

**THE SUMMIT OWNERS' ASSOCIATION, INC.**

**FINANCIAL STATEMENTS &  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
The Summit Owners' Association, Inc.  
Panama City Beach, Florida

We have audited the accompanying financial statements of The Summit Owners' Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, 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.

### *Auditor's 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 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 The Summit Owners' Association Inc. as of December 31, 2019, 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 accompanying supplementary information contained in the statement of operating fund schedule of actual to budget comparison – time-share operating fund on page 16, 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 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.

### ***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 – Association on page 17 and the Supplementary Information on Future Major Repairs and Replacements – Time-share on page 18 be presented to supplement the basic financial statements as required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting 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 managements 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.

*Coastal Accounting*

**COASTAL ACCOUNTING OF NW FLORIDA, PA**

***Certified Public Accountants and Consultants***

Destin, Florida

August 12, 2020

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Time-share Operating Fund</u>	<u>Time-share Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>					
Cash - unrestricted	\$ 1,427,124	\$ 1,598,617	\$ 475,150	\$ 410,124	\$ 3,911,015
Cash - restricted	3,195,890	-	-	-	3,195,890
Assessments receivable, net	45,247	-	23,162	-	68,409
Prepaid expenses	-	-	37,060	-	37,060
Prepaid insurance	98,334	-	-	-	98,334
Inventory	37,756	-	-	-	37,756
Other assets	9,370	-	-	-	9,370
Interfund balances	(66,293)	66,293	458	(458)	-
Property and equipment, net	18,586	-	40,347	-	58,933
<b>TOTAL ASSETS</b>	<b>\$ 4,766,014</b>	<b>\$ 1,664,910</b>	<b>\$ 576,177</b>	<b>\$ 409,666</b>	<b>\$ 7,416,767</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 19,019	\$ -	\$ 307,904	\$ -	\$ 326,923
Accrued liabilities	87	-	177	-	264
Accrued payroll	16,939	-	-	-	16,939
Assessments received in advance	9,909	-	25,107	-	35,016
Contract liabilities (assessments received in advance - replacement fund)	-	1,664,910	-	409,666	2,074,576
Deferred hurricane proceeds	3,195,890	-	-	-	3,195,890
Deferred special assessment revenue	939,730	-	66,374	-	1,006,104
Insurance loan payable	31,753	-	-	-	31,753
<b>TOTAL LIABILITIES</b>	<b>4,213,327</b>	<b>1,664,910</b>	<b>399,562</b>	<b>409,666</b>	<b>6,687,465</b>
<b>FUND BALANCE</b>	<b>552,687</b>	<b>-</b>	<b>176,615</b>	<b>-</b>	<b>729,302</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 4,766,014</b>	<b>\$ 1,664,910</b>	<b>\$ 576,177</b>	<b>\$ 409,666</b>	<b>\$ 7,416,767</b>

See independent auditor's report and notes to financial statements.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Time-share Operating Fund</u>	<u>Time-share Replacement Fund</u>	<u>Eliminations</u>	<u>Total</u>
<b>REVENUES</b>						
Assessments	\$ 1,676,442	\$ 79,279	\$ 703,172	\$ 43,770	\$ (148,240)	\$ 2,354,423
Interest	8,938	7,118	1,405	571	-	18,032
Late charges/finance charges	10,458	-	13,940	-	-	24,398
Lease income	175,545	-	-	-	-	175,545
Other income	29,064	-	2,512	-	-	31,576
Rental, hospitality & beach income	444,355	-	1,428	-	-	445,783
Hurricane proceeds	2,486,303	-	-	-	-	2,486,303
Timeshare income	84,546	-	-	-	(84,546)	-
Vending and games	14,905	-	-	-	-	14,905
Work order labor income	49,175	-	-	-	-	49,175
Work order materials income	86,299	-	-	-	-	86,299
<b>TOTAL REVENUES</b>	<u>5,066,030</u>	<u>86,397</u>	<u>722,457</u>	<u>44,341</u>	<u>(232,786)</u>	<u>5,686,439</u>
<b>EXPENSES</b>						
Administrative	\$ 68,028	\$ -	\$ 65,834	\$ -	\$ (44,388)	\$ 89,474
Assessments	-	-	148,240	-	(148,240)	-
Bad debt expense	20,000	-	160,000	-	-	180,000
Bank charges	1,263	-	1,169	-	-	2,432
Beach service	43,020	-	-	-	-	43,020
Depreciation	3,620	-	1,035	-	-	4,655
Insurance	303,257	-	-	-	-	303,257
Interest	3,437	-	-	-	-	3,437

See independent auditor's report and notes to financial statements.

