

Sunset Harbor Resort Condominium Association, Inc.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2023

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.
Financial Statements and Supplementary Information
Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Sunset Harbor Resort Condominium Association, Inc.

Opinion

We have audited the accompanying financial statements of Sunset Harbor Resort Condominium Association, Inc., which comprise the balance sheet as of December 31, 2023, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunset Harbor Resort Condominium Association, Inc. as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sunset Harbor Resort Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sunset Harbor Resort Condominium Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Auditor's Responsibilities for the Audit of the Financial Statements, continued

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sunset Harbor Resort Condominium Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sunset Harbor Resort Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As further described in Note 7, the Association elected to waive the statutory replacement funding requirement for 2023 and funded at an amount less than the statutory requirement.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 16 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 accompanying supplementary information on developer owned unit-weeks on page 17 is required by Florida Statutes. 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund revenue and expenses - budget to actual, is required by Florida Statutes. Such information, is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Aldrich CPAs + Advisors LLP

Carlsbad, California
May 30, 2024

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.**Balance Sheet**

December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Property Tax Fund</u>	<u>Total</u>
ASSETS				
Cash	\$ 1,026,453	\$ 244,437	\$ 1	\$ 1,270,891
Investments	-	2,263,096	-	2,263,096
Accounts receivable - owners, net of allowance of \$167,146	84,831	-	56,407	141,238
Interest receivable	-	37,122	-	37,122
Due from related parties	1,507,386	-	-	1,507,386
Prepaid expenses	125,703	-	-	125,703
Deposits	16,155	-	-	16,155
Operating lease right-of-use asset	917,138	-	-	917,138
Due from (to) funds	160,441	(116,976)	(43,465)	-
	<u>3,838,107</u>	<u>2,427,679</u>	<u>12,943</u>	<u>6,278,729</u>
Total Assets	\$ 3,838,107	\$ 2,427,679	\$ 12,943	\$ 6,278,729
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued expenses	\$ 134,033	\$ 120,429	\$ -	\$ 254,462
Accounts payable - other	1,191	-	-	1,191
Maintenance fees received in advance	2,835,044	-	-	2,835,044
Contract liability	-	2,307,250	-	2,307,250
Operating lease liability	910,185	-	-	910,185
	<u>3,880,453</u>	<u>2,427,679</u>	<u>-</u>	<u>6,308,132</u>
Total Liabilities	3,880,453	2,427,679	-	6,308,132
Fund Balances	<u>(42,346)</u>	<u>-</u>	<u>12,943</u>	<u>(29,403)</u>
Total Liabilities and Fund Balances	\$ 3,838,107	\$ 2,427,679	\$ 12,943	\$ 6,278,729

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Statement of Revenues, Expenses, and Changes in Fund Balances

Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Property Tax Fund	Total
Revenues:				
Maintenance fees, net	\$ 2,838,926	\$ 887,721	\$ 114,658	\$ 3,841,305
Interest	59,006	108,645	-	167,651
Parking	104,410	-	-	104,410
Rental	99,447	-	-	99,447
Resort fee	25,245	-	-	25,245
Sales of Association-owned inventory	16,770	-	-	16,770
Late charges and interest	14,825	-	-	14,825
Vending	612	-	-	612
Total Revenues	3,159,241	996,366	114,658	4,270,265
Expenses:				
Accounting	29,941	-	-	29,941
Activities	25,070	-	-	25,070
Administration	188,153	-	-	188,153
Audit and tax preparation fee	12,920	-	-	12,920
Billing and collections	18,665	-	-	18,665
Board of directors	18,087	-	-	18,087
Cable television	14,034	-	-	14,034
Club dues	315,099	-	-	315,099
Credit card fee	91,218	-	-	91,218
Electricity	134,684	-	-	134,684
Florida Division of Land Sales fee	4,122	-	-	4,122
Front desk	271,330	-	-	271,330
Gas/steam	513	-	-	513
Internet	64,099	-	-	64,099
Housekeeping, net	616,337	-	-	616,337
Human resources	16,820	-	-	16,820
Income tax	58,111	-	-	58,111
Insurance	187,596	-	-	187,596
Landscaping/grounds	27,015	-	-	27,015
Loss prevention/security	80,948	-	-	80,948
Maintenance	485,647	-	-	485,647
Management fee	361,410	-	-	361,410
Pest control	4,060	-	-	4,060
Pool maintenance	16,226	-	-	16,226
Postage and printing	10,706	-	-	10,706
Property taxes	-	-	137,940	137,940
Refuse collection	26,982	-	-	26,982
Replacement fund expenditures	-	996,366	-	996,366
Telephone	24,436	-	-	24,436

