

**Ocean Ritz Owners'
Association, Inc.**


**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2018



CRI CARR
RIGGS &
INGRAM
CPAs and Advisors

CRIcpa.com



Ocean Ritz Owners' Association, Inc.
Table of Contents
December 31, 2018

REPORT

Independent Accountants' Review Report	1
--	---

FINANCIAL STATEMENTS

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

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

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

Notes to the Financial Statements	7
-----------------------------------	---

SUPPLEMENTARY INFORMATION

Schedule of Changes in Replacement Fund Balance	12
---	----

Schedule of Operating Fund Revenues and Expenses – Actual vs. Budget	13
--	----

Supplementary Information on Future Major Repairs and Replacements	14
--	----



Carr, Riggs & Ingram, LLC
189 Eglin Parkway NE
2nd Floor
Fort Walton Beach, FL 32548

850.244.8395
850.243.5024 (fax)
CRlcpa.com

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Ocean Ritz Owners' Association, Inc., which comprise the balance sheet as of December 31, 2018, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

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

Accountants' Conclusion on the Financial Statements

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

Summarized Comparative Information

We previously reviewed Ocean Ritz Owners' Association, Inc.'s 2017 financial statements and in our report dated April 10, 2018, stated that based on our review, we were not aware of any material modifications that should be made to the 2017 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2017, for it to be consistent with the reviewed financial statements from which it has been derived.

Supplementary Information

The supplementary information included in the Schedule of Changes in Replacement Fund Balance and in the Schedule of Operating Fund Revenues and Expenses – Actual vs. Budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. This is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information, and we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 14 be presented to supplement the basic financial statements. Such information, although not a required 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. The information is the responsibility of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

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

CARR, RIGGS & INGRAM, LLC

Fort Walton Beach, Florida
October 25, 2019

Ocean Ritz Owners' Association, Inc.
Balance Sheet

<i>December 31,</i>	2018				2017	
	Operating Fund	Replacement Fund	Hurricane Fund	Total	Total (For Comparative Purposes)	
Assets						
Cash	\$ 17,440	\$ 343,976	\$ -	\$ 361,416	\$ 297,680	
Assessments receivable	9,264	-	-	9,264	4,458	
Insurance proceeds receivable	-	-	650,000	650,000	-	
Prepaid expenses	37,842	-	-	37,842	55,189	
Interfund balance	(11,570)	38,670	(27,100)	-	-	
Total assets	\$ 52,976	\$ 382,646	\$ 622,900	\$ 1,058,522	\$ 357,327	
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 616,685	\$ 616,685	\$ -	
Insurance finance agreement	27,079	-	-	27,079	-	
Prepaid assessments	12,964	-	-	12,964	7,998	
Total liabilities	40,043	-	616,685	656,728	7,998	
Fund balance	12,933	382,646	6,215	401,794	349,329	
Total liabilities and fund balance	\$ 52,976	\$ 382,646	\$ 622,900	\$ 1,058,522	\$ 357,327	

See accompanying notes and independent accountants' review report.

Ocean Ritz Owners' Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balance

<i>Year ended December 31,</i>	2018			2017	
	Operating Fund	Replacement Fund	Hurricane Fund	Total	Total (For Comparative Purposes)
Revenues					
Regular assessments	\$ 353,430	\$ 62,370	\$ -	\$ 415,800	\$ 378,000
Beach service income	29,000	-	-	29,000	29,000
Insurance proceeds	-	-	650,000	650,000	-
Interest income	-	177	-	177	159
Miscellaneous income	8,100	-	-	8,100	5,268
Recovery of bad debt	1,216	-	-	1,216	-
Office rent	6,000	-	-	6,000	-
Registration fees	19,422	-	-	19,422	38,621
Total revenue	417,168	62,547	650,000	1,129,715	451,048
Expenses					
Administrative	50,000	-	-	50,000	56,523
Courtesy patrol	16,115	-	-	16,115	17,027
Insurance	57,209	-	-	57,209	58,367
Maintenance and repairs	170,933	14,550	643,785	829,268	178,875
Utilities	124,658	-	-	124,658	119,474
Total expenses	418,915	14,550	643,785	1,077,250	430,266
Excess (deficit) of revenues over expenses	(1,747)	47,997	6,215	52,465	20,782
Beginning fund balance	14,680	334,649	-	349,329	328,547
Ending fund balance	\$ 12,933	\$ 382,646	\$ 6,215	\$ 401,794	\$ 349,329

See accompanying notes and independent accountants' review report.

