

**HARBOR OAKS CONDOMINIUM
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2017

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harbor Oaks Condominium Association, Inc.
Cape Canaveral, FL 32920

We have audited the accompanying financial statements of Harbor Oaks Condominium Association, Inc., which comprise the balance sheet as of December 31, 2017 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 Harbor Oaks Condominium Association, Inc., as of December 31, 2017 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 basic financial statements taken as a whole. The schedule of operating fund revenues and expenses – budget and actual is presented for the purpose of additional analysis and is 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 the budget information, which was compiled without audit or review from information that is the representation of management, on which we do not express an opinion or any other form of assurance) 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information about future repairs and replacements on page 11 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 auditing 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, 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.

Taylor & Lockard, PA
Certified Public Accountants

Cocoa Beach, Florida

April 16, 2018

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET

December 31, 2017

ASSETS

	Operating Fund	Replacement Fund	Total
Current Assets			
Cash and cash equivalents	\$ 10,075	\$ 300,432	\$ 310,507
Certificates of deposit	-	102,507	102,507
Due to replacement from operating	(8,111)	8,111	-
Assessments receivable (net of allowance)	18,294	2,298	20,592
Prepaid expenses	49,479	-	49,479
Total Current Assets	<u>\$ 69,737</u>	<u>\$ 413,348</u>	<u>\$ 483,085</u>

LIABILITIES AND FUND BALANCES

	Operating Fund	Replacement Fund	Total
Current Liabilities			
Accounts payable	\$ 1,166	\$ 3,775	\$ 4,941
Rent escrow	1,075	-	1,075
Note payable - insurance	34,016	-	34,016
Prepaid assessments	14,370	-	14,370
Total Current Liabilities	50,627	3,775	54,402
Fund Balances	<u>19,110</u>	<u>409,573</u>	<u>428,683</u>
Total Liabilities and Fund Balances	<u>\$ 69,737</u>	<u>\$ 413,348</u>	<u>\$ 483,085</u>

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Revenues			
Regular assessments	\$ 388,497	\$ 132,903	\$ 521,400
Special assessment roof	-	49,999	49,999
Special assessment shoreline	-	35,200	35,200
Rent income	6,488	-	6,488
Interest income	-	632	632
Late Fees	582	-	582
Insurance proceeds	-	25,015	25,015
Other income	4,252	-	4,252
	399,819	243,749	643,568
Operating Expenses			
Roof replacement	-	131,229	131,229
Insurance	113,532	-	113,532
Water & sewer	83,003	-	83,003
Maintenance personnel	59,409	-	59,409
Major repairs and replacements	-	50,260	50,260
Outside maintenance contract	42,107	-	42,107
Termite bond	30,882	-	30,882
Management company fees	21,120	-	21,120
Professional services	15,472	-	15,472
Utilities	13,016	-	13,016
Shoreline	-	12,307	12,307
Pool maintenance	9,502	2,216	11,718
Pest control	11,079	-	11,079
Bad debt	10,534	-	10,534
Elevator maintenance	6,493	-	6,493
General repairs & maintenance	6,209	-	6,209
Fire systems maintenance	5,953	-	5,953
Landscaping maintenance	10,605	-	10,605
Rental unit expenses	4,118	-	4,118
Assessment on rental unit	2,370	-	2,370
Office and administration	2,073	15	2,088
Telephone	1,800	-	1,800
Division fees	850	-	850
	450,127	196,027	646,154
Excess (deficit) of Revenues Over Expenses	(50,308)	47,722	(2,586)
Fund Balances, Beginning of Year	69,418	361,851	431,269
Fund Balances, End of Year	\$ 19,110	\$ 409,573	\$ 428,683

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Excess (Deficit) of Revenues Over Expenses	\$ (50,308)	\$ 47,722	\$ (2,586)
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities			
(Increase) decrease in assets			
Receivables	(265)	(2,298)	(2,563)
Prepaid expense	5,790	-	5,790
Increase (decrease) in liabilities			
Accounts payable	1,166	3,775	4,941
Rent escrow	1,075	-	1,075
Prepaid assessments	(12,403)	-	(12,403)
Net Cash Provided by Operating Activities	(54,945)	49,199	(5,746)
Cash Flows from Investing Activities			
Interest earned on Certificates of Deposit	-	(409)	(409)
Cash Flows from Financing Activities			
Interfund borrowing	(10)	10	-
Decrease in insurance loan	(6,020)	-	(6,020)
Net Cash Provided by Financing Activities	(6,030)	10	(6,020)
Net Increase in Cash	(60,975)	48,800	(12,175)
Cash and Cash Equivalents, Beginning of Year	71,050	251,632	322,682
Cash and Cash Equivalents, End of Year	\$ 10,075	\$ 300,432	\$ 310,507