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**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Operating Fund	Replacement Fund	Time-share Operating Fund	Time-share Replacement Fund	Eliminations	Total
<b>EXPENSES</b>						
Hurricane repairs	2,486,303	-	-	-	-	2,486,303
Laundry	5,699	-	85,785	-	-	91,484
Legal	15,966	-	-	-	-	15,966
Maintenance and repairs	316,590	86,397	228,976	2,959	-	634,922
Meals and entertainment	872	-	-	-	-	872
Miscellaneous	1,633	-	-	-	-	1,633
Outside services	434,027	-	-	-	-	434,027
Property taxes	-	-	27,600	-	-	27,600
Salaries and wages	661,029	-	40,158	-	(40,158)	661,029
Security	18,407	-	-	-	-	18,407
Work order materials	70,241	-	-	-	-	70,241
Utilities	652,183	-	57,086	-	-	709,269
<b>TOTAL EXPENSES</b>	<u>5,105,575</u>	<u>86,397</u>	<u>815,883</u>	<u>2,959</u>	<u>(232,786)</u>	<u>5,778,028</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	(39,545)	-	(93,426)	41,382	-	(91,589)
<b>FUND BALANCE - BEGINNING</b>	572,890	-	248,001	-	-	820,891
<b>INTERFUND TRANSFER</b>	<u>19,342</u>	<u>-</u>	<u>22,040</u>	<u>(41,382)</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 552,687</u>	<u>\$ -</u>	<u>\$ 176,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 729,302</u>

See independent auditor's report and notes to financial statements.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Time-share Operating Fund</u>	<u>Time-share Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess of revenues over (under) expenses	\$ (39,545)	\$ -	\$ (93,426)	\$ 41,382	\$ (91,589)
Adjustments to reconcile excess of revenues over (under) expenses to net cash flows from operating activities:					
Bad debt expense	20,000	-	160,000	-	180,000
Depreciation	3,620	-	1,035	-	4,655
(Increase) decrease in assets					
Assessments receivable, net	621,164	-	(70,003)	-	551,161
Prepaid expenses	10,649	-	(32,128)	-	(21,479)
Prepaid insurance	(16,969)	-	-	-	(16,969)
Inventory	19,518	-	-	-	19,518
Other assets	39,322	-	-	-	39,322
Increase (decrease) in liabilities					
Accounts payable	4,284	-	142,749	-	147,033
Accrued liabilities	(11,633)	-	177	-	(11,456)
Accrued payroll	4,744	-	-	-	4,744
Assessments received in advance	(104,792)	-	(14,039)	-	(118,831)
Contract liabilities (assessments received in advance - replacement fund)	-	343,642	-	38,514	382,156
Deferred hurricane proceeds	1,257,332	-	-	-	1,257,332
<b>Net cash flows from operating activities</b>	<b>1,807,694</b>	<b>343,642</b>	<b>94,365</b>	<b>79,896</b>	<b>2,325,597</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of equipment	(4,001)	-	(41,382)	-	(45,383)

See independent auditor's report and notes to financial statements.