Ocean Ritz Owners' Association, Inc.
Statement of Cash Flows

<i>Year ended December 31,</i>	2018			2017	
	Operating Fund	Replacement Fund	Hurricane Fund	Total	Total (For Comparative Purposes)
Operating activities					
Assessments collected	\$ 354,806	\$ 62,370	\$ -	\$ 417,176	\$ 360,724
Beach service income received	29,000	-	-	29,000	29,000
Interest income received	-	177	-	177	159
Miscellaneous income received	8,100	-	-	8,100	5,268
Office rent received	6,000	-	-	6,000	
Registration fees received	19,422	-	-	19,422	38,621
Cash paid for expenses	(374,489)	(14,550)	(27,100)	(416,139)	(432,286)
Interfund balances	(26,812)	(288)	27,100	-	-
Net cash provided (used) by operating activities	16,027	47,709	-	63,736	1,486
Net increase in cash	16,027	47,709	-	63,736	1,486
Cash at beginning of year	1,413	296,267	-	297,680	296,194
Cash at end of year	\$ 17,440	\$ 343,976	\$ -	\$ 361,416	\$ 297,680

(continued)

See accompanying notes and independent accountants' review report.

**Ocean Ritz Owners' Association, Inc.
Statement of Cash Flows (Continued)**

<i>Year ended December 31,</i>	2018			2017	
	Operating Fund	Replacement Fund	Hurricane Fund	Total	Total (For Comparative Purposes)
Reconciliation of excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:					
Excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:	\$ (1,747)	\$ 47,997	\$ 6,215	\$ 52,465	\$ 20,782
Adjustments to reconcile					
Excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:					
Bad debt recovery	(1,216)	-	-	(1,216)	-
Changes in operating assets and liabilities:					
Assessments receivable	(3,590)	-	-	(3,590)	(4,000)
Insurance proceeds receivable	-	-	(650,000)	(650,000)	-
Prepaid expenses	17,347	-	-	17,347	(832)
Interfund balances	(26,812)	(288)	27,100	-	-
Accounts payable	-	-	616,685	616,685	(1,188)
Insurance finance agreement	27,079	-	-	27,079	-
Prepaid assessments	4,966	-	-	4,966	(13,276)
 Net cash provided (used) by operating activities	 \$ 16,027	 \$ 47,709	 \$ -	 \$ 63,736	 \$ 1,486

See accompanying notes and independent accountants' review report.

NOTE 1: ORGANIZATION

Ocean Ritz Owners' Association, Inc. ("Association"), a Florida not-for-profit corporation, was formed September 3, 2003. Membership in the Association consists of the 63 residential units of this Florida condominium. The condominium is located on approximately two acres in Panama City Beach, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including grounds, building exteriors, roofs, elevators, parking areas, swimming pool, pool patio, spa, and lobby. Disposition of common area property requires consent of the members.

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

The Association is self-managed. The Association does not operate a rental program; instead, individual unit owners have contracted with various real estate companies to lease their individual rental units. As discussed further in Note 9, the Association sustained significant damage in 2018 as a result of Hurricane Michael.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, revenues, and expenses as determined using the accrual basis of accounting. The financial statements include certain prior year summarized comparative information in total but not by fund. Also, certain prior year disclosures are not included. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Funds

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Hurricane Fund is generally used to account for the revenues and expenses related to the damage sustained as a result of Hurricane Michael in October 2018. Disbursement are generally made at the direction of the Board of Directors and the Association's management.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance for the subsequent period are reported as Prepaid assessments on the Balance Sheet. Beach service income and Registration fees are recognized as revenue during the period in which they are earned.

Assessments Receivable from Owners and Allowance for Doubtful Accounts

Assessments receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectable, they are written off by charging the allowance and crediting the receivable. Since management considers all receivables to be collectible at December 31, 2018, no allowance has been established at this time.

Capitalization and Depreciation

Real property acquired by the Association is capitalized when it is used to generate significant cash flows from members on the basis of usage or from nonmembers or can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized includes grounds, building exteriors, roofs, elevators, parking areas, swimming pool, pool patio, spa, and lobby.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Personal property acquired by the Association is capitalized at cost. It is depreciated over its estimated useful life using the straight-line method of depreciation.

Prepaid Expenses

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing the financial statements, the Association's management has evaluated events and transactions for potential recognition or disclosure through October 25, 2019, which is the date the financial statements were available to be issued.

NOTE 3: OWNERS' ASSESSMENTS

Revenues and expenses are allocated equally, and accordingly, assessment fees are established using this formula. The monthly rate for 2018 was \$550. For the year ended December 31, 2018, assessments were \$415,800, of which \$62,370 was allocated to the Replacement Fund.

Subsequent to year end, the Association levied a special assessment totaling \$189,000 to cover the expected deductible related to its Hurricane Michael insurance claim and replenish the reserve funds if those funds are used for repairs. The special assessment is \$3,000 per unit, and payment was due April 30, 2019. Because the assessment levy occurred after year-end, this amount is not reflected in the accompanying financial statements.

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted the pooling method to accumulate funds for estimated future major repairs and replacements through regular assessments. Accumulated funds are held in separate bank accounts and generally not available for expenditures for normal operations.

The Association is funding for future major repairs and replacements based on the Board of Director's and management's estimates. Accordingly, the funding requirement of \$62,370, based on the Board's fully funded plan, has been included in the 2018 budget.

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund. The Board of Directors performed an independent study of the estimated replacement costs, remaining lives and funding requirements for the reserve components in June 2016. Future reserve budgets will be based on that study.

