

**Mills Place Condominium
Association, Inc.**

**FINANCIAL STATEMENTS (AND
SUPPLEMENTARY INFORMATION)**

December 31, 2019



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Mills Place Condominium Association, Inc.
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December 31, 2019

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Mills Place Condominium Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenue, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The accompanying supplementary information in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and in the Schedule of Operating Fund Revenue and Expenses – Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have compiled the required supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any form of assurance on it.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida

May 14, 2020

Mills Place Condominium Association, Inc.
Balance Sheet

December 31,

2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash	\$ 53,898	\$ 52,639	\$ 106,537
Certificates of deposit	21,882	43,764	65,646
Accounts receivable	25	-	25
Prepaid expenses	120,137	-	120,137
Deposits	2,008	-	2,008
Interfund balance	(200)	200	-
Total assets	\$ 197,750	\$ 96,603	\$ 294,353
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 3,573	\$ -	\$ 3,573
Prepaid assessments	33,828	-	33,828
Performance obligation	-	96,603	96,603
Total liabilities	37,401	96,603	134,004
Fund balance	160,349	-	160,349
Total liabilities and fund balance	\$ 197,750	\$ 96,603	\$ 294,353

See accompanying notes and independent accountants' review report.

Mills Place Condominium Association, Inc.
Statement of Revenue, Expenses and Changes in Fund Balance

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Revenue			
Regular assessments	\$ 256,085	\$ 117,530	\$ 373,615
Interest income	1,665	1,830	3,495
Miscellaneous income	-	-	-
Total revenue	257,750	119,360	377,110
Expenses			
Administrative	4,282	-	4,282
Grounds	39,949	-	39,949
Insurance	111,626	-	111,626
Maintenance and repairs	21,119	119,360	140,479
Personnel	36,892	-	36,892
Utilities	14,906	-	14,906
Total expenses	228,774	119,360	348,134
Excess of revenue over expenses	28,976	-	28,976
Beginning fund balance, as restated	131,373	-	131,373
Ending fund balance	\$ 160,349	\$ -	\$ 160,349

See accompanying notes and independent accountants' review report.

Mills Place Condominium Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Operating activities			
Excess of revenue over expenses	\$ 28,976	\$ -	\$ 28,976
Changes in operating assets and liabilities:			
Accounts receivable	60	-	60
Prepaid expenses	(18,654)	-	(18,654)
Accounts payable	(2,937)	-	(2,937)
Performance obligation	-	(80,630)	(80,630)
Prepaid assessments	(362)	-	(362)
Net cash provided (used) by operating activities	7,083	(80,630)	(73,547)
Investing activities			
Purchase of certificates of deposit	(866)	(1,830)	(2,696)
Net cash used by investing activities	(866)	(1,830)	(2,696)
Net increase (decrease) in cash	6,217	(82,460)	(76,243)
Cash at beginning of year	47,681	135,099	182,780
Cash at end of year	\$ 53,898	\$ 52,639	\$ 106,537

See accompanying notes and independent accountants' review report.

Mills Place Condominium Association, Inc. Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Mills Place Condominium Association, Inc., (“Association”), a Florida not-for-profit Corporation, was formed on November 13, 1990 as a condominium association for the operation management, maintenance and control of the Mills Place condominiums. Membership in the Association consists of the 20 residential unit owners and is located on approximately 1.4 acres in Key West, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including building exteriors, roofing, a pool, recreational areas, green areas, parking areas, etc. Disposition of common area property requires consent of the members according to the governing documents and Florida Statutes.

All policy decisions, including the annual budget and owners' assessments, are formulated by the Board of Directors. Decisions are referred to the general Association membership before action is taken, when so required by the governing documents of the Association.

Management and accounting services are provided to the Association by The Community Association Company. The Association does not operate a rental program; instead, individual unit owners have contracted with various real estate companies to lease their individual rental units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association’s significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds

The Association is a not-for-profit organization which employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors, the Association voting membership, or applicable Florida Statute. The financial statements segregate the accounting for such funds as either Operating or Replacement. At the end of the year, excess funds are retained by the fund generating such excess during the year.

The Operating Fund is used to account for financial resources available for the general operation of the Association. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors and the Association's management.

The Replacement Fund is generally used to account for assessments made for major repair and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund is maintained in the Replacement Fund.

