# NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Shore at Lake Hart Homeowners Association, Inc.

***Report on the Financial Statements***

We have audited the accompanying financial statements of North Shore at Lake Hart Homeowners Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and 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 North Shore at Lake Hart Homeowners Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As further discussed in Note 2 to the financial statements, the accompanying financial statements reflect the impact of the Association adopting ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

To the Board of Directors
North Shore at Lake Hart Homeowners Association, Inc.
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***Emphasis of Matters (Continued)***

As further discussed in Note 10 to the financial statements, a global pandemic has been declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The extent of the ultimate effects of COVID-19 on the Association's operating and financial performance cannot be predicted at this time. Our opinion is not modified with respect to this matter.

***Other Matter***

We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

***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 expenses on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 15 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.

Morrison, Brown, Argiz & Farra

Orlando, Florida
July 29, 2020

## NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2019

| ASSETS | Operating Fund | Replacement Fund | Total |
|---|---|---|---|
| Cash and cash equivalents: | | | |
| Undesignated | $ 1,166,716 | $ - | $ 1,166,716 |
| Designated: | | | |
| Reserves | - | 286,497 | 286,497 |
| Hurricane and emergency | 200,000 | - | 200,000 |
| Special projects and other non-recurring expenses | 115,000 | - | 115,000 |
| Certificates of deposit | 1,091,000 | 1,168,000 | 2,259,000 |
| Assessments receivable, net | 108,701 | - | 108,701 |
| Other receivable | 7,449 | - | 7,449 |
| Prepaid insurance | 19,845 | - | 19,845 |
| Utility deposits | 3,748 | - | 3,748 |
| Due from (to) other fund | 9,747 | (9,747) | - |
| | $ 2,722,206 | $ 1,444,750 | $ 4,166,956 |

| LIABILITIES AND FUND BALANCES | | | |
|---|---|---|---|
| LIABILITIES | | | |
| Accounts payable and accrued expenses | $ 58,566 | $ 7,549 | $ 66,115 |
| Assessments collected in advance | 73,470 | - | 73,470 |
| Deferred revenue - reserves | - | 1,437,201 | 1,437,201 |
| | 132,036 | 1,444,750 | 1,576,786 |
| FUND BALANCES: | | | |
| Accumulated surplus | 2,275,170 | - | 2,275,170 |
| Designated: | | | |
| Hurricane and emergency | 200,000 | - | 200,000 |
| Special projects and other non-recurring expenses | 115,000 | - | 115,000 |
| | 2,590,170 | - | 2,590,170 |
| | $ 2,722,206 | $ 1,444,750 | $ 4,166,956 |

The accompanying notes are an integral part of these financial statements.

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Operating Fund | Replacement Fund | Total |
|---|---|---|---|
| REVENUES | | | |
| Member assessments | $ 1,133,452 | $ 32,284 | $ 1,165,736 |
| Card keys | 5,185 | - | 5,185 |
| Fines | 34,540 | - | 34,540 |
| Interest | 28,310 | 19,546 | 47,856 |
| Late fees | 32,381 | - | 32,381 |
| Other | 22,989 | - | 22,989 |
| Rental | 11,018 | - | 11,018 |
| Settlement proceeds | 230,000 | - | 230,000 |
| Transfer fees | 14,500 | - | 14,500 |
| | 1,512,375 | 51,830 | 1,564,205 |
| EXPENSES | | | |
| Administrative and general | 214,121 | - | 214,121 |
| Contract services | 409,442 | - | 409,442 |
| Gates | 120,744 | 61,786 | 182,530 |
| Insurance | 48,994 | - | 48,994 |
| Maintenance and repairs | 61,062 | 27,244 | 88,306 |
| Payroll and benefits | 213,674 | - | 213,674 |
| Utilities | 190,235 | - | 190,235 |
| | 1,258,272 | 89,030 | 1,347,302 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES | 254,103 | (37,200) | 216,903 |
| FUND BALANCES - BEGINNING OF YEAR | 2,373,267 | - | 2,373,267 |
| TRANSFER | (37,200) | 37,200 | - |
| FUND BALANCES - END OF YEAR | $ 2,590,170 | $ - | $ 2,590,170 |

The accompanying notes are an integral part of these financial statements.

