



Gerstle, Rosen & Goldenberg, P.A.

Certified Public Accountants

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May 29, 2020

Board of Directors
Harbour Isle at Hutchinson Island East Condominium Association, Inc.

Dear Board Members:

As a result of our audit of the financial statements of Harbour Isle at Hutchinson Island East Condominium Association, Inc. for the year ended December 31, 2019, we are bringing the following matters to your attention:

1. The A/R Clearing account is carrying balances from July 2017. Please research to determine if the amount should be written off.
2. The fully funded amount using the pooling method as indicated in the reserve study must be included as part of the annual budget. Currently, the Association only shows the approved pooling amount, which may differ from what is required for fully funding.
3. Management is required to have bank statements and reconciliations for EVERY cash and Certificate of Deposit account listed on the Balance Sheet at year end in order to demonstrate a maintenance of Internal Controls for cash.
4. Part of the service we provide our audit clients is a complimentary presentation of the financials at a board meeting of their choosing. Should you wish for us to attend a meeting to present feel free to contact the firm.

We welcome the opportunity to discuss the above.

Very truly yours,

Gerstle, Rosen & Goldenberg, P.A.

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May 29, 2020

To the Board of Directors
Harbour Isle at Hutchinson Island East Condominium Association, Inc.

We have audited the financial statements of Harbour Isle at Hutchinson Island East Condominium Association, Inc. ("the Association") for the year ended December 31, 2019, and have issued our report thereon dated May 29, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 2, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harbour Isle at Hutchinson Island East Condominium Association, Inc. are described in Note 3 to the financial statements. As described in Note 4, the Association changed accounting policies related to revenue recognition by adopting FASB Accounting Standards Update No. 2014-09 accounted for and disclosed in accordance with FASB ASC 606, *Revenue from Contracts with Customers* in the year ended December 31, 2019. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

There were no sensitive estimates affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As applicable, management has corrected all such misstatements. Enclosed you will find the proposed adjusting journal entries approved by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 29, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information on Future Major Repairs and Replacements

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Harbour Isle at Hutchinson Island East Condominium Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Gerstle, Rosen & Goldenberg, P.A.

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INSTRUCTIONS

ACCOUNTING ENTRIES AND OTHER SUPPORTING DOCUMENTS

DATE: June 9, 2020

RE: Harbour Isle at Hutchinson Island East Condominium Association, Inc.

1. ADJUSTING JOURNAL ENTRIES

- a. If you have closed for the year, all adjustments to revenue, expenses and prior period adjustments should be put to the respective fund balance.
- b. Ensure that prior period adjustments are closed to fund balance at year end.
- c. Under normal circumstances accruals should be reversed against current expenses.

2. WORKING TRIAL BALANCE

- a. The working trial balance reflects a summary of the year end adjustments to post after closing (i.e. balance sheet accounts only).

Please call the office if you have any questions.

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**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.
PROPOSED ADJUSTING JOURNAL ENTRIES
December 31, 2019**

[illegible]

HARBOUR ISLE AT HUTCHINSON ISLAND EAST CONDOMINIUM ASSOCIATION, INC.
POST CLOSING WORKING TRIAL BALANCE
December 31, 2019