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – NATURE OF ORGANIZATION

Harbor Oaks Condominium Association, Inc. (the “Association”) is a statutory condominium association incorporated in the State of Florida in 1982. The Association is responsible for the operation and maintenance of the common property of Harbor Oaks Condominium Complex. The development consists of 110 residential units located in Cape Canaveral, Florida.

NOTE B – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition and disclosure through April 5, 2018, the date that the financial statements were available to be issued.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

- a. Operating fund - This fund is used to account for financial resources available for the general operations of the Association.
- b. Replacement fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member assessments - Association members are subject to monthly assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represents fees due from unit owners. The Association’s policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Interest income - Interest income is specifically identified and associated with accounts maintained separately for the operating fund and replacement fund.

Cash and cash equivalents – Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes – The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2017. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government.

The Association adopted the provisions of FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes* – An interpretation of FASB Statement 109, (formerly FASB issued Interpretation 48 – FIN 48). Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the tax authorities. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of December 31, 2017, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Association had no interest or penalties related to income taxes. The Association's Income Tax return Forms 1120 H for the periods ended December 31, 2014, 2015, and 2016 are subject to examination by the IRS.

Property and equipment – Real property and common areas 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. The Association capitalizes all personal property and equipment to which it has title or other evidence of ownership.

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

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$409,573 at December 31, 2017, are held in separate accounts and are generally not available for operating purposes.

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

The Association's Board of Directors along with the management company conducted an informal study to estimate the current funding needs for future replacement of the Association's common areas. These reserves have been determined based upon the estimated remaining life, estimated replacement cost, and the funds that are reserved to date. These estimates are revised each year, during the Association's normal budgeting process, for items determined to have an expected replacement requirement in subsequent years. When the replacement fund is not 100% funded and replacement funds are needed, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until such funds are available. Reserves were included in the proposed budget following requirements under Florida Statutes 718.112(2).

Reserve accounts have been established to specifically identify the purpose for which the assets are restricted. The following table represents the components of the Reserve Fund as of December 31, 2017.

	Fund						Balance 12/31/2017
	Balance 1/1/2017	Assessments	Reclassifications	Insurance/ Interest	Special Assessments	Disbursements	
Roof repair and replacement	\$ 112,550	\$ 14,796	\$ 50,000	\$ 25,015	\$ 49,999	\$ 131,229	\$ 121,131
Elevators	58,818	13,751	(6,000)	-	-	-	66,569
Insurance	72,005	24,480	(40,000)	-	-	-	56,485
Building painting	40,408	6,720	-	-	-	-	47,128
Interest	13,181	-	-	632	-	15	13,798
Building reserve	16,907	41,595	-	-	-	50,260	8,242
Pool and pool fence	18,650	3,240	-	-	-	2,216	19,674
Pavement resurfacing	13,639	24,361	-	-	-	-	38,000
Club house	10,353	3,960	(4,000)	-	-	-	10,313
Shoreline	5,340	-	-	-	35,200	12,307	28,233
	<u>\$ 361,851</u>	<u>\$ 132,903</u>	<u>\$ -</u>	<u>\$ 25,647</u>	<u>\$ 85,199</u>	<u>\$ 196,027</u>	<u>\$ 409,573</u>

NOTE E – DELINQUENT ASSESSMENTS

At December 31, 2017, the Association had delinquent assessments of \$31,125. Assessments are reported on the balance sheet net of an allowance for doubtful accounts from one unit owner for \$12,831. The association has foreclosed on the unit and is currently renting the unit.