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.
Statement of Revenues, Expenses, and Changes in Fund Balances, continued
Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Property Tax Fund	Total
Expenses (continued):				
Transportation/garage/parking	104,328	-	-	104,328
Water and sewer	119,133	-	-	119,133
 Total Expenses	 3,327,690	 996,366	 137,940	 4,461,996
 Deficiency of Revenues over Expenses	 (168,449)	 -	 (23,282)	 (191,731)
 Fund Balances, beginning	 126,103	 -	 36,225	 162,328
 Fund Balances, ending	 \$ (42,346)	 \$ -	 \$ 12,943	 \$ (29,403)

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Statement of Cash Flows

Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Property Tax Fund	Total
Cash Flows from Operating Activities:				
Deficiency excess of revenues over expenses	\$ (168,449)	\$ -	\$ (23,282)	\$ (191,731)
Adjustments to reconcile deficiency of revenues over expenses to net cash flows from operating activities:				
Noncash operating lease expense	(3,476)	-	-	(3,476)
Changes in:				
Accounts receivable - owners, net	(84,079)	-	(9,851)	(93,930)
Accounts receivable - other	87	-	-	87
Interest receivable	-	(27,262)	-	(27,262)
Due from related parties	(1,174,986)	-	3,956	(1,171,030)
Prepaid expenses	(26,900)	-	-	(26,900)
Due from (to) funds	(146,599)	117,921	28,678	-
Accounts payable and accrued expenses	21,899	100,891	-	122,790
Accounts payable - other	1,191	-	-	1,191
Maintenance fees received in advance	531,576	-	-	531,576
Contract liability	-	(51,321)	-	(51,321)
Net cash flows from operating activities	(1,049,736)	140,229	(499)	(910,006)
Cash Flows From Investing Activities:				
Purchases of investments	-	(1,000,000)	-	(1,000,000)
Proceeds from investments	-	236,904	-	236,904
Net cash flows from investing activities	-	(763,096)	-	(763,096)
Net Decrease in Cash	(1,049,736)	(622,867)	(499)	(1,673,102)
Cash, beginning of year	2,076,189	867,304	500	2,943,993
Cash, end of year	<u>\$ 1,026,453</u>	<u>\$ 244,437</u>	<u>\$ 1</u>	<u>\$ 1,270,891</u>
Supplemental Information:				
Income tax paid	<u>\$ 9,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,512</u>
Cash paid for amounts included in the measurement of lease liability:				
Operating cash flows from operating lease	<u>\$ 107,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,271</u>

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Operations

Sunset Harbor Resort Condominium Association, Inc. (the Association) was incorporated on October 13, 1994, under the laws of Florida as a corporation not-for-profit, to operate and manage Sunset Harbor Resort (the Condominium), an interval ownership condominium consisting of 40 units (2,040 unit-weeks, which include 40 maintenance weeks) and four commercial units located in Key West, Florida. The owners of all unit-weeks and commercial units in the Condominium are the only members.

Fee title to each unit-week is conveyed to the purchasers until the year 2094, together with a remainder fee simple as tenant in common with all other owners of unit-weeks in that unit in the year 2094, unless the timeshare plan is extended in accordance with the terms of the condominium declaration.

The Association is a component resort in a multistate timeshare plan known as the Hyatt Residence Club (the Club). Each unit-week owner is automatically a member of the Club. Club dues are considered a common expense of the Association. For the year ended December 31, 2023, club dues were \$157 per unit-week.