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

NOTE 5: INCOME TAXES

The Association filed its tax return for 2018 as a regular corporation on Form 1120. As such the Association must comply with Internal Revenue Code (IRC) Section 277, which applies to certain membership organizations. Under IRC Section 277, the Association is required to separate membership income and expenses from nonmembership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended December 31, 2018, the Association had a net nonmembership loss of \$213, which can be carried forward to offset up to 80% of net nonmembership income in a future year, if needed. In addition, the Association has a net nonmembership loss carryover from prior years totaling \$21,533 that can be carried forward to offset future net nonmembership income, if needed, and will expire in 2035. No federal or state taxes are due for 2018.

The Association is not aware of any uncertain tax positions that would require accrual or disclosure in the financial statements.

NOTE 6: CREDIT RISK

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

The Association maintains cash accounts with local financial institutions. At times, the balances at these institutions may exceed the FDIC insured limit.

NOTE 7: WINDSTORM DEDUCTIBLE

The insurance policy for windstorm coverage renewed in November 2018. The deductible amount for named hurricane storms is estimated at \$183,000, which represents 1% of the insured value of the building.

NOTE 8: INSURANCE FINANCE AGREEMENT

The Association obtained a short-term note payable with a financial institution to finance its annual insurance policy premiums. The note was payable in monthly installments of \$3,385, bore interest at 6.50%, and matured in August 2019. The balance on the note at December 31, 2018 totaled \$27,079.

NOTE 9: HURRICANE MICHAEL

The Association sustained significant damage to its common property as a result of Hurricane Michael which made landfall in the Florida panhandle on October 10, 2018. As a result of the damage, the Association filed an insurance claim with its carrier and received proceeds subsequent to year end totaling \$650,000. This amount is reported as insurance proceeds on the accompanying Statement of Revenues, Expenses and Changes in Fund Balance.

The Association has approved repairs to the roof totaling \$426,000, of which \$420,085 has been incurred as of the date of this report. That amount along with water damage restoration repairs of \$223,700 are reported as expenses in the Hurricane Fund on the accompanying Statement of Revenues, Expenses and Changes in Fund Balance. The remaining amounts and other repairs are expected to be completed subsequent to the date of this report.



Supplementary Information

Ocean Ritz Owners' Association, Inc.
Schedule of Changes in Replacement Fund Balance

Year ended December 31,

2018

Component	Beginning Balance	Revenues	Expenses	Ending Balance
Fire Alarm System Modernization			\$ (11,042)	
Pool Deck Fencing & Gates			<u>(3,508)</u>	
Total pooled Items	\$ 334,649	\$ 62,547	\$ (14,550)	\$ 382,646

See independent accountants' review report.

Ocean Ritz Owners' Association, Inc.
Schedule of Operating Fund Revenues and Expenses – Actual vs. Budget

<i>Year ended December 31,</i>	2018		
	Actual	Budget	Variance - Favorable (Unfavorable)
Revenues			
Regular assessments	\$ 353,430	\$ 353,430	\$ -
Beach service income	29,000	27,000	2,000
Miscellaneous income	8,100	1,200	6,900
Recovery of bad debt	1,216	-	1,216
Office rent	6,000	6,000	-
Registration fees	19,422	17,090	2,332
Total revenues	417,168	404,720	12,448
Expenses			
Administrative	50,000	59,705	9,705
Courtesy patrol	16,115	20,523	4,408
Insurance	57,209	59,840	2,631
Maintenance and repairs	170,933	150,652	(20,281)
Utilities	124,658	114,000	(10,658)
Total expenses	418,915	404,720	(14,195)
Excess (deficit) of revenues over expenses	\$ (1,747)	\$ -	\$ (1,747)

See independent accountants' review report.

Ocean Ritz Owners' Association, Inc.
Supplementary Information on Future Major Repairs and Replacements

Components	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at December 31, 2018
Common Area Interiors			
Fitness Equipment	4	\$ 11,400	
Flooring, Tile	13	36,058	
Renovation Allowance, Elevator Cabs	8	30,000	
Renovation Allowance, Restrooms	13	12,675	
Exterior Doors			
Exterior Doors Replacement	13	48,750	
Fire Safety Systems			
Fire Alarm System Modernization	13	160,650	
Fire Pump Repair/Replacement	23	78,500	
Mechanical Equipement			
Domestic Water Pumps/Equipment	13	25,200	
Elevator Mechanical Modernization	16	420,000	
Generator Repair/Replacement	6	42,300	
Trash Chutes & Doors Replacement	23	78,430	
Painting & Waterproofing			
Paint Building Exteriors	5	327,600	
Pavement			
Concrete Paving	3	18,000	
Pool & Spa			
Pool & Spa Equipment Allowance	3	10,000	
Pool & Spa Interior Resurfacing	0	14,095	
Pool Deck Brick Pavers	18	13,650	
Pool Deck Fencing & Gates	11	9,360	
Railings			
Railings Repair/Replacement	18	148,800	
Roofs			
Roof Replacement, Flat	8	84,430	
Roof Replacement, Metal	13	10,630	
Total		\$ 1,580,527	\$ 382,646

See independent accountants' review report.