ACCOUNT TITLE	CLIENT ACCOUNT NUMBER	CLIENT T/B		ADJUSTMENTS		CPA F/S	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
BALANCE SHEET							
ASSETS				-	-		
CENTERSTATE OPERATING	10010 80	3,529.00		-	-	3,529.00	
UNION BANK CHECKING- OPERATING	10010 84	127,787.00		-	-	127,787.00	
CASH- MONEY MARKET	10014 00	6,609.00		-	-	6,609.00	
DUE (TO)/ FROM RESERVES	10200	110,837.00		-	-	110,837.00	
ACCOUNTS RECEIVABLE	10300	252.00		-	-	252.00	
OTHER RECEIVABLES FORECLOSURE	10330 32			-	-		
OTHER RECEIVABLES VENDORS	10330 85			-	-		
ALLOWANCE FOR BAD DEBT	10390		251.00	251.00	-		0.00
PREPAID INSURANCE	10500	55,626.00		-	7,974.12	47,651.88	
PREPAID EXPENSES	10505	100.00		-	-	100.00	
A/R CLEARING	10550	4,398.00		-	-	4,398.00	
PETTY CASH	10005	200.00		-	-	200.00	
				-	-		
AXOS BANK-CASH RESERVES	12010 218	50,759.00		-	-	50,759.00	
VALLEY NATIONAL BANK- CASH RESERVES	120110 241	232,050.00		-	-	232,050.00	
VALLEY NATIONAL BANK- CASH RESERVES	12010 241a	673.00		-	-	673.00	
CASH-RESERVES MORGAN STANLEY	1201030	353,212.00		-	-	353,212.00	
GREEN BANK- CASH RESERVES-	12010 43A	36,071.00		-	-	36,071.00	
SERVISFIRST BANK - CASH RESERVES	12010 612A	248,803.00		-	-	248,803.00	
MULTAL OF OMAHA BANK- CASH RESERVES	12010 650	148.00		-	-	148.00	
ALLIANCE BANK- CASH RESERVES	12010 655	14,148.00		-	-	14,148.00	
BANK UNITED - CASH RESERVES C.D	12030 13	102,501.00		-	-	102,501.00	
OCULINA BANK - CASH RESERVES C.D	12034	252,500.00		-	-	252,500.00	
PROFESSIONAL BANK - CASH RESERVES C.D	12030 546	103,043.00		-	-	103,043.00	
CASH IN TRANSIT RESERVES	12031	103,464.00		-	-	103,464.00	
DUE (TO) FROM OPERATING	12045		110,837.00	-	-		110,837.00
				-	-		
OTHER FIXED ASSETS STORAGE SHED	16022 60	55,000.00		-	-	55,000.00	
ACCUMULATED DEPRECIATION	16090		9,667.00	-	-		9,667.00
				-	-		
LIABILITIES AND FUND BALANCE				-	-		
				-	-		
ACCOUNTS PAYABLE	20000		1,458.00	-	-		1,458.00
ACCRUED EXPENSES	20010		45,319.00	-	400.00		46,319.00
INSURANCE PAYABLE	20040		15,476.00	-	-		15,476.00
PREPAID ASSESSMENTS	20100		178,011.00	-	-		178,011.00
DEFERRED ASSESSMENTS	20150		0.00	-	-		0.00
DEFERRED STORAGE	20154		0.00	-	-		0.00
INS CLAIM PROCEEDS	23001		20,261.00	20,261.00	-		0.00
INS CLAIM SPENT	23011	20,819.00		-	20,819.00	0.00	
				-	-		
RESERVES	30000 00		1,229,556.00	-	-		1,229,556.00
RESERVES STORAGE	30000-680		89,464.00	-	-		89,464.00
RESERVE INTEREST			67,516.00	-	-		67,516.00
				-	-		
Rounding				-	-		
FUND BALANCE			72,661.00	-	-		72,661.00
CURRENT YEAR INCOME / LOSS			41,452.00	8,681.12	-		32,770.88
		\$1,882,529.00	\$1,882,529.00	\$20,193.12	\$20,193.12	\$1,853,735.88	\$1,853,735.88
		\$0.00		\$0.00		\$0.00	

ENDING FUND BALANCE PER CPA F/S SHOULD EQUAL: \$105,431.88

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2019



Gerstle, Rosen & Goldenberg, P.A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Unit Owners
Harbour Isle at Hutchinson Island East Condominium Association, Inc.

Dear Members:

Report on the Financial Statements

We have audited the accompanying financial statements of Harbour Isle at Hutchinson Island East Condominium Association, Inc., which comprise the balance sheet as of December 31, 2019, 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 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 Harbour Isle at Hutchinson Island East 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.