New Accounting Guidance Implementation

Effective January 1, 2023, the Association adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update requires the use of a forward-looking expected credit loss model for instruments within its scope, including accounts receivable, and replaces the previous incurred loss impairment model. The expected credit loss model requires management to estimate current expected credit losses over the lifetime of the assets by considering all reasonable and supportable information, including historical experience, current conditions, and reasonable and supportable forecasts affecting collectability.

Management has analyzed the provisions contained in Topic 326 and determined that there is no impact on fund balances as of January 1, 2023, due to the adoption of the new policy.

Basis of Presentation

The Association's governing documents provide guidelines for governing its financial activities. To ensure observance of limitations 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 repairs and replacements.

Property Tax Fund – This fund was established for the payment of assessed property taxes on the facility. Owners are charged a good faith estimate of the tax bill for the year, which is paid and recognized in arrears on a calendar-year basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Association considers all highly liquid investment instruments purchased with an original maturity of three months or less, at the date of purchase, to be cash equivalents.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Investments

The Association invests in federally insured certificates of deposit and U.S. treasury bills which are considered held-to-maturity. As a result, investments are carried at amortized cost plus accrued interest. Subsequent write ups or write downs to fair value to recognize unrealized gains or losses are not recorded.

Maintenance Fees Receivable and Allowance for Credit Losses

Maintenance fees receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. As of December 31, 2023, the Association had maintenance fees receivable of \$141,238. Maintenance fees receivable are generally considered delinquent when the payment is not received on or before the due date. As of December 31, 2023, the Association had an allowance for credit losses of \$167,146. The Association treats uncollectable maintenance fees as an implicit price concession (a form of variable consideration) and records these amounts as contra revenues. 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 Association considers an allowance for credit losses to provide for the estimated amount of receivables that may not be collected. Management determines the allowance for credit losses based on historical loss experience adjusted for current conditions, and reasonable and supportable forecasts of future economic conditions. The Association's historical loss experience is determined based on past transactions, the economic environment in which the transactions were originated, and other relevant factors. When determining whether and how to make an adjustment for future conditions, the Association considers changing interest rates, the housing market, environmental disasters, and competition among other factors when developing expectations about future losses. The Association has not experienced significant changes in customer behavior regarding collection rates due to changing economic conditions in the past and uses this information to predict future owner behavior. Due to its subjectivity, actual amounts may vary materially. The Association writes off uncollectable maintenance fees against the allowance for credit losses upon finalization of the foreclosure (or deed-in-lieu of foreclosure) process.

Management also reviews the credit quality of its accounts receivable portfolio by analyzing the aging of the receivables, financial health of customers, and macroeconomic conditions.

The following table represents the changes in the allowance for credit losses associated with accounts receivable for the year ended December 31, 2023:

Beginning of year	\$	79,548
Contra maintenance fees		125,207
Receivables written off		(80,034)
Credit loss recovery		<u>(45,173)</u>
End of year	\$	<u>167,146</u>

The Association continues to monitor the economic environment and its impact on the accounts receivable portfolio, making appropriate adjustments to the allowance for credit losses consistent with the new standard's requirements.

Association-Owned Inventory

Unit-weeks that the Association receives through purchase, foreclosure or quit claim are stated at the lower of cost, (which is based on the amount due for maintenance fees, club dues, real estate taxes, and related attorney fees) or net realizable value. The Association bills its own unit-weeks held for resale as any other unit-week. Balances that are due on unit-weeks held for resale are included in accounts receivable - owners, as further described in Note 4.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property and Equipment

The Association follows prevalent industry practice, as contained in ASC Subtopic 972-360, *Real Estate – Common Interest Realty Associations - Property, Plant and Equipment* in accounting for the common property of the Association, which it is responsible to preserve and maintain. Property is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can dispose of the property or the property is used by the Association to generate significant cash flow from owners on the basis of usage or from nonmembers.

