

**Shipyards Condominium
Association, Inc.**

**FINANCIAL STATEMENTS (AND
SUPPLEMENTARY INFORMATION)**

December 31, 2019



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Shipyard Condominium Association, Inc.
Table of Contents
December 31, 2019

REPORT

Independent Auditors' Report	1
------------------------------------	---

FINANCIAL STATEMENTS

Balance Sheet.....	3
--------------------	---

Statement of Revenue, Expenses and Changes in Fund Balance	4
--	---

Statement of Cash Flows	5
-------------------------------	---

Notes to Financial Statements	6
-------------------------------------	---

SUPPLEMENTARY INFORMATION

Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements	15
--	----

Schedule of Operating Fund Revenue and Expenses – Budget and Actual	16
---	----

Supplementary Information on Future Major Repairs and Replacements (Unaudited)	17
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Shipyards 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.

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 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shipyards Condominium Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Association implemented new accounting guidance under FASB ASC 606, *Revenue from Contracts with Customers*. The Association’s implementation of the new accounting standard significantly changes the recognition of replacement fund assessments, and as a result, the Association has restated its beginning fund balance. Our opinion is not modified with respect to the implementation of the new guidance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, contained in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and 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 financial statements. Such information is the responsibility of the Association’s management and, except for that portion marked “unaudited,” was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information 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 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.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
April 22, 2020

Shipyard Condominium Association, Inc.
Balance Sheet

December 31,

2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash	\$ 310,837	\$ 906,984	\$ 1,217,821
Certificates of deposit	133,001	136,275	269,276
Accounts receivable	6,648	-	6,648
Prepaid expenses	229,715	-	229,715
Utility deposits	1,767	-	1,767
Interfund balance	11,401	(11,401)	-
Total assets	\$ 693,369	\$ 1,031,858	\$ 1,725,227
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 22,746	\$ -	\$ 22,746
Performance obligation	-	1,021,634	1,021,634
Prepaid assessments	84,187	-	84,187
Total liabilities	106,933	1,021,634	1,128,567
Fund balance	586,436	10,224	596,660
Total liabilities and fund balance	\$ 693,369	\$ 1,031,858	\$ 1,725,227

The accompanying notes are an integral part of these financial statements.

Shipyard 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	\$ 1,091,320	\$ 149,466	\$ 1,240,786
Interest income	14,693	6,416	21,109
Miscellaneous income	1,450	-	1,450
Total revenue	1,107,463	155,882	1,263,345
Expenses			
Administrative	404,406	-	404,406
Insurance	450,351	-	450,351
Maintenance and repairs	89,123	149,466	238,589
Utilities	120,864	-	120,864
Total expenses	1,064,744	149,466	1,214,210
Excess of revenue over expenses	42,719	6,416	49,135
Beginning fund balance, restated	543,717	3,808	547,525
Ending fund balance	\$ 586,436	\$ 10,224	\$ 596,660

The accompanying notes are an integral part of these financial statements.

Shipyards 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	\$ 42,719	\$ 6,416	\$ 49,135
Changes in operating assets and liabilities:			
Accounts receivable	2,767	-	2,767
Due from other association	170	-	170
Prepaid expenses	(53,258)	-	(53,258)
Utility deposits	125	-	125
Accounts payable	6,945	(609)	6,336
Interfund balance	(11,401)	11,401	-
Performance obligation	-	285,434	285,434
Prepaid assessments	34,405	-	34,405
Net cash provided by operating activities	22,472	302,642	325,114
Investing activities			
Maturity of certificates of deposit	80,747	-	80,747
Purchase of certificates of deposit	-	(6,416)	(6,416)
Net cash provided (used) by investing activities	80,747	(6,416)	74,331
Net change in cash	103,219	296,226	399,445
Cash at beginning of year	207,618	610,758	818,376
Cash at end of year	\$ 310,837	\$ 906,984	\$ 1,217,821

The accompanying notes are an integral part of these financial statements.

Shipyards Condominium Association, Inc.

Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Shipyards Condominium Association, Inc. ("Association"), a Florida not-for-profit corporation, was formed on August 13, 1990. Membership in the Association consists of the 183 residential unit owners of this Florida condominium. The condominium is located on approximately six 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 buildings, roads and parking areas, pools, landscaping, fencing, and recreational areas and facilities. Disposition of common area property requires consent of the members in accordance with 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.

Management and accounting services are provided to the Association by The Community Association Company.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Shipyard 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 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 a separate component.

Cash Equivalents

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity 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 and are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage periods.

Shipyard 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 does not meet the criteria to capitalize is identified in Note 1.

Personal property acquired by the Association is capitalized at cost. It is depreciated over its estimated useful life using the straight-line method of depreciation. The Association has no personal property at December 31, 2019.

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, April 22, 2020 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Shipyard Condominium Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

December 31,	2019
Beginning replacement fund balance, before restatement	\$ 740,008
Cumulative effect of change in accounting principle	(736,200)
Beginning replacement fund balance, as restated	\$ 3,808

NOTE 3: OWNERS' ASSESSMENTS

Revenue and expenses are allocated to the unit owners equally. The rate for 2019 was \$695 per month. Budgeted assessment fees for the year ended December 31, 2019 totaled \$1,526,220 of which \$434,900 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
Budgeted regular assessments	\$ 1,091,320	\$ 434,900	\$ 1,526,220
Less additions to performance obligation	-	(285,434)	(285,434)
Total assessments	\$ 1,091,320	\$ 149,466	\$ 1,240,786

Shipyard 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 \$1,021,634, 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 reserve expenses are incurred.