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Effect of Adopting New Accounting Standard

As discussed in Note 4 to the financial statements, as of January 1, 2019, the Association adopted the new revenue guidance FASB ASC 606, *Revenue from Contracts with Customers*, the first applicable year. This new standard supersedes accounting standards that previously existed under GAAP and provides a comprehensive principle-based framework for recognizing revenue. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information on Future Major Repairs and Replacements

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.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Detailed Statement of Operating Revenues and Expenses Budget Comparison is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.

Gerstle, Rosen & Goldenberg, P.A.

GERSTLE, ROSEN & GOLDENBERG, P.A.
Certified Public Accountants
Boca Raton, Florida

May 29, 2020

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

BALANCE SHEET

December 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 138,125	\$ 1,039,328	\$ 1,177,453
Certificates of Deposit		458,044	458,044
Accounts Receivable	252		252
AR Clearing	4,398		4,398
Prepaid Insurance	32,176		32,176
Prepaid Expenses	100		100
Property and Equipment	45,333		45,333
Due To/From Funds	110,836	(110,836)	0
TOTAL ASSETS	<u>\$ 331,220</u>	<u>\$ 1,386,536</u>	<u>\$ 1,717,756</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 1,458	\$	\$ 1,458
Accrued Expenses	46,319		46,319
Prepaid Maintenance Fees	178,011		178,011
Contract Liability - Deferred Reserves		1,319,020	1,319,020
TOTAL LIABILITIES	<u>225,788</u>	<u>1,319,020</u>	<u>1,544,808</u>
Fund Balances	<u>105,432</u>	<u>67,516</u>	<u>172,948</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 331,220</u>	<u>\$ 1,386,536</u>	<u>\$ 1,717,756</u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

Year Ended December 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Maintenance Fees	\$ 1,302,800	\$ 119,625	\$ 1,422,425
Front Entry & Keys Revenues	803		803
Storage Income	27,080		27,080
Clubhouse Rental	1,200		1,200
Interest Income	1,679	25,271	26,950
Late Fees	2,138		2,138
Application Fees	2,500		2,500
Administrative Fees	1,105		1,105
Insurance Claim Income	20,261		20,261
Returned Check Fees	250		250
TOTAL REVENUES	<u>1,359,816</u>	<u>144,896</u>	<u>1,504,712</u>
EXPENSES			
Depreciation	2,000		2,000
Administrative	75,551		75,551
Insurance	178,334		178,334
Utilities	279,397		279,397
Contracts	695,951		695,951
Salaries And Benefits	1,200		1,200
Repairs/Maintenance	64,359		64,359
Recreation Center	17,663		17,663
Insurance Claim Expense	20,819		20,819
Replacement Fund Expenses		119,625	119,625
TOTAL EXPENSES	<u>1,335,274</u>	<u>119,625</u>	<u>1,454,899</u>
EXCESS REVENUES (EXPENSES)	24,542	25,271	49,813
FUND BALANCES - BEGINNING	72,662	1,286,091	1,358,753
PRIOR PERIOD ADJUSTMENT	8,228		8,228
CONTRACT LIABILITY RECLASSIFICATION		(1,243,846)	(1,243,846)
FUND BALANCES - ENDING	<u>\$ 105,432</u>	<u>\$ 67,516</u>	<u>\$ 172,948</u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
EXCESS REVENUES (EXPENSES)	\$ 24,542	\$ 25,271	\$ 49,813
ADJUSTMENTS TO RECONCILE EXCESS REVENUES (EXPENSES) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Contract Liability Reclassification		(1,243,846)	(1,243,846)
Depreciation	2,000		2,000
Prior Period Adjustment	8,228		8,228
DECREASE (INCREASE) IN ASSETS:			
Accounts Receivable - Net of Allowance	2,937		2,937
Prepaid Insurance	(18,218)		(18,218)
Prepaid Expenses	(100)		(100)
Due To/From Funds	(106,413)	106,413	0
INCREASE (DECREASE) IN LIABILITIES:			
Accounts Payable	1,458		1,458
Accrued Expenses	1,341		1,341
Prepaid Maintenance Fees	39,128		39,128
Contract Liability - Deferred Reserves		1,319,020	1,319,020
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(45,097)</u>	<u>206,858</u>	<u>161,761</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Certificates of Deposit		(152,374)	(152,374)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>0</u>	<u>(152,374)</u>	<u>(152,374)</u>
NET INCREASE (DECREASE) IN CASH	(45,097)	54,484	9,387
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD	<u>183,222</u>	<u>984,844</u>	<u>1,168,066</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 138,125</u></u>	<u><u>\$ 1,039,328</u></u>	<u><u>\$ 1,177,453</u></u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1. ORGANIZATION