Cash Equivalents

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity date of 90 days or less.

Accounts Receivable from Owners and Allowance for Doubtful Accounts

Accounts receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectable, they are written off by charging the allowance and crediting the receivable. Since management considers all receivables to be collectible at December 31, 2019, no allowance has been established at this time.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage period.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization and Depreciation

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized is identified in Note 1.

Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the Balance Sheet as of December 31, 2019. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the Balance Sheet as prepaid assessments and performance obligation liabilities.

Revenue Recognition

Effective January 1, 2019, the Association adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This topic requires the recognition of revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For purposes of this Association, the definition of customers includes the Association's members.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 14, 2020. See Note 10 for the relevant disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification. The Association elected to adopt the revenue recognition standard effective January 1, 2019 using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption. The cumulative adjustment recorded upon adoption of ASC 606 consisted of changes in the recognition of replacement fund assessments, and accordingly the accumulated funds for future major repairs and replacements are now largely classified as a performance obligation liability and not fund balance.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result, the Association has restated its beginning fund balance as follows:

<i>December 31,</i>	2019
Beginning replacement fund balance, before restatement	\$ 177,233
Cumulative effect of change in accounting principle	(177,233)
Beginning replacement fund balance, as restated	\$ -

NOTE 3: OWNERS' ASSESSMENTS

Revenues and expenses are allocated to the unit owners based on the ratio of each unit's square footage to the total square footage of all units, and accordingly, assessment rates are established using this formula. Quarterly assessments for 2019 ranged from \$2,681 to \$5,120. Budgeted assessments for the year ended December 31, 2019 totaled \$292,985, of which \$36,900 was allocated to the Replacement Fund. The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the Statement of Revenue, Expenses, and Changes in Fund Balance:

<i>For the year ended December 31,</i>	2019		
	Operating Fund	Replacement Fund	Total
Regular assessments	\$ 256,085	\$ 36,900	\$ 292,985
Less additions to performance obligation	-	(36,900)	(36,900)
Add releases from performance obligation	-	117,530	117,530
Total assessments	\$ 256,085	\$ 117,530	\$ 373,615

Mills Place Condominium Association, Inc. Notes to Financial Statements

NOTE 4: REVENUE RECOGNITION

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are unit owners within the condominium. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the unit owners.

Performance Obligations

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve assessments, which are being recognized at a point in time. As of December 31, 2019, the Association has reported a performance obligation liability totaling \$96,603, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the Replacement Fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

Significant Judgments

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation.

For operating fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For replacement fund amounts, the Association recognizes revenue at the point in time when the reserve expenses are incurred.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 4: REVENUE RECOGNITION (Continued)

Disaggregated Revenue

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenues and cash flows.

The following chart contains disaggregated revenue information that reflects these qualitative factors:

<i>For the year ended December 31,</i>	2019
<i>Recognized over time</i>	
Operating fund assessments	\$ 256,085
Miscellaneous income	-
<i>Recognized at a point in time</i>	
Replacement fund assessments	117,530
<i>Not subject to ASC Topic 606</i>	
Interest income	3,495
Total revenue	\$ 377,110

The following chart contains disaggregated revenue information that reflects these qualitative factors.

<i>For the year ended December 31,</i>	2019
Accounts receivable - beginning balance	\$ 85
Accounts receivable - ending balance	25
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	34,190
Prepaid assessments - ending balance	33,828
Performance obligation liabilities - beginning balance	177,233
Performance obligation liabilities - ending balance	96,603

Mills Place Condominium Association, Inc.

Notes to Financial Statements

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for future major repairs and replacements through regular assessments. The Association uses the cash flow method of funding the Replacement Fund, which pools the reserve components.

The Board of Directors and management annually review the major components of common property. As a part of this review, the Board and management re-evaluate the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund utilizing information obtained from a 2014 professional study. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on their review.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on their study's estimates of replacement costs and considering amounts previously accumulated in the Replacement Fund. Accordingly, the funding amount of \$36,900, based on a full funding plan, was included in the 2019 budget.