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**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Time-share Operating Fund</u>	<u>Time-share Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Interfund borrowings	66,284	(66,284)	5,919	(5,919)	-
Insurance loan proceeds	264,409	-	-	-	264,409
Insurance loan payments	(256,959)	-	-	-	(256,959)
Interfund transfers	19,342	-	22,040	(41,382)	-
<i>Net cash flows from financing activities</i>	<u>93,076</u>	<u>(66,284)</u>	<u>27,959</u>	<u>(47,301)</u>	<u>7,450</u>
<b>NET CHANGE IN CASH</b>	1,896,769	277,358	80,942	32,595	2,287,664
<b>CASH - BEGINNING OF YEAR</b>	<u>2,726,245</u>	<u>1,321,259</u>	<u>394,208</u>	<u>377,529</u>	<u>4,819,241</u>
<b>CASH - END OF YEAR</b>	<u>\$ 4,623,014</u>	<u>\$ 1,598,617</u>	<u>\$ 475,150</u>	<u>\$ 410,124</u>	<u>\$ 7,106,905</u>
<b>RECONCILIATION OF CASH TO BALANCE SHEET</b>					
Cash - unrestricted	\$ 1,427,124	\$ 1,598,617	\$ 475,150	\$ 410,124	\$ 3,911,015
Cash - restricted	<u>3,195,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,195,890</u>
Total cash at end of year	<u>\$ 4,623,014</u>	<u>\$ 1,598,617</u>	<u>\$ 475,150</u>	<u>\$ 410,124</u>	<u>\$ 7,106,905</u>
<b>SUPPLEMENTAL DISCLOSURES</b>					
Interest paid	<u>\$ 3,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,437</u>

See independent auditor's report and notes to financial statements.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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**NOTE 1 - NATURE OF ORGANIZATION**

The Summit Owners' Association, Inc. (the Association) is a condominium management association which was incorporated in the State of Florida in 1984. Membership in the Association is limited to the owners of units and unit-weeks in the Summit Condominium. The Summit Condominium consists of 449 individual residential units located on approximately 11.4 acres in Panama City Beach, Florida. The Association is responsible for the operation and maintenance of the common property and is supported by quarterly or annual assessment fees. The Association also operates and manages a time-share program consisting of 32 units (1,664 unit weeks including 32 maintenance weeks). The governing body consists of a Board of Directors elected by the members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Fund Accounting***

To ensure observance of limitations and restrictions on the use of its 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:

***Operating Fund and Time-share Operating Fund*** - These funds are used to account for financial resources available for general operations of the Association and to account for the operations of the association and time-share program.

***Replacement Fund and Time-share Replacement Fund*** - These funds represent the resources restricted for future major repairs and replacements of designated common elements.

***Cash and Cash Equivalents***

For the purpose of the statement of cash flows the Association considers certificates of deposit and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***Member Assessments***

Association members are subject to quarterly or annual 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 obligations related to its operating assessments are 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. The Association's policy is to retain legal counsel and place liens on homeowners that are more than 90 days delinquent. Any excess assessments are retained by the Association for use in the succeeding year. At December 31, 2019, the Operating Fund and the Time-share fund had delinquent assessments of \$145,177 and \$1,283,416, respectively. It is the opinion of the board of directors that the Association will not be able to collect \$99,930 of the delinquent operating receivables and \$1,260,254 of the delinquent timeshare receivables.

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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Assessments Received in Advance*

Assessments received in advance represent the quarterly or annual member assessments received in advance for the subsequent year.

*Interest Earned*

Interest earned in the Operating fund bank accounts is allocated to the Operating fund. Interest earned in the Replacement fund bank accounts is allocated to the Replacement fund components as needed.

*Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Property and Equipment*

The Association recognizes the following common property as assets:

- Common personal property used by the Association in operating, preserving, maintaining, repairing and replacing common property and providing other services.
- Common real property to which it has title and that it can dispose of for cash while retaining the proceeds or that it has used to generate cash flows from members on the basis of usage or from nonmembers.

Accordingly, the Association will recognize only common personal property as assets. The common property meeting the asset recognition policy is recorded at cost or estimated fair value on the date of donation and is depreciated over the assets estimated useful life using the straight-line method and accelerated methods when not materially different over the estimated useful lives of the assets ranging from 3 – 10 years. The Association is responsible for preserving and maintaining common properties and may dispose of them only with the consent of the Board of Directors.

*Inventory*

Inventory consists of unused supplies on hand for unit and building maintenance. Inventory is stated at cost using the weighted average cost method.