Harbour Isle at Hutchinson Island East Condominium Association, Inc. is a statutory condominium association incorporated on December 16, 2004, in the State of Florida. The Association is responsible for the operation and maintenance of the common property of Harbour Isle at Hutchinson Island East Condominium Association, Inc. and consists of 288 units located on approximately 10 acres in Hutchinson Island, FL.

2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 29, 2020, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association uses the accrual method of accounting, i.e., revenues are recognized as earned and expenses are recorded in the period in which they are incurred.

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:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

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 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.

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments plus late fees, if applicable from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent according to its collection policy. Management determines the allowance for doubtful accounts by identifying troubled accounts through periodic review of accounts receivable aging schedules. No allowance for uncollectible accounts is deemed necessary. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$3,189 and \$252., respectively.

Contract Liability (Assessments received in advance - Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – Replacement Fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liability (assessments received in advance – Replacement Fund) as of the beginning and end of the year are \$-0- and \$1,319,020., respectively. (See Note 4)

Use of Estimates

The Association uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

For presentation purposes, cash and equivalents consists of checking and money market accounts.

Certificates of Deposit

The Association holds certificates of deposit totaling \$458,044., bearing interest ranging from 1.25% to 1.70%. These certificates have original maturities of greater than 90 days, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Prepaid Insurance and Insurance Payable

Prepaid insurance of \$32,176., as presented on the Balance Sheet, is shown net of the related financing agreement insurance payable of \$15,476.

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment

Real property and common area property acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the owners in common and not by the Association. Capital Expenditures are charged to the designated funds. Real property not directly associated with units are recognized as assets by the Association when the Association has title to the property and either the asset can be disposed of by the Board of Directors or generates significant cash flows from members on the basis of usage or from nonmembers. Common personal property purchased with Association funds, with a useful life of more than one year, is capitalized on the Association's financial statements. Capitalized assets are depreciated over their estimated useful lives using the straight-line method of depreciation. See Note 8.

Fair Value Measurement

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Association has determined that there was no material difference between the carrying value and fair value of its financial assets and liabilities at December 31, 2019; therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2019.

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes provide that each proposed budget includes provisions for reserves for capital improvements and deferred maintenance. These accounts, if adopted, are restricted to their intended purpose unless modified by a qualified unit owner vote. In addition, any special assessments adopted are also restricted to their specific purpose.

The approved budget includes provisions for reserves for capital improvements and deferred maintenance. At a duly constituted meeting, the Association elected to partially waive reserve funding for the current fiscal year based on a study in September 2018 to estimate the remaining useful lives and the replacement costs of the common property components, as disclosed in the Supplementary information. The funds are being accumulated based on estimates of future needs for repairs and replacements of common property components as disclosed in the supplementary information. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, 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 to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Association has adopted the pooling method which allows the Association to utilize all available replacement funds for future projects rather than only using funds designated for each individual replacement component.

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The balance at December 31, 2019, consists of the following:

COMPONENTS	BALANCE 12/31/2018	INTEREST/ ASSESSMENTS	TRANSFERS	EXPENDITURES	BALANCE 12/31/2019
Pooled Storage Area	\$1,162,181 81,664	\$187,000 7,800		(\$119,625)	\$1,229,556 89,464
SUB-TOTAL CONTRACT LIABILITY - DEFERRED RESERVES	0				1,319,020
Unallocated Interest (Fund Balance as of 12/31/2019)	42,245	25,271			67,516
TOTAL LIABILITIES AND FUND BALANCE	\$1,286,090	\$220,071	\$0	(\$119,625)	\$1,386,536

The Association does not allocate interest earned on the replacements fund to specific replacement components as earned, but does so periodically depending on projected requirements.