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Operating Fund | Replacement Fund | Total |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Excess (Deficiency) of Revenues over Expenses | $ 254,103 | $ (37,200) | $ 216,903 |
| ADJUSTMENTS TO RECONCILE EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| Transfer | (37,200) | 37,200 | - |
| Change in interfund balance | (21,635) | 21,635 | - |
| Changes in operating assets and liabilities: | | | |
| Assessments receivable | (46,735) | - | (46,735) |
| Other receivable | 67,551 | - | 67,551 |
| Prepaid insurance | (1,335) | - | (1,335) |
| Accounts payable and accrued expenses | (1,565) | 7,549 | 5,984 |
| Assessments collected in advance | (7,804) | - | (7,804) |
| Deferred revenue - reserves | - | 81,716 | 81,716 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 205,380 | 110,900 | 316,280 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of certificates of deposit | (5,901,000) | (2,828,000) | (8,729,000) |
| Redemptions of certificates of deposit | 4,810,000 | 1,660,000 | 6,470,000 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,091,000) | (1,168,000) | (2,259,000) |
| NET DECREASE IN CASH | (885,620) | (1,057,100) | (1,942,720) |
| CASH - BEGINNING OF YEAR | 2,367,336 | 1,343,597 | 3,710,933 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 1,481,716 | $ 286,497 | $ 1,768,213 |

The following table provides a reconciliation of cash and cash equivalents in the operating fund, as presented above, to the sum of the cash and equivalents amounts presented in the operating fund in the balance sheet:

| | |
|---|---|
| Cash and cash equivalents: | |
| Undesignated | $ 1,166,716 |
| Designated: | |
| Hurricane and emergency | 200,000 |
| Special projects and other non-recurring expenses | 115,000 |
| | $ 1,481,716 |

The accompanying notes are an integral part of these financial statements.

## 1. Summary of Significant Accounting Policies and General Matters

### Organization

North Shore at Lake Hart Homeowners Association, Inc. (the "Association") was organized in 2001 as a Florida not-for-profit corporation for the purpose of enforcing the Declaration of Covenants, Conditions and Restrictions for North Shore at Lake Hart (the "Declaration"), a multiple phase residential community known as North Shore at Lake Hart, which consists of 1,049 residences, located in Orange County, Florida. A residence is situated on either a Lot or in a Unit. A Lot is a residential building site intended to be improved with a single-family detached residence. A Unit is a condominium unit in a multi-condominium complex, maintained by a separate association, Verandas at Lake Hart Commons Association, Inc., located within North Shore at Lake Hart. All owners within North Shore at Lake Hart are members of the Association and are subject to the covenants and restrictions of the Declaration.

### Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements ("reserves") and other special purposes, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement fund and from any future special purpose fund may be made only for their designated purposes.

### 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 amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences may be material.

### Member Assessments

Maintenance assessments, which are based upon a budget established annually by the Board of Directors, are levied against the owners for their proportionate share of common expenses and, unless waived by an annual vote of the membership, for funds designated for reserves. Maintenance assessments are due on the first of each month. Maintenance assessments revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. Performance obligations related to operating assessments are satisfied over time on a daily pro-rata basis using the input method. Any excess assessments at year-end are retained by the Association for use in the succeeding year. Performance obligations related to reserve assessments are satisfied when these funds are expended for their designated purposes. The Association recognizes interest and late fees on delinquent assessments, as provided for in the Association's governing documents. Special assessments may be imposed from time to time as deemed appropriate by the Board of Directors.

### Cash Equivalents

The Association considers certificates of deposit with original maturities of ninety days or less to be cash equivalents.

### Recognition of Assets

Real property, common areas and related improvements are not recorded in the Association's financial statements because these properties are deemed to be owned by the individual owners in common and not by the Association. The Association will capitalize, at cost, personal property which it acquires with Association funds.

## 1. Summary of Significant Accounting Policies and General Matters (Continued)

### 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 owners or applied to the following year's assessments. The other method, utilized for 2019, enables the Association to elect to exclude from taxation exempt function income, which consists substantially of revenue from owner assessments. Under either method, the Association may be subject to tax on certain items, but at different tax rates.

The Association classifies interest and penalties charged on underpayments, if any, of income tax as administrative and general expenses. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's federal and state income tax returns could be subject to examination, generally for a period of three years after the dates the returns are filed.

### Statement of Cash Flows

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* ASU 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts shown on the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. The Association adopted this ASU as of January 1, 2019, and its adoption did not have a material effect on the Association's financial statements.

### Deferred Revenue - Reserves

Deferred revenue – reserves represents the portion of the reserve assessments for which the Association's performance obligations have not yet been satisfied. The balances of deferred revenue – reserves as of the beginning and end of the year were $1,355,485 and $1,437,201, respectively.