*Interfund Balances*

The interfund balances represent amounts collected or paid by one fund on behalf of another fund.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Contract Liabilities*

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 fund assessments. The balances of contract liabilities (assessments received in advance – replacement fund) in the Replacement Fund as of the beginning and the end of the year were \$1,321,268 and \$1,664,910, respectively. The balances of contract liabilities (assessments received in advance – replacement fund) in the Time-share Replacement Fund as of the beginning and the end of the year were \$371,152 and \$409,666, respectively.

*Income Taxes*

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2019. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions. The Association is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. With few exceptions, the Association is no longer subject to federal, state, or local income tax examinations by tax authorities for years before 2016.

For federal tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any net membership losses may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files form 1120, which has a flat rate of 21% that are applied to net taxable income.

For state income tax purposes, the Association also is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 5.5%.

**NOTE 3 - ANNUAL BUDGET AND MEMBERS' ASSESSMENTS**

The Association's by-laws require that the Board of Directors adopt a budget each year for common expenses and reserves. If the budget determined by the Board of Directors should exceed 115% of the prior year's budget, the unit owners' have a right to call a special meeting to vote on the budget. Assessments are made against the members' for their share of the budget. Such assessments are due in quarterly installments. For the year ended December 31, 2019, the quarterly assessments per unit type in the Association were \$1,156 for one bedroom, \$1,224 for two bedrooms, and \$1,428 for three bedrooms and the annual assessments per unit type in the time-share were \$480 for one bedroom and \$509 for two bedrooms.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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**NOTE 4 - PROPERTY AND EQUIPMENT, NET**

Property and equipment is summarized as follows:

	<u>Total</u>
<b>Property and equipment</b>	
Furniture & equipment	\$ 462,949
Less accumulated depreciation	(404,016)
<b>Property and equipment, net</b>	<u>\$ 58,933</u>

Depreciation expense for the year ended December 31, 2019 was \$4,655.

**NOTE 5 – RESERVES FOR FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents, Florida Statutes and Florida Administrative Code rules require that funds be accumulated for future major repairs and replacements unless membership of the Association votes to waive funding of reserves. Accumulated funds which aggregate \$1,664,910 and \$409,666, in the Replacement Fund and Time-Share Replacement Fund, respectively, are presented on the accompanying balance sheet as a contract liability (assessments received in advance – replacement fund) at December 31, 2019, are held in separate bank accounts and are generally not available for normal operating expenditures.

The Association is funding reserves based on a 2015 professional reserve study as updated by the Board of Directors. Accordingly, \$465,687 and \$31,414 of reserve funding has been included in the 2020 Replacement Fund and Time-share Replacement Fund budgets. Because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

**NOTE 6 - LINES OF CREDIT**

The Association has two revolving lines of credit totaling \$350,000. Bank advances on the line of credit are payable on demand and the interest is due monthly. A variable interest rate based on the Prime Rate published by the Wall Street Journal plus 1.5% is the interest rate used for both lines of credit. The interest rate as of December 31, 2019 on the lines of credit was 6.25%. The lines of credit are collateralized by the assessments of the Association. As of December 31, 2019, the balance outstanding on the lines of credit was \$0.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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**NOTE 7 - LEASE INCOME**

The Association leases several buildings and the right to provide recreational beach services and equipment which include: parasail, personal watercraft, beach and poolside photography, paddleboats, kayaks and banana boat rides. For the lease of the snack shack the Association received \$10,400. For the use of the facilities, Resort Collection paid the Association \$151,100 and Student Breaks paid the Association \$14,045 during 2019.

**NOTE 8 – RENTAL, HOSPITALITY AND BEACH INCOME**

For leasing the rental operations to a third party the Association receives the registration fees in full, seven percent of the gross reservation fee minus the guaranteed registration fee, seven percent of the food and beverage income, and five percent of damage fees. Damage waiver fees, registration fees, commissions, food and beverage income totaled \$12,846, \$143,625, \$35,767, and \$34,733 respectively. The Association runs a beach chair rental program. Beach chair rental revenues of \$217,384 were received in 2019. Time-share units owned by SOA are rented by the Association. Rental income collected from these units totaled \$1,428 in 2019.