Florida Statute allows commingling of operating and replacement funds if the replacement funds are accounted for separately and fully funded.

The major expenditures recorded as pooled expenses consist of roof repairs, concrete repairs and pool furniture.

FASB ASC 606 New Accounting Standard 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 Association, 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 an Association expects to be entitled in exchange for those goods or services.

The Association adopted the 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 the beginning fund balances. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to Replacement Fund expenditures/contracts that were not complete as of January 1, 2019. Adoption of the new standard resulted in changes to our accounting policies for assessment revenue and contract liability (assessments received in advance – Replacement Fund), as previously described.

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The modified retrospective method of transition requires us to disclose the effect of applying the new standard on each item included in our current year financial statements. The line items from our Balance Sheet as of year-end that were affected, the amounts that would have been reported under the former standard, the effects of applying the new standard, and the balances reported under the new standards are as follows:

	Replacement Fund Old Standard	Replacement Fund New Standard
LIABILITIES AND FUND BALANCES		
Contract Liability - Deferred Reserves	\$0	\$1,319,020
TOTAL LIABILITIES	0	1,319,020
Fund Balances	1,386,536	67,516
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,386,536</u>	<u>\$1,386,536</u>

As a result of the above reference modification, line items from the Statement of Revenues, Expenses and Changes in Fund Balances as of year-end were affected. The recognized maintenance fees for the Replacement Fund changed as follows:

	Replacement Fund Old Standard (Per) (Budget)	Replacement Fund New Standard (Expenses Less Any) (Allocated Interest)	Variance
Maintenance Fees	<u>\$194,800</u>	<u>\$119,625</u>	<u>\$75,175</u>

**HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

5. INCOME TAXES

The Association is subject to federal and state taxation and has essentially two methods to determine the amount of tax, if any, it must pay. Under one method, the excess of revenues from members over related expenditures is subject to taxation unless such excess is returned to the unit owners or applied to the following year's assessments (Section 277 of the Internal Revenue Code). The other method enables the Association to elect to exclude from taxation "exempt function income," (Section 528 of the Internal Revenue Code), which generally consists of revenue from unit owner assessments. Under either method, the Association may be subject to tax on investment income and other non-exempt income, but at different rates.

The Association will file its 2019 federal income tax return on Form 1120H under Section 528 of the Internal Revenue Code.

There is no current year provision for income taxes.

The Association has evaluated its tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC").

The Association has no income tax returns under examination by the Internal Revenue Service. The Association believes it is no longer subject to income tax examinations for years prior to 2016.

6. CONCENTRATION OF CREDIT RISK

As of December 31, 2019, the Association maintained cash and cash equivalent balances which exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. The Association has not experienced any losses related to these cash balances and believes it is not exposed to any significant risk on these accounts.

7. COMMITMENTS

The Association has various contract services to maintain the common property including management services, cable television service, common area landscaping, pool service, trash service, elevator maintenance and pest control. These contracts have different expiration dates and renewal terms.

8. LINE OF CREDIT

During 2019, the Association renewed their emergency line of credit with Valley National Bank. The Line of Credit is in the amount of \$250,000. As of the date this report was issued, the Association had not drawn down any of these funds.

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

9. FIXED ASSET AND DEPRECIATION

Major categories of property recognized as assets are:

	<u>Useful Lives</u>	<u>Cost</u>
Storage Shed	27.5 Years	\$55,000
Less: Accumulated Depreciation		<u>9,667</u>
Fixed Assets - Net		<u><u>\$45,333</u></u>

On March 3, 2015, the Association purchased a storage shed for \$55,000 and is being depreciated using the straight-line method over the estimated useful life of 27.5 years. During 2019, depreciation expense amounted to \$2,000.