### Subsequent Events

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

## 2. FASB ASC 606 - New Accounting Standard

The FASB issued Accounting Standards Codification 606 (ASC 606), *Revenue from Contracts with Customers.* ASC 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate-Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

## 2. FASB ASC 606 - New Accounting Standard (Continued)

The Association adopted the requirements of the new standard as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new standard only to contracts that were not complete as of January 1, 2019, as allowed in ASC 606. Adoption of the new standard resulted in changes to the Association's accounting policies for assessment revenue and deferred revenue – reserves in the replacement fund, as previously described.

The adoption of this new standard resulted in the following change to the fund balance in the replacement fund as of January 1, 2019:

| | Replacement Fund |
|---|---|
| Fund balance, as previously reported, at January 1, 2019 | $ 1,355,485 |
| Adjustment | (1,355,485) |
| Fund balance, as adjusted, at January 1, 2019 | $ - |

The effect of the adoption is a decrease in 2019 assessments in the replacement fund by $81,716 and the recording of deferred revenue – reserves at December 31, 2019, of $1,437,201.

The modified retrospective method of transition requires disclosure of the effect of applying the new standard on each item included in the Association's 2019 financial statements. The line items of the accompanying balance sheet 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 standard are as follows:

| | Replacement Fund | | |
|---|---|---|---|
| | Amounts that would have been Reported | Effects of Applying New Standard | As Reported |
| Liabilities: | | | |
| Deferred revenue – reserves | $ - | $ 1,437,201 | $ 1,437,201 |
| Total liabilities | $ 7,549 | $ 1,437,201 | $ 1,444,750 |
| Fund balance: | | | |
| Ending fund balance | $ 1,437,201 | $ (1,437,201) | $ - |

The line items of the accompanying statement of revenues and expenses and changes in fund balances, and cash flows that were affected, the amounts that would have been reported under the former standard, the effects of applying the new standard, and the amounts reported under the new standard are as follows:

## 2. FASB ASC 606 - New Accounting Standard (Continued)

| | Replacement Fund | | | | | |
|---|---|---|---|---|---|---|
| | Amounts that would have been Reported | | Effects of Applying New Standard | | As Reported | |
| Statement of Revenues and Expenses and Changes in Fund Balances: | | | | | | |
| Member assessments | $ | 114,000 | $ | (81,716) | $ | 32,284 |
| Excess (deficiency) of revenues over expenses | $ | 44,516 | $ | (81,716) | $ | (37,200) |
| Statement of Cash Flows: | | | | | | |
| Excess (deficiency) of revenues over expenses | $ | 44,516 | $ | (81,716) | $ | (37,200) |
| Increase in deferred revenue – reserves | $ | - | $ | 81,716 | $ | 81,716 |

## 3. Concentration of Credit Risk from Deposit Account Balances in Excess of Insured Limit

Financial instruments, which potentially subject the Association to the concentration of credit risk, consist principally of deposit account balances in excess of the Federal Deposit Insurance Corporation (“FDIC”) insured limit of $250,000. The Association generally limits its exposure by placing its deposits with reputable financial institutions. At December 31, 2019, the Association's deposit account balances exceeded the FDIC coverage limit by approximately $255,000.

## 4. Certificates of Deposit, including Cash Equivalents

At December 31, 2019, the Association had investments in several certificates of deposit, totaling $3,043,000, ($784,000 of which is included in cash and cash equivalents) earning interest at rates ranging from 1.60% to 2.60% per annum, and maturing at various times through November 2020.

## 5. Assessments Receivable

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association considers assessments delinquent if they are more than thirty days in arrears. The Association may retain legal counsel and place a lien on the property of any owner whose assessments are at least ninety days or more past due. As of December 31, 2019, maintenance assessments receivable is stated net of an allowance for doubtful accounts of approximately $103,000. 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, net, as of the beginning and end of the year, were $61,966 and $108,701, respectively.

## 6. Future Major Repairs and Replacements ("Reserves"), Interfund Balance, Transfer and Subsequent Event

Chapter 720 of the Florida Statutes provides that, once reserve accounts have been established, the accounts shall be funded or maintained unless such funding is waived or reduced by an annual vote of the majority of the membership at a meeting at which a quorum is present.