Shipyards 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 revenue 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	\$ 1,091,320
Miscellaneous income	1,450
<i>Recognized at a point in time</i>	
Replacement fund assessments	149,466
<i>Not subject to ASC Topic 606</i>	
Interest income	21,109
Total revenue	\$ 1,263,345

The following table presents information about accounts receivable, contract assets, and contract liabilities:

<i>For the year ended December 31,</i>	2019
Accounts receivable, net - beginning balance	\$ 9,415
Accounts receivable, net - ending balance	6,648
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	49,782
Prepaid assessments - ending balance	84,187
Performance obligation liabilities - beginning balance	736,200
Performance obligation liabilities - ending balance	1,021,634

Shipyard Condominium Association, Inc.
Notes to Financial Statements

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes 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 estimated future major repairs and replacements through regular assessments. The Association is using the cash flow method of funding the Replacement Fund, which pools the reserve components except the interest component remains separate.

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund. Where applicable, licensed contractors and architects are consulted regarding useful lives and replacement costs. The Board of Directors last performed a review of the estimated replacement costs, remaining lives, and funding requirements for the reserve components in 2019 based on a professional study performed in 2014.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on the study's estimates of replacement costs and considering amounts previously accumulated in the Replacement Fund. Accordingly, the funding amount of \$434,900, based on a full funding plan, was included in the 2019 budget.

Actual expenditures 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 regular corporation on Form 1120. As such, the Association must comply with Internal Revenue Code (IRC) Section 277, which applies to certain membership organizations. Under IRC Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended December 31, 2019, the Association had non-membership income of \$6,345. The Association utilized prior year net operating losses to offset the current year non-membership income in full, which resulted in no federal or state taxes being due for 2019. After utilizing prior year net operating losses to offset current year non-membership income, the Association has a net operating loss carryforward amount from prior years of \$7,268, which can be carried forward indefinitely to offset up to 80% of taxable income in a future year, if needed.

Shipyard Condominium Association, Inc.
Notes to Financial Statements

NOTE 6: INCOME TAXES (Continued)

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. 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: 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 condominium 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.

NOTE 8: CERTIFICATE OF DEPOSIT

At December 31, 2019, the Association had \$133,001 of Operating Fund monies and \$136,275 of Replacement Fund monies in a certificate of deposit at a local financial institution. The carrying value of this certificate of deposit is cost plus its accrued interest.

NOTE 9: WINDSTORM DEDUCTIBLE

The insurance policy for windstorm coverage renewed June 2019. The deductible amount for named hurricane storms is estimated at \$867,260, which represents 5% of the insured value of the residential building.

Shipyard Condominium Association, Inc.
Notes to Financial Statements

NOTE 10: UNUSED LINE OF CREDIT

The Association has secured a line of credit with a financial institution with a maximum borrowing potential of \$150,000 and a variable interest rate of 1.78% plus prime. The line will expire on August 31, 2020, requires monthly payments of interest, and is secured by assessment fees. There was no outstanding balance on the line of credit at December 31, 2019.

NOTE 11: SHARED USE AGREEMENT FOR SECURITY PERSONNEL EXPENSE REIMBURSEMENT

The Association currently shares a portion of the security personnel expense with the Truman Annex Master Property Owners' Association, Inc. through a shared use agreement. The Association reimbursed the Truman Annex Master Property Owners' Association, Inc. \$109,650 for their share of security personnel expenses for the year ended December 31, 2019. The security personnel expense is included in the Administrative expenses in the accompanying Statement of Revenue, Expenses and Changes in Fund Balance for the year ended December 31, 2019.

SUPPLEMENTARY INFORMATION

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

<i>For the year ended December 31</i>		2019		
Component	Beginning Balance	Additions	Subtractions	Ending Balance
Pooled items:				
Exterior Surface Repairs			\$ 99,516	
Painting			139	
Infrastructure/Insurance			40,685	
Sidewalks			3,559	
Pool			2,617	
Miscellaneous			2,950	
Total pooled items	\$ 736,200	\$ 434,900	149,466	\$ 1,021,634
Non-pooled items:				
Interest	3,808	6,416	-	10,224
Total	\$ 740,008	\$ 441,316	\$ 149,466	\$ 1,031,858

<i>December 31,</i>		2019	
Performance obligation liability		\$	1,021,634
Replacement fund balance			10,224
Total		\$	1,031,858

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

For the year ended December 31,

2019

	Actual	Budget (Unaudited)	Variance Favorable (Unfavorable) (Unaudited)
Revenue			
Regular assessments	\$ 1,091,320	\$ 1,091,320	\$ -
Interest income	14,693	4,800	9,893
Miscellaneous income	1,450	600	850
Total revenue	1,107,463	1,096,720	10,743
Expenses			
Administrative	404,406	429,387	24,981
Insurance	450,351	449,449	(902)
Maintenance and repairs	89,123	103,920	14,797
Utilities	120,864	113,964	(6,900)
Total expenses	1,064,744	1,096,720	31,976
Excess of revenue over expenses	\$ 42,719	\$ -	\$ 42,719

Shipyards Condominium Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Unaudited)

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 (Years)	Estimated Replacement Cost	Accumulated Funds at 12/31/2019
Pooled items:			
Infrastructure	1-25	\$ 1,131,003	
Painting	0	321,464	
Paving	0-33	350,533	
Pool	1-22	75,246	
Roof	7-17	1,963,760	
Total pooled items			\$ 1,021,634
Non-pooled items:			
Interest	N/A	N/A	10,224
Total		\$ 3,842,006	\$ 1,031,858