10. CONTINGENCIES

Insurance Deductible

The current property insurance policy contains a deductible for hurricane damage. Should the Association incur an uninsured loss, the Association has the right to increase maintenance fees, pass a special assessment or delay repairs until funds are available.

11. PRIOR PERIOD ADJUSTMENT

Prior period adjustments are transactions and corrections relating to prior accounting periods, and are made in order to reflect the current year without distortion. This prior period adjustment is to adjust insurance payable for a payment that should have been recorded in the prior period.

12. ONGOING LITIGATION

The Association is currently involved in wrongful death litigation. The defense is being handled by the Associations insurance companies legal counsel. The outcome of this litigation is unknown as of this time.

13. INSURANCE PROCEEDS

During 2019, the Association received \$20,261 from an insurance claim related to community elevators. The work to correct was performed in 2019.

SUPPLEMENTARY INFORMATION

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2019
(Unaudited)

The Association has conducted an independent study in 2018 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on estimates from historical experience. Actual expenditures may vary from these estimated amounts and the variance may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The following presents significant information about the components of common property:

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIVES</u>	<u>ESTIMATED CURRENT REPLACEMENT COSTS</u>	<u>2020 FUNDING REQUIREMENT</u>
Pooled Reserve	0 Years	\$0	\$394,200
Roof	11 Years	1,655,900	0
Painting	4 Years	361,790	0
Tennis Courts	16 Years	45,820	0
Seawall	24 Years	885,000	0
Paving	11 Years	1,754,321	0
Pool	12 Years	76,830	0
Restrooms	12 Years	28,800	0
Elevators	18 Years	352,800	0
Interiors	0 Years	92,100	0
Restoration	29 Years	1,193,520	0
HVAC	2 Years	19,500	0
Clubhouse - Kitchen	16 Years	13,800	0
Security	2 Years	26,288	0
Storage	9 Years	201,269	0
TOTAL		<u>\$6,707,738</u>	<u>\$394,200</u>

During 2009, the Association elected to fund future and past components using the pooling method. The Association elected to partially fund the replacement fund for 2020, in the amount of \$194,800.

See independent auditors' report.

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>REVENUES:</u>			
Maintenance Fees	\$1,302,800	\$1,302,804	(4)
Front Entry & Keys Revenue	803	1,000	(197)
Storage Income	27,080	27,160	(80)
Clubhouse Rental	1,200	1,000	200
Interest Income	1,679	1,500	179
Late Fees	2,138	4,000	(1,862)
Application Fees	2,500	4,500	(2,000)
Administrative Fees	1,105	0	1,105
Insurance Claim Income	20,261	0	20,261
Returned Check Fees	250	0	250
	<hr/>	<hr/>	<hr/>
Total Revenues	1,359,816	1,341,964	17,852
<u>EXPENSES:</u>			
<u>DEPRECIATION</u>			
Depreciation	2,000	0	(2,000)
	<hr/>	<hr/>	<hr/>
TOTAL DEPRECIATION	2,000	0	(2,000)
<u>ADMINISTRATIVE</u>			
Annual Audit	3,600	3,200	(400)
Property Maintenance	34,560	34,560	0
Bad Debt	815	1,000	185
Bank Charges	105	0	(105)
Legal Fees	23,657	9,000	(14,657)
Annual Condo Fees	1,091	2,000	909
License, Taxes, Permit Elevator Cert	1,091	900	(191)
Office Supplies	8,888	10,000	1,112
Screening Fees	1,744	3,000	1,256
	<hr/>	<hr/>	<hr/>
TOTAL ADMINISTRATIVE	75,551	63,660	(11,891)