Property associated with the units is not capitalized. Property not directly associated with the units consists of unit furnishings and equipment. These items are not capitalized as they do not meet the capitalization criteria, since ownership of the commonly owned assets is vested in the owners, those assets are not titled in the Association's name and disposition of those assets by the Board of Directors (the Board) is restricted. Additions and improvements to common property are accounted for as major repair and replacement expenditures in the replacement fund.

Maintenance Fees Received in Advance

Maintenance fees received in advance consisted of future year fees received by the Association prior to January 1, 2024.

Contract Liability

The Association recognizes revenue from owners as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to the replacement fund assessments.

Income Taxes

The Association can elect to file its income tax return as a Homeowners' Association, in accordance with Internal Revenue Code Section 528. Under that section, the Association is not taxed on uniform fees to owners and other income received from Association owners solely as a function of their ownership in the Association. The effect of the election is to tax the Association only on its "non-exempt function" income, reduced by a specific \$100 deduction at a flat 32% rate. If such election is not made, the Association's net income is subject to tax at statutory corporate rates. Management has analyzed its various federal filing positions and believes that the Association's income tax filing positions and deductions are well documented, supported and contain no uncertain tax positions. Additionally, management believes that no accruals for tax liabilities, interest or penalties are required. Therefore, no reserves for uncertain income tax positions have been recorded. Further, no interest or penalties have been included since no reserves were recorded. When applicable, such interest and penalties will be reported as income tax expense. The Association's federal income tax returns remain subject to examination by the Internal Revenue Service for three years from the date of filing.

The Association has elected to be taxed as a Homeowners' Association, which has resulted in a federal income tax liability of \$51,172 for the year ended December 31, 2023, included in accounts payable and accrued expenses. There is no state income tax imposed on the Association.

Fair Value Measurements

The Association measures certain assets at fair value in accordance with current accounting standards on fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). The Association has determined that there were no material differences between the cost and carrying values of its financial assets and liabilities as of December 31, 2023.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Revenue Recognition

Association owners are subject to fees to provide funds for the Association's operating expenses and major repairs and replacements. Maintenance fee 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 maintenance fees are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund maintenance fees are satisfied when these funds are expended for their designated purpose. Any excess fees at year-end are retained by the Association for use in the succeeding year.

Parking, rental, resort fees, sales of association-owned inventory, and vending revenue is recognized when programs or rentals take place, and when fees are incurred.

Late charges and interest revenue is recognized when collected.

Note 2 - Concentrations

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents and certificates of deposit. The Association maintains cash balances and certificates of deposit at various financial institutions. Accounts and certificates of deposit at each commercial banking institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2023, the uninsured balance was \$370,692, based on the bank statement balances, less the FDIC insurance.

Note 3 - Investments

Investments as of December 31 are composed of:

Certificates of deposit (held to maturity)	\$	1,750,000
U.S. treasury bill (held to maturity)		<u>513,096</u>
	\$	<u><u>2,263,096</u></u>

The contractual maturity of the Association's investments as of December 31, 2023, are all due within one year.

Note 4 - Accounts Receivable – Owners

Accounts receivable – owners, as of December 31, 2023, consisted of the following:

	Operating Fund	Property Tax Fund	Total
Maintenance fees	\$ 222,491	\$ 59,314	\$ 281,805
Association-owned inventory	26,579	-	26,579
Less: allowance for credit losses	<u>(164,239)</u>	<u>(2,907)</u>	<u>(167,146)</u>
	<u>\$ 84,831</u>	<u>\$ 56,407</u>	<u>\$ 141,238</u>

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 5 - Revenue Recognition

Overview

The Association recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services. The Association earns revenue from contracts with customers, primarily through maintenance fees and late fees. Interest income is governed by other authoritative guidance and, therefore, considered out-of-scope of ASU 2014-09, *Revenue from Contracts with Customers (ASC Topic 606)*. The Association's revenue streams that are considered in-scope of ASC Topic 606 are discussed hereafter.

The Association recognizes revenue from contracts with customers when its performance obligations are satisfied, regardless of the period in which it is billed. This is over time as the service is provided or at a point in time when ownership, risks and rewards transfer, or upon completion of the service.

