit of revenues over expenses	(156,174)	(172,966)	16,792
Interfund transfer (from rental fund)	<u>172,966</u>	<u>172,966</u>	
Surplus of revenues over expenses, after interfund transfer	<u><u>\$16,792</u></u>	<u><u> </u></u>	<u><u>\$16,792</u></u>

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.
For the Year Ended September 30, 2020

Comparison of Rental Fund Revenues and Expenses to Budget

	Rental Fund	Unaudited Budget	Variance Over/(Under)
Revenues			
Rental management fees	\$273,749	\$312,000	(\$38,251)
Cleaning income, less expenses	19,513	32,000	(12,487)
Linen restock income	2,805	35,000	(32,195)
Booking fees	94,562	142,500	(47,938)
Service order income	29,492	33,500	(4,008)
Cancellation fees	133	1,500	(1,367)
Grant revenue	10,000		10,000
Interest and other income	2,088		2,088
Total revenues	<u>432,342</u>	<u>556,500</u>	<u>(124,158)</u>
Expenses			
<i>Administrative</i>			
Computer maintenance	8,177	8,000	177
Credit card fees	3,080	9,500	(6,420)
Management fees	42,000	42,000	
Office and administrative expenses	6,962	9,000	(2,038)
Total administrative	<u>60,219</u>	<u>68,500</u>	<u>(8,281)</u>
<i>Utilities</i>			
Telephone and internet	7,500	8,000	(500)
Total utilities	<u>7,500</u>	<u>8,000</u>	<u>(500)</u>
<i>Payroll</i>			
Maintenance	33,465	56,547	(23,082)
Office	93,797	139,487	(45,690)
Payroll - other	851	6,000	(5,149)
Total payroll	<u>128,113</u>	<u>202,034</u>	<u>(73,921)</u>
<i>Unit cleaning and supplies</i>			
Cleaning services	137	2,000	(1,863)
Linen cleaning expenses	16,707	20,000	(3,293)
Linen purchases	5,347	35,000	(29,653)
Unit supplies	7,827	10,000	(2,173)
Total unit cleaning and supplies	<u>30,018</u>	<u>67,000</u>	<u>(36,982)</u>
<i>Advertising and promotion</i>			
Activities	3,782	6,000	(2,218)
Advertising	26,493	32,000	(5,507)
Total advertising and promotion	<u>30,275</u>	<u>38,000</u>	<u>(7,725)</u>
Total expenses	<u>256,125</u>	<u>383,534</u>	<u>(127,409)</u>
Surplus of revenues over expenses	176,217	172,966	3,251
Interfund transfer (to operating fund)	<u>(172,966)</u>	<u>(172,966)</u>	
Surplus of revenues over expenses, after interfund transfer	<u>\$3,251</u>	<u>\$3,251</u>	

ST. AUGUSTINE OCEAN & RACQUET CLUB CONDOMINIUM ASSOCIATION, INC.

For the Year Ended September 30, 2020

Supplementary Information on Future Major Repairs and Replacements

The Board of Directors engaged an independent reserve analyst to conduct an updated study to determine the remaining useful life and the estimated replacement cost of each of the major components of common property. The following table is based upon that report, which was updated August 9, 2019, and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life	Estimated Current Replacement Cost	Restated Balance at 9/30/2019	Additions	Interest Income	Expenditures	Balance at 9/30/2020	2020-2021 Approved Funding
Site and grounds	1-37 years	\$759,800						
Building exteriors	1-26 years	2,063,900						
Mechanical/electrical/plumbing	1-27 years	189,650						
Interiors and amenities	1-33 years	373,900						
POOLED FUND			<u>\$651,156</u>	<u>\$308,884</u>	<u>\$6,015</u>	<u>(\$191,390)</u>	<u>\$774,665</u>	<u>\$316,606</u>
Totals		<u>\$3,387,250</u>	<u>\$651,156</u>	<u>\$308,884</u>	<u>\$6,015</u>	<u>(\$191,390)</u>	<u>\$774,665</u>	<u>\$316,606</u>