Accumulated funds, which totaled approximately $1,454,000 at December 31, 2019, are held in separate deposit accounts and are generally not available for operating purposes. As of December 31, 2019, the accompanying balance sheet reflected a balance of $9,747 due from the replacement fund to the operating fund. This interfund balance was repaid in March 2020.

The Association's 2019 budget included funding of $114,000 for reserves, as recommended by a reserve study conducted by an independent specialist in 2017. In March 2019, the same specialist conducted an update of the 2017 study. The updated study recommended reserve funding of $151,200 for 2019 and future years. In June 2019, in recognition of this recommended increased funding level, the Board of Directors approved a cash transfer, and a corresponding fund balance transfer, of $37,200 from the operating fund to the replacement fund. The Association has applied the amounts of the transfer and interest earned in the replacement fund against member assessments revenue in the replacement fund. See Note 2.

Funds are being accumulated in the replacement fund based on estimates of future needs for major repairs and replacements of common property components. 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 Board of Directors has the right to increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

The following is an analysis of the activity in the replacement fund for (i) deferred revenue – reserves, and (ii) fund balance, for the year ended December 31, 2019:

| | Beginning Balances (*) | Additions | Charges | Ending Balances |
|---|---|---|---|---|
| Deferred Revenue - Reserves: | | | | |
| Clubhouse interiors | $ 18,279 | $ - | $ 3,625 | $ 14,654 |
| Pavement | 287,339 | - | 23,619 | 263,720 |
| Pool furniture | 2,329 | - | - | 2,329 |
| Site improvements | 88,684 | - | - | 88,684 |
| Unallocated | 958,854 | 114,000 | 5,040 | 1,067,814 |
| Total | $1,355,485 | $ 114,000 | $ 32,284 | $1,437,201 |
| Fund Balance | $ - | $ 56,746 | $ 56,746 | $ - |

(*) The prior year presentation has been modified to conform to the current year presentation.

## 7. Operating Fund Balance

In 2018 and 2019, the Board of Directors approved the designation of a portion of the accumulated surplus as separate components of the operating fund balance, as follows: (a) Hurricane and emergency ($200,000); and (b) Special projects and other non-recurring expenses, to include: (i) investigation and planning of improvements to amenities ($30,000); (ii) landscape improvements ($60,000); and (iii) remediation and maintenance of the lake swale ($25,000). The cash, and corresponding fund balances, associated with each of these designated components are reflected in the accompanying balance sheet; however, the Board of Directors opted to retain these funds in the Association's main operating bank account.

## 8. Settlement Proceeds, Uncertainty and Subsequent Event

In October 2019, the Association received $230,000 from Orange County as a settlement of an eminent domain matter, in which a strip of land in the North Shore at Lake Hart community was taken by Orange County to be used as a road for the local middle school. The Association is treating these funds, for income tax purposes, as having been received on behalf of the owners, whose interests in the common property has been diminished. If this treatment were to be challenged by the Internal Revenue Service, the Association could be subject to the assessment of taxes, interest and penalties.

In February 2020, the Board of Directors approved the transfer of these funds to the replacement fund, to be held for future capital improvements.

## 9. Agreements

### Management

Through July 2019, the Association had a month-to-month agreement with Artemis Lifestyle Service, Inc. for administrative management services and on-site administrative and maintenance services. Effective August 1, 2019, the Association entered into an agreement with Access Residential Management, LLC ("Access") for similar services. The agreement with Access extends through July 2021 and may be terminated by either party, pursuant to the terms of the agreement.

### Other

The Association has various agreements for the maintenance of the common property and for other services. Generally, the agreements may be cancelled by either party with thirty days advance written notice.

## 10. Contingencies

### Litigation

Legal counsel has advised that an easement for a swale on a lake within the community may have been required to have been maintained by the Association, and that the cost of such maintenance, and related remediation, could be at least $20,000, and possibly substantially greater. Legal counsel has further advised that (i) because of the developer's error in the recording of the easement, the Association intends to pursue the developer for any monetary damages that could result from this matter; and (ii) the disposition of this matter cannot be determined at this time.

## 10. Contingencies (Continued)

### Litigation (Continued)

The Association is also exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Board of Directors, the resolution of these matters will not have a material adverse effect on the Association's financial position, results of operations or cash flows.

### Subsequent Event

In March 2020, a global pandemic was declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The pandemic has significantly impacted the economic conditions in the United States, including disrupting supply chains and affecting production and sales across a range of industries. The extent of the ultimate effects of COVID-19 on the Association’s operating and financial performance cannot be predicted at this time, as they are dependent on many factors, including, but not limited to: (i) the duration and spread of the outbreak, (ii) the impact on owners and residents, management personnel and service providers, and (iii) the impact on the local, state, national and global economies.