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
EXPENSES, Continued			
<u>INSURANCE</u>			
Multiperil Insurance	178,334	160,000	(18,334)
TOTAL INSURANCE	<u>178,334</u>	<u>160,000</u>	<u>(18,334)</u>
<u>UTILITIES</u>			
Electricity	67,547	70,000	2,453
Water/Sewer	123,060	150,000	26,940
Water & Sever Irrigation	76,562	74,000	(2,562)
Gas/ Fuel Oil	1,552	1,000	(552)
Telephone	10,676	10,000	(676)
TOTAL UTILITIES	<u>279,397</u>	<u>305,000</u>	<u>25,603</u>
<u>CONTRACTS</u>			
Cable Television	190,137	186,160	(3,977)
Elevator Inspection	1,100	1,200	100
Elevator Contract	24,134	24,000	(134)
Fire Alarm System	18,620	29,000	10,380
Health Benefits	17,496	16,488	(1,008)
Tree & Mangrove Trimming	10,132	11,000	868
Lawn & Irrigation	76,284	77,250	966
Management Services	84,000	84,000	0
Maintenance & Janitorial	83,417	80,000	(3,417)
Administrative	2,279	19,668	17,389
Pest Control	4,669	3,880	(789)
Pool/Spa Contract	9,900	10,000	100
Security Services	137,611	131,000	(6,611)
Trash Removal	36,172	36,800	628
TOTAL CONTRACTS	<u>695,951</u>	<u>710,446</u>	<u>14,495</u>

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
EXPENSES, Continued			
<u>SALARIES AND BENEFITS</u>			
Bonuses	1,200	0	(1,200)
<i>Total SALARIES AND BENEFITS</i>	<u>1,200</u>	<u>0</u>	<u>(1,200)</u>
<u>REPAIRS/MAINTENANCE</u>			
R&M- Air Conditioning	1,258	4,000	2,742
Irrigation Maintenance	2,007	5,000	2,993
R&M- Building	19,486	20,000	514
Clubhouse	1,494	2,000	506
Elevator	1,748	5,913	4,165
Maintenance Pool	5,678	5,000	(678)
Maintenance Signs	241	1,000	759
Equipment Exercise	1,481	5,000	3,519
Gate	4,919	5,000	81
Golf Cart	3,080	3,500	420
Lighting	2,012	4,000	1,988
Furn/Equip	311	1,500	1,189
Landscaping Plant Replacement	3,469	7,485	4,016
Mulch/Soil	0	6,000	6,000
Miscellaneous Exp.	1,283	5,000	3,717
Contingency	8,811	0	(8,811)
Janitorial Service & Supplies	7,081	3,000	(4,081)
<i>TOTAL REPAIRS/MAINTENANCE</i>	<u>64,359</u>	<u>83,398</u>	<u>19,039</u>
<u>RECREATION CENTER</u>			
Bldg Rpr/Maint	126	960	834
Electric	1,932	1,500	(432)
Insurance	14,004	14,000	(4)
Landscape Maint	100	400	300
Office	696	700	4
Pest Control	141	200	59
Accountant/Bookkeeper	175	700	525
Fire Control System	489	1,000	511
<i>TOTAL RECREATION CENTER</i>	<u>17,663</u>	<u>19,460</u>	<u>1,797</u>

HARBOUR ISLE AT HUTCHINSON ISLAND EAST
CONDOMINIUM ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
EXPENSES, Continued			
<u>INSURANCE CLAIM EXPENSES</u>			
Insurance Claim Expenses	20,819	0	(20,819)
<i>Total INSURANCE CLAIM EXPENSES</i>	<u>20,819</u>	<u>0</u>	<u>(20,819)</u>
 Total Operating Expenses	 1,335,274	 1,341,964	 6,690
 Excess Operating Revenues (Expenses)	 <u>\$24,542</u>	 <u>\$0</u>	 <u>\$24,542</u>

Form **1120-H**Department of the Treasury
Internal Revenue Service**U.S. Income Tax Return
for Homeowners Associations**

OMB No. 1545-0123

2019Go to www.irs.gov/Form1120H for instructions and the latest information.