Actual expenditures, however, may vary from the estimated amounts and the variations may be significant. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 6: INCOME TAXES

The Association elected to file its tax return for 2019 as a homeowner association on Form 1120H. As such, the Association must comply with Internal Revenue Code (IRC) Section 528, which applies specifically to homeowners associations. Under IRC Section 528, the Association is not taxed on income and expenses directly related to its exempt purpose, which is the management, maintenance and protection of Association property. However, net nonexempt function income, such as interest income and revenues from nonmembers, is taxed for federal purposes at a flat 30% rate. For the year ended December 31, 2019, the Association had no net nonexempt function income which resulted in no federal income tax expense. State income taxes do not apply to associations that qualify under IRC Section 528.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's policy is to record interest expense or penalties related to income tax in operating expense.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 6: INCOME TAXES (Continued)

For the year ended December 31, 2019, no interest or penalties were paid or accrued. The Association is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2016.

NOTE 7: CONTINGENCIES

The insurance policy for windstorm coverage renewed December 2019. The deductible amount for named storms is estimated at \$72,870, which represents 3% of the insured value of the residential buildings. In addition, the Association's windstorm policy is underwritten by the State of Florida's Citizens Property Insurance Corporation (Citizens). In the event Citizens incurs a deficit that exceeds the amount collected via regular premiums, an emergency assessment may be levied. The Association may be required to pay substantially more in insurance premiums relating to the year for which the emergency assessment is levied.

NOTE 8: CREDIT RISK

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual units. Should the collection of any such liens be enforced by the sale of the unit, the collectability of the receivable is dependent on the quick sale market value of the unit, and the amount of any such other liens that have priority. Market value may be influenced by the real estate market in Key West, Florida.

The Association has invested some of its cash balances with an investment firm that is insured by the Security Investors Protection Corporation (SIPC). SIPC provides a maximum coverage of \$500,000 for securities, including a maximum \$100,000 for cash balances. As of December 31, 2019, the funds held in the investment firm exceeds the SPIC by approximately \$6,537. The Association has other cash balances, held at financial institutions, which were below the \$250,000 FDIC insured limits as of December 31, 2019.

NOTE 9: CERTIFICATES OF DEPOSIT

At December 31, 2019, the Association had \$21,882 of Operating Fund monies and \$43,764 of Replacement Fund monies in certificates of deposit at various financial institutions. The carrying value of these certificates of deposit is at cost plus accrued interest, which approximates fair value. These certificates bear interest at 1.75% and mature in May 2022.

Mills Place Condominium Association, Inc.
Notes to Financial Statements

NOTE 10: SUBSEQUENT EVENT

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Association. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



Supplementary Information

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

For the year ended December 31,

2019

Component	Beginning Balance	Additions	Subtractions	Ending Balance
Painting			\$ 108,085	
Roofing			450	
Other capital major repairs			3172	
Pool and pool equipment			7653	
Pooled items	\$ 177,233	\$ 38,730	119,360	\$ 96,603
Total	\$ 177,233	\$ 38,730	\$ 119,360	\$ 96,603

December 31,

2019

Performance obligation liability	\$ 96,603
Replacement fund balance	-
Total	\$ 96,603

See independent accountants' review report.

Mills Place Condominium Association, Inc.
Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,

2019

	Actual	Budget	Variance - Favorable (Unfavorable)
Revenue			
Assessment fees	\$ 256,085	\$ 256,085	\$ -
Interest income	1,665	240	1,425
Miscellaneous income	-	120	(120)
Total revenue	257,750	256,445	1,305
Expenses			
Administrative	4,282	7,961	3,679
Bad debt	-	44,002	44,002
Grounds	39,949	25,440	(14,509)
Insurance	111,626	116,073	4,447
Maintenance and repairs	21,119	21,240	121
Personnel costs	36,892	42,395	5,503
Utilities	14,906	16,875	1,969
Total expenses	228,774	273,985	45,211
Excess (deficit) of revenue over expenses	\$ 28,976	\$ (17,540)	\$ 46,516

See independent accountants' review report.

Mills Place Condominium Association, Inc.
Supplementary Information on Future Major Repairs and Replacements

The following table is based on the Board’s review and presents significant information about the components of common property:

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/19
Pooled items			
Building	0 -26	\$ 122,650	
Mechanical	1 - 4	73,000	
Painting	0	55,548	
Paving	4 - 24	96,300	
Pool and equipment	2 - 18	52,254	
Roof	5 - 28	338,275	
Total pooled components			\$ 96,603
		\$ 738,027	\$ 96,603

See independent accountants’ review report.