**NOTE 9 – WORK ORDER INCOME AND EXPENSE**

The Association employs a maintenance department which bills owners for labor hours along with materials used for maintenance work completed within a unit. Work order labor and materials income for the year ended December 31, 2019 were \$49,175 and \$86,299, respectively. The work order materials expense for the year ended December 31, 2019 was \$70,241.

**NOTE 10 – 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 January 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 balance. 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 January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

**NOTE 10 – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION  
(CONTINUED)**

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

Fund balance, as previously reported at January 1, 2019	\$	2,513,311
Adjustment		<u>(1,692,420)</u>
Fund balance, as adjusted at January 1, 2019	\$	<u>820,891</u>

The effect of the adoption is a decrease in 2019 assessments by \$379,813 and a recording of a contract liabilities (assessments received in advance-replacement fund) at December 31, 2019, totaling \$2,074,576. 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 financial statements. Following are the line items from our balance sheet as of December 31, 2018, 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:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
<b>Liabilities:</b>			
Contract liabilities	\$ -	\$ 2,074,576	\$ 2,074,576
Total liabilities	\$ 4,612,889	\$ 2,074,576	\$ 6,687,465
<b>Fund Balance:</b>			
Ending fund balances	\$ 2,803,878	\$ (2,074,576)	\$ 729,302

The following are the line items from the statement of revenues, expenses, and changes in fund balance and the statement of cash flows for the year ended December 31, 2019, 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:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
<b>Revenue:</b>			
Regular assessments	\$ 2,734,236	\$ (379,813)	\$ 2,354,423
Excess of revenue over expenses	\$ 288,224	\$ (379,813)	\$ (91,589)
<b>Cash Flows:</b>			
Excess of revenues over expenses	\$ 288,224	\$ (379,813)	\$ (91,589)
Contract liabilities (Assessments received in advance - replacement fund)	\$ -	\$ 2,074,576	\$ 2,074,576

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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**NOTE 11 – EXTRAORDINARY EVENT**

The Association was impacted by Hurricane Michael in October 2018. The Association reached its wind deductible on its insurance policy, however insurance adjustments have not been finalized at this time.

**NOTE 12 – DEFERRED SPECIAL ASSESSMENT REVENUE**

In 2018, The Association levied special assessments in the operating fund and the time-share operating fund of \$939,730 and \$66,374, respectively to fund the insurance deductible and other repairs caused by Hurricane Michael in 2019. As of December 31, 2019, these special assessments have been deferred as no expenses associated with the special assessment have occurred.

**NOTE 13 – HURRICANE INSURANCE PROCEEDS**

Revenues for hurricane proceeds are recognized as expenses are incurred. As such, the Association deferred revenues of \$3,195,890 of hurricane proceeds.

	<u><b>2018-2019</b></u>
Insurance proceeds	\$ 5,682,193
Hurricane related expenditures	<u>(2,486,303)</u>
Deferred hurricane insurance proceeds	\$ <u>3,195,890</u>

**NOTE 14 - CONTINGENCIES**

The Association's policy for windstorm in effect at December 31, 2019, carried a hurricane deductible of \$939,626 which represents 2% of the insured value of the buildings and pool, which are listed on the policies at \$46,981,300.



**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019

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**NOTE 15 - CONCENTRATION OF RISK**

The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At December 31, 2019, The Association's cash balances exceeded FDIC limits. The Association has not experienced any losses in such accounts.

**NOTE 16 - SUBSEQUENT EVENTS**

In January 2020, The COVID-19 outbreak, a novel strain of the coronavirus, in the United States began. The outbreak has caused business disruption through mandated and voluntary closing of businesses in almost every state. The extent of the impact of COVID-19 on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our members, employees and vendors. However, the related financial impact and duration cannot be reasonably estimated at this time.