For calendar year 2019 or tax year beginning , and ending

TYPE OR PRINT	Name HARBOUR ISLE AT HUTCHINSON ISLAND C/O FIRST SERVICE RESIDENTIAL	Employer identification number 20-2070095
	Number, street, and room or suite no. If a P.O. box, see instructions. 11621 KEW GARDENS AVE SUITE 200	Date association formed 12/16/2004
	City or town, state or province, country, and ZIP or foreign postal code PALM BEACH GARDENS FL 33408	

Check if: (1)	Final return (2)	Name change (3)	Address change (4)	Amended return
A Check type of homeowners association: <input checked="" type="checkbox"/> Condominium management association <input type="checkbox"/> Residential real estate association <input type="checkbox"/> Timeshare association				
B Total exempt function income. Must meet 60% gross income test. See instructions				B 1,526,818
C Total expenditures made for purposes described in 90% expenditure test. See instructions				C 1,401,815
D Association's total expenditures for the tax year. See instructions				D 1,454,899
E Tax-exempt interest received or accrued during the tax year				E

Gross Income (excluding exempt function income)

1 Dividends	1	
2 Taxable interest	2	26,950
3 Gross rents	3	
4 Gross royalties	4	
5 Capital gain net income (attach Schedule D (Form 1120))	5	
6 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	
7 Other income (excluding exempt function income) (attach statement) STMT 1	7	26,119
8 Gross income (excluding exempt function income). Add lines 1 through 7	8	53,069

Deductions (directly connected to the production of gross income, excluding exempt function income)

9 Salaries and wages	9	
10 Repairs and maintenance	10	
11 Rents	11	
12 Taxes and licenses	12	
13 Interest	13	
14 Depreciation (attach Form 4562)	14	
15 Other deductions (attach statement) STMT 2	15	53,084
16 Total deductions. Add lines 9 through 15	16	53,084
17 Taxable income before specific deduction of \$100. Subtract line 16 from line 8	17	-15
18 Specific deduction of \$100	18	100

Tax and Payments

19 Taxable income. Subtract line 18 from line 17	19	-115
20 Enter 30% (0.30) of line 19. (Timeshare associations, enter 32% (0.32) of line 19.)	20	0
21 Tax credits (see instructions)	21	
22 Total tax. Subtract line 21 from line 20. See instructions for recapture of certain credits	22	0
23a 2018 overpayment credited to 2019	23a	
b 2019 estimated tax payments	23b	
c Total	23c	
d Tax deposited with Form 7004	23d	
e Credit for tax paid on undistributed capital gains (attach Form 2439)	23e	
f Credit for federal tax paid on fuels (attach Form 4136)	23f	
g Add lines 23c through 23f	23g	
24 Amount owed. Subtract line 23g from line 22. See instructions	24	0
25 Overpayment. Subtract line 22 from line 23g	25	
26 Enter amount of line 25 you want: Credited to 2020 estimated tax Refunded	26	

**Sign
Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

May the IRS discuss this return with the preparer shown below? See Instr. ☐ Yes ☐ No

Signature of officer

Date

Title

Paid	Print/Type preparer's name ROBERT N ROSEN CPA	Preparer's signature	Date 04/06/20	Check <input type="checkbox"/> if self-employed	PTIN P00930797
Preparer	Firm's name GERSTLE, ROSEN & GOLDENBERG, P.A.	Firm's EIN 65-0675434			
Use Only	Firm's address 3835 NW BOCA RATON BLVD STE 100 BOCA RATON, FL 33431	Phone no. 561-447-4000			

For Paperwork Reduction Act Notice, see separate instructions.

Form **1120-H** (2019)

Statement 1 - Form 1120-H, Line 7 - Other Income

COPY

Description	Amount
GATE CARDS / KEYS	\$ 803
RENTAL	1,200
APPLICATION FEE	2,500
RETURN CHECK FEES	250
INSURANCE CLAIM	20,261
ADMINISTRATIVE FEE	1,105
TOTAL	\$ 26,119

Statement 2 - Form 1120-H, Line 15 - Other Deductions

Description	Amount
ACCOUNTING	\$ 3,500
MANAGEMENT	12,600
ADMINISTRATIVE EXPENSE	7,442
INSURANCE	5,350
ELECTRICITY	3,373
INSURANCE CLAIM EXPENSE	20,819
TOTAL	\$ 53,084