Detail of Revenue

The following table presents the Association's revenue by category for the year ended December 31:

Transferred over time:	
Maintenance fees - operating, net	\$ 2,838,926
Maintenance fees - property tax	114,658
Transferred at a point in time:	
Maintenance fees - replacement	887,721
Parking	104,410
Resort fee	25,245
Sales of Association-owned inventory	16,770
Late charges and interest	14,825
Vending	612
Total	<u>\$ 3,970,960</u>

Performance Obligations

Operating maintenance fees – Operating maintenance fees are recognized over time as the customer simultaneously receives and consumes the benefits as the Association operates and maintains the interior, exterior, recreation, and common area properties. Accordingly, the Association recognizes revenue for the services on a straight-line basis over the one-year fee period.

Property tax maintenance fees – Property tax maintenance fees are recognized over time as the customer simultaneously receives and consumes the benefits of the Association operating on the property which it is being taxed upon.

Replacement maintenance fees – Replacement maintenance fees are recognized at a single point in time when the Association expends funds for a major repair or replacement.

Parking – Parking revenue is recognized at a single point in time upon assessment.

Resort fee – Resort fees are recognized at a single point in time when access to services is provided.

Sales of Association-owned inventory – Sales of association-owned inventory is recognized at a single point in time when ownership, risks and rewards transfer.

Late charges and interest – Late charges and interest are recognized at a single point in time when charges and interest are paid.

Vending – Vending revenue is recognized at a single point in time when ownership, risks and rewards transfer.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 5 - Revenue Recognition, continued

Contract Balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable (contract assets) and maintenance fees received in advance (contract liabilities) on the balance sheet. Maintenance fees are recognized as revenue in the year for which the fee is assessed. Maintenance fees are billed in the year prior to the year to which the fee relates. Typically, billing occurs prior to revenue recognition, resulting in contract liabilities.

The beginning and ending contract balances are as follows at December 31:

	2023	2022
Accounts receivable - owners, net	\$ 141,238	\$ 47,308
Maintenance fees received in advance	\$ 2,835,044	\$ 2,303,468
Contact liability	\$ 2,307,250	\$ 2,358,571

Note 6 - Housekeeping

Housekeeping expenses on the statement of revenues, expenses and changes in fund balances, consisted of \$189,335 in reimbursements, netted against \$805,672 in expenses for the year ended December 31, 2023.

Note 7 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future repairs and replacements. Accumulated funds, which aggregate \$2,307,250, and are presented on the accompanying balance sheet as a contract liability as of December 31, 2023, are held in separate accounts and are not available for operating purposes.

The following is a table of the current year's replacement fund activity, by component:

<u>Components</u>	<u>Balance Beginning of Year</u>	<u>Assessments and Other Additions</u>	<u>Expended</u>	<u>Balance End of Year</u>
Common area rehabilitation	\$ 648,823	\$ 295,532	\$ 219,279	\$ 725,076
Exterior building	211,725	216,823	633,747	(205,199)
Pavement/driveway	2,766	1,453	-	4,219
Roof	702,541	34,349	9,428	727,462
Unit refurbishment	792,716	396,888	133,912	1,055,692
	<u>\$ 2,358,571</u>	<u>\$ 945,045</u>	<u>\$ 996,366</u>	<u>\$ 2,307,250</u>

The Association allocates the replacement fund's other additions to the component with the most expenditures for the year.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 7 - Future Major Repairs and Replacements, continued

The amount of annual funding required to fully fund each reserve account is as follows:

Components	2023 Required Statutory Funding
Common area rehabilitation	\$ 242,865
Elevator	416,313
Exterior building	174,695
Information technology	20,922
Mechanical/HVAC	123,516
Pavement/driveway	726
Roof	174,410
Unit refurbishment	679,089
Water features	9,270
	<u>\$ 1,841,806</u>

During the year ended December 31, 2023, the Association funded for major repairs and replacements over the estimated useful lives of the components, based on HV Global Management Corporation's (HVGMC) estimates of current replacement costs, as supported by an externally prepared reserve study. As provided by the Florida Statutes, the 2023 replacement funding requirement of \$1,841,806 was waived by an overwhelming majority of 95% of all voting interests at a duty called meeting.