The Association has evaluated all other subsequent events through August 12, 2020, the date the Association's financial statements were available to be issued, and concluded no events or transactions occurred during the period requiring recognition or disclosure.

**SUPPLEMENTARY INFORMATION**

**THE SUMMIT OWNERS' ASSOCIATION, INC.****STATEMENT OF OPERATING FUND SCHEDULE OF ACTUAL TO BUDGET COMPARISON – TIME-SHARE OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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	Time-share Actual	Time-share Budget	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessments	\$ 703,172	\$ 703,172	\$ -
Interest	1,405	1,000	405
Late charges/finance charges	13,940	-	13,940
Other income	2,512	5,550	(3,038)
Rental income	1,428	-	1,428
<b>TOTAL REVENUES</b>	<u>722,457</u>	<u>709,722</u>	<u>12,735</u>
<b>EXPENSES</b>			
Administrative	65,834	119,682	53,848
Assessments	148,240	148,240	-
Bad debt expense	160,000	160,000	-
Bank charges	1,169	300	(869)
Depreciation	1,035	-	(1,035)
Laundry	85,785	100,000	14,215
Maintenance and repairs	228,976	55,000	(173,976)
Miscellaneous	-	1,000	1,000
Property taxes	27,600	27,000	(600)
Salaries and wages	40,158	43,000	2,842
Utilities	57,086	55,500	(1,586)
<b>TOTAL EXPENSES</b>	<u>815,883</u>	<u>709,722</u>	<u>(106,161)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<u>\$ (93,426)</u>	<u>\$ -</u>	<u>\$ (93,426)</u>

See independent auditor's report.

**THE SUMMIT OWNERS' ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS -**  
**ASSOCIATION (UNAUDITED)**  
**DECEMBER 31, 2019**

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An independent engineer conducted a study in 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement. The following table is based on the Board's revisions to the study and presents significant information about the components of common property. Actual expenditures, however, may vary from the estimated amounts and the variation may be material.

Component	Estimated Remaining Useful Lives (Years)	Estimated Replacement Cost	Replacement Fund Contract Liabilities 12/31/2019	2020 Required Funding
Building roofs	20	\$ 560,000	\$ 367,931	\$ 9,115
Painting	7	500,000	420,085	11,416
Paving	3	240,000	241,554	-
Pool and spas	19	215,000	133,698	4,279
Water booster pump	20	33,000	-	1,910
Fire pump system	6	26,000	4,050	3,658
Emergency generator	3	44,000	10,184	9,536
Fire alarm system	5	444,000	55,025	77,795
Elevators	5	612,000	195,609	83,278
Walkways and carpet	1	30,000	28,049	-
Fitness room equipment	1	30,000	21,553	8,447
Luggage carts	1	25,000	24,538	463
Major building repairs	3	930,000	162,634	255,790
<b>Total</b>		\$ 3,689,000	\$ 1,664,910	\$ 465,687

See independent auditor's report.

**THE SUMMIT OWNERS' ASSOCIATION, INC.****SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS – TIME-SHARE (UNAUDITED)  
DECEMBER 31, 2019**

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An independent engineer conducted a study in 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement. The following table is based on the Board's revisions to the study and presents significant information about the components of common property. Actual expenditures, however, may vary from the estimated amounts and the variation may be material.

<u>Component</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Replacement Cost</u>	<u>Replacement Fund Contract Liabilities 12/31/2019</u>	<u>2020 Required Funding</u>
Furnishings	6	\$ 165,000	\$ 68,755	\$ 8,850
Carpet/Floor	8	24,000	24,031	-
Painting	5	80,000	79,005	199
Wall covering	8	10,000	1,206	1,099
Ceramic tile	12	80,000	58,777	1,764
Appliances	10	89,600	61,302	2,830
Package A/C units	10	125,000	48,185	7,682
Water heaters	2	25,000	18,265	3,368
Bathroom wall tile	9	28,800	20,820	887
Cabinets	8	67,200	29,320	4,735
<b>Total</b>		<u>\$ 694,600</u>	<u>\$ 409,666</u>	<u>\$ 31,414</u>

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See independent auditor's report.