# SUPPLEMENTARY INFORMATION

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Operating Fund | Replacement Fund | Total |
|---|---|---|---|
| **Administrative and General:** | | | |
| Clubhouse supplies | $ 6,182 | $ - | $ 6,182 |
| Copier and printing | 7,919 | - | 7,919 |
| Decorations | 10,500 | - | 10,500 |
| Other | 28,938 | - | 28,938 |
| Postage | 6,796 | - | 6,796 |
| Professional fees | 141,607 | - | 141,607 |
| Social events | 7,059 | - | 7,059 |
| Storage | 1,674 | - | 1,674 |
| Website | 3,446 | - | 3,446 |
| | $ 214,121 | $ - | $ 214,121 |
| **Contract Services:** | | | |
| Clubhouse HVAC system | $ 810 | $ - | $ 810 |
| Fitness equipment | 852 | - | 852 |
| Janitorial | 19,630 | - | 19,630 |
| Lawn maintenance | 222,119 | - | 222,119 |
| Management services | 43,471 | - | 43,471 |
| Pool | 10,080 | - | 10,080 |
| Security | 110,180 | - | 110,180 |
| Tree trimming and removal | 2,300 | - | 2,300 |
| | $ 409,442 | $ - | $ 409,442 |
| **Gates** | $ 120,744 | $ 61,786 | $ 182,530 |
| **Insurance** | $ 48,994 | $ - | $ 48,994 |

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

SCHEDULE OF EXPENSES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Operating Fund | Replacement Fund | Total |
|---|---|---|---|
| **Maintenance and Repairs:** | | | |
| Aquatic and fountain | $ 16,949 | $ - | $ 16,949 |
| Clubhouse | 9,875 | 3,625 | 13,500 |
| Dock | 2,819 | - | 2,819 |
| Equipment: | | | |
| Clubhouse | 1,697 | - | 1,697 |
| Pool | 4,808 | - | 4,808 |
| Recreation Center | 6,686 | - | 6,686 |
| Gazebo/pier | 1,513 | - | 1,513 |
| Janitorial supplies | 1,928 | - | 1,928 |
| Lighting | 3,730 | - | 3,730 |
| Miscellaneous | 1,058 | - | 1,058 |
| Monument | 1,619 | - | 1,619 |
| Sidewalk | - | 21,096 | 21,096 |
| Signs and roads | 2,533 | - | 2,533 |
| Street and drainage system | - | 2,523 | 2,523 |
| Tennis courts | 2,980 | - | 2,980 |
| Tot lot | 2,867 | - | 2,867 |
| | $ 61,062 | $ 27,244 | $ 88,306 |
| **Payroll and Benefits** | $ 213,674 | $ - | $ 213,674 |
| **Utilities:** | | | |
| Electricity | $ 166,187 | $ - | $ 166,187 |
| Internet | 4,536 | - | 4,536 |
| Telephone | 8,365 | - | 8,365 |
| Trash removal | 4,616 | - | 4,616 |
| Water and sewer | 6,531 | - | 6,531 |
| | $ 190,235 | $ - | $ 190,235 |

**NORTH SHORE AT LAKE HART HOMEOWNERS ASSOCIATION, INC.**

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019
(UNAUDITED)

In March 2019, an independent specialist conducted an update of a previous study to estimate the remaining useful lives and current replacement costs of the components of common property. According to the updated study, (i) the estimates were selected from market standards, cost estimating services and consideration of actual recent costs incurred by the Association for upgrades of common property components, and (ii) the annual funding requirement to fully fund the pool of accounts is $151,200, which includes factors for interest earned on funds maintained in the replacement fund, but does not include increases in construction costs or inflation.

The following table presents significant information about the components of common property.

| Components | Estimated Remaining Useful Lives (Years) | Estimated Current Replacement Costs |
|---|---|---|
| Clubhouse interiors | 0 - 7 | $ 88,104 |
| HVAC systems | 0 - 16 | 19,480 |
| Painting/waterproofing | 0 | 6,298 |
| Pavement | 0 - 7 | 1,135,092 |
| Pool and equipment | 2 - 7 | 99,810 |
| Roofing | 16 | 23,548 |
| Site improvements | 0 - 8 | 599,970 |
| | | $ 1,972,302 |