The 2024 proposed budgeted funding is \$1,296,499, as shown in the unaudited supplementary information. The components' actual replacement costs, useful lives, and investment income may vary from the estimated amounts and the variation may be material. Therefore, the Association's 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 the Board's approval, to increase regular maintenance fees, pass special assessments, or delay major repairs and replacements until funds are available.

Note 8 - Related Party Transactions

During the year ended December 31, 2023, the amount of maintenance fees assessed to the Sunset Harbor Development Partnership (Developer) was \$55,654. As of December 31, 2023, no amount was due from the Developer. As of December 31, 2023, the Developer owned 32 unit-weeks and 4 commercial units.

HVGMC pays all invoices on behalf of the Association, subject to reimbursement. HVGMC, an affiliate of the Developer, and its affiliates provided certain services to the Association. The amounts paid or accrued to HVGMC during the year ended December 31, 2023, were as follows:

Payroll	\$ 1,356,150
Management fees	361,410
Payroll benefits	179,795
Payroll taxes	45,399
Computer	19,494
Assessments, billing and collections	18,665
Workers compensation	8,477
	<u>\$ 1,989,390</u>

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 8 - Related Party Transactions, continued

HVGMC also collects maintenance fees from the owners and remits them to the Association. As of December 31, 2023, \$1,507,386 was due from HVGMC, included in due from related parties.

The amounts paid or accrued to the Club during the year ended December 31, 2023, for exchange club dues was \$315,099. As of December 31, 2023, there was no amount due to the Club.

As of December 31, 2023, the HPC Owners' Association, Inc. held 202 (9.9%) of the timeshare interests in the Association.

Note 9 - Operating Lease

The Association evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset totaling \$917,138, net of accumulated amortization of \$141,519, represents the Association's right to use underlying assets for the lease term, and the lease liability totaling \$910,185 represents the Association's obligation to make lease payments arising from the lease. The Association has made an accounting policy election to use a risk-free rate to discount the future lease payments. The weighted average discount rate applied to calculate lease liability as of December 31, 2023, was 1.65%.

The Association has a 156-month operating lease agreement ending December 2024, for 40 parking spaces. The lease term automatically renews for successive ten-year periods. Therefore, the payments associated with the renewal are included in the ROU asset and the lease liability recognized as of December 31, 2023. The lease agreement does not include any material residual value guarantees or restrictive covenants. As of December 31, 2023, the weighted-average remaining lease term for the Association's operating lease was approximately 11 years. During the year ended December 31, 2023, the Association incurred operating lease costs totaling \$103,794 included in transportation/garage/parking expense on the statement of revenues, expenses, and changes in fund balances, of which \$86,919 is operating lease expense and \$16,875 is variable lease expense.

The following summarizes the operating lease as of December 31, 2023:

Operating lease right-of-use asset	\$ <u>917,138</u>
Current portion of operating lease liability	\$ 76,093
Operating lease liability, net of current portion	<u>834,092</u>
 Total operating lease liability	 \$ <u>910,185</u>

Future maturities of the operating lease liability are as follows:

2024	\$ 90,396
2025	90,396
2026	90,396
2027	90,396
2028	90,396
Thereafter	<u>542,376</u>
Total undiscounted cash flows	994,356
Less: effects of discounting	<u>(84,171)</u>
Present value of lease liability	\$ <u>910,185</u>

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

Year Ended December 31, 2023

Note 10 - Commitment and Contingency

The Association has a management agreement with HVGMC. The contract expires November 1, 2024, unless terminated earlier in accordance with its terms and Florida law. The contract automatically renews for successive three-year periods. HVGMC provides on-site management and maintenance services, and off-site administrative and accounting services.