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

NOTE F – SPECIAL ASSESSMENTS

In 2017, the board of directors passed two special assessments. Details of the special assessments are as follows:

	<u>Assessment</u>	<u>Collected</u>	<u>Reported in Receivable</u>	<u>Disbursement & Payable</u>	<u>Balance</u>
Roof \$454.54 per unit	\$ 49,999	\$ 48,181	\$ 1,818	\$ 49,999	\$ -
Shoreline \$320 per unit	<u>35,200</u>	<u>34,720</u>	<u>480</u>	<u>12,307</u>	<u>22,893</u>
Total	<u>\$ 85,199</u>	<u>\$ 82,901</u>	<u>\$ 2,298</u>	<u>\$ 62,306</u>	<u>\$ 22,893</u>

The membership also voted to transfer \$50,000 to the roof components from the elevator, insurance and clubhouse components (Note D). The remaining roofs will be replaced at a future date when the contractor becomes available. The shoreline is expected be completed in 2018.

SCHEDULE I

HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.

OPERATING FUND REVENUES AND EXPENSES BUDGET AND ACTUAL

For the year ended December 31, 2017

	Budget Unaudited	Actual	Variance Unaudited
Revenues			
Maintenance fees	\$ 388,496	\$ 388,497	\$ 1
Rent income	-	6,488	6,488
Other income	-	4,834	4,834
Total Revenues	388,496	399,819	11,323
Operating Expenses			
Property insurance	\$ 112,992	\$ 113,532	\$ (540)
Water and sewer	84,000	83,003	997
Maintenance personnel	59,147	59,409	(262)
Outside maintenance contract	26,400	47,679	(21,279)
Annual termite renewal	5,040	30,882	(25,842)
Management company	21,120	21,120	-
Professional fees	17,100	15,472	1,628
Electric	15,600	13,016	2,584
Pest Control	7,848	11,079	(3,231)
Bad debt	-	10,534	(10,534)
Pool maintenance	7,200	9,502	(2,302)
Elevator	5,520	6,493	(973)
Maintenance	4,980	6,209	(1,229)
Fire alarm systems	5,280	5,953	(673)
Lawn service	10,320	5,033	5,287
Rental unit expenses	-	4,118	(4,118)
Assessment on rental unit	-	2,370	(2,370)
Office and administrative	2,796	2,073	723
Telephone	1,800	1,800	-
Division fees	852	850	2
Licensing fees/taxes	501	-	501
Total Operating Expenses	388,496	450,127	(61,631)
Excess (deficit) of Revenue Over Expenses	\$ -	\$ (50,308)	\$ (50,308)

SCHEDULE II**HARBOR OAKS CONDOMINIUM ASSOCIATION, INC.**

SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)
 DECEMBER 31, 2017

The Association's Board of Directors, along with the management company, conducted an informal Reserve Forecast to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the forecast. Estimated current replacement costs do not take into account the effects of inflation between the date of the forecast and the date the components will require repair or replacement.

The following information is based on the forecast and presents significant information about the components of common property.

Reserve Fund	Estimated Total Useful Life (years)	Estimated Remaining Useful Life (years)	Estimated Replacement Cost	Replacement Fund Balance 12/31/17	Partial Funding Required for Proposed Budget Period Monthly	Partial Funding Required for Proposed Budget Period Annually	Funding Required for FULLY FUNDED Proposed Budget Period Annually
Roofs 5 - 2 story	20	20	\$ 340,000	\$ 98,739	\$ 1,417	\$ 17,000	\$ 241,795
Roof - 2 highrises	30	5	164,000	22,392	2,405	28,854	7,099
Paving	15	15	38,000	38,000	83	1,000	24,361
Painting 5 - 2 story	8	6	100,000	17,909	934	11,214	267
Painting 2 - highrises	10	10	200,000	29,219	1,667	20,000	9,975
Pools (2)	10	10	24,000	19,674	200	2,400	3,350
Clubhouses (2)	10	0	7,000	10,313	-	-	-
Buildings (7)	10	8	160,000	8,242	1,656	19,875	156,859
Elevator 2 highrises	27	6	100,000	66,569	478	5,737	12,312
Insurance Reserve	0	0	26,000	56,485	-	-	33,995
Shoreline Restoration	10	10	20,000	28,233	167	2,000	10,380
* Interest	-	-	-	13,798	-	-	-
			<u>\$ 1,179,000</u>	<u>\$ 409,573</u>	<u>\$ 9,007</u>	<u>\$ 108,080</u>	<u>\$ 500,393</u>