Note 11 - Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 30, 2024, the date the financial statements were available to be issued.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.**Supplementary Information on Future Major Repairs and Replacements (Unaudited)**Year Ended December 31, 2023

An independent appraiser conducted a study during 2019, to estimate the remaining lives and the replacement costs of the components of common property. The following table, updated by management, is based on the study and presents significant information about the components of common property. Amounts are based on normal operation and without the effect of potential catastrophic occurrences.

<u>Components</u>	<u>Average Estimated Useful Life (Years)</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>2024 Proposed Budgeted Funding</u>
Common area rehabilitation	14	10	\$ 3,655,525	\$ 143,857
Exterior building	20	10	3,958,961	553,367
Pavement/driveway	17	15	46,324	1,281
Roof	25	0	1,178,940	217,263
Unit refurbishment	12	7	6,868,170	380,731
			<u>\$ 15,707,920</u>	<u>\$ 1,296,499</u>

Estimated current replacement costs are based on the assumption that the rate of investment income earned on replacement funds will be 1% and the rate of inflation will be 3%.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.

Developer Owned Unit-Weeks (Unaudited)

Year Ended December 31, 2023

As of December 31, 2023, 72 unit-weeks were owned by six entities which, if held for resale, may be construed to be successor developers as defined by Florida Statute 721.05(10)(b)1, which provides that a rebuttable presumption shall exist that an owner who has acquired more than seven timeshare interests did not acquire them for his or her own use and occupancy.

As required by Rule 61b-40.007(2)(d) Florida Statutes, the amount of 2023 maintenance fees assessed to the successor developers for operations and replacements was approximately \$108,654 and \$29,520, respectively.

SUNSET HARBOR RESORT CONDOMINIUM ASSOCIATION, INC.
Schedule of Operating Fund Revenues and Expenses – Budget to Actual
Year Ended December 31, 2023

	Budget <i>(Unaudited)</i>	Actual	Variance
Operating Fund Revenues:			
Maintenance fees	\$ 2,969,314	\$ 2,838,926	\$ (130,388)
Parking	-	104,410	104,410
Rental	107,062	99,447	(7,615)
Interest	17,936	59,006	41,070
Resort fee	36,633	25,245	(11,388)
Sales of Association-owned inventory	-	16,770	16,770
Late charges and interest	10,539	14,825	4,286
Vending	-	612	612
	<u>3,141,484</u>	<u>3,159,241</u>	<u>17,757</u>
Total Operating Fund Revenues			
Total Operating Fund Expenses:			
Accounting	29,941	29,941	-
Activities	29,138	25,070	4,068
Administration, net	249,559	188,153	61,406
Audit and tax preparation fee	13,036	12,920	116
Billing and collections	18,665	18,665	-
Board of directors	15,582	18,087	(2,505)
Cable television	13,680	14,034	(354)
Club dues	320,280	315,099	5,181
Credit card fee	80,380	91,218	(10,838)
Electricity	153,703	134,684	19,019
Florida Division of Land Sales fee	4,080	4,122	(42)
Front desk	296,217	271,330	24,887
Gas/steam	1,961	513	1,448
High speed internet	57,709	64,099	(6,390)
Housekeeping, net	526,376	616,337	(89,961)
Human resources	16,820	16,820	-
Income tax	18,000	58,111	(40,111)
Insurance	179,145	187,596	(8,451)
Landscaping/grounds	23,171	27,015	(3,844)
Loss prevention/security	81,763	80,948	815
Maintenance	465,131	485,647	(20,516)
Management fee	361,410	361,410	-
Pest control	5,175	4,060	1,115
Pool maintenance	14,615	16,226	(1,611)
Postage and printing	8,747	10,706	(1,959)
Refuse collection	25,964	26,982	(1,018)
Telephone	19,054	24,436	(5,382)
Transportation/garage/parking	-	104,328	(104,328)
Water and sewer	112,182	119,133	(6,951)
	<u>3,141,484</u>	<u>3,327,690</u>	<u>(186,206)</u>
Total Operating Fund Expenses			
Deficiency of Revenues over Expenses	\$ -	\$ (168,449)	\$ (168,449)

See independent auditor's report on supplementary information.