

Granada Estates Neighborhood

Financial Statements

(Audited)

December 31, 2021

Granada Estates Neighborhood

Financial Statements

December 31, 2021

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Martin & Associates, PL

Certified Public Accountants & Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Granada Estates Neighborhood
Palm Coast, Florida

Opinion

We have audited the accompanying financial statements of Granada Estates Neighborhood , (the "Neighborhood") which comprise the balance sheet as of December 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neighborhood as of December 31, 2021, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Neighborhood 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 the Neighborhood's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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.
- 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 the Neighborhood'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 the Neighborhood'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule shown in Exhibit I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Neighborhood'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 supplementary information on future major repairs and replacements in Exhibit II 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. 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.

A handwritten signature in blue ink that reads "Martin & Associates, PL". The signature is written in a cursive, flowing style.

Martin & Associates, PL
Daytona Beach, FL

January 27, 2022

Financial Statements

Granada Estates Neighborhood

Balance Sheet

December 31, 2021

	Operating Fund	Reserve and Restrictive Fund	Total
Assets			
Cash and cash equivalents	\$ 41,988	\$ 633,233	\$ 675,221
Owners' assessments receivable, less allowance for bad debts of \$900	2,538	-	2,538
Total assets	\$ 44,526	\$ 633,233	\$ 677,759
Liabilities and fund balances			
Accounts payable	\$ 4,722	\$ -	\$ 4,722
Prepaid owners' assessments	6,761	-	6,761
Total liabilities	11,483	-	11,483
Fund balances - See Note 8	33,043	633,233	666,276
Total liabilities, fund balances and capital contributions	\$ 44,526	\$ 633,233	\$ 677,759

See auditors' report and accompanying notes to financial statements.

Granada Estates Neighborhood

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended December 31, 2021

	Operating Fund	Reserve and Restrictive Fund	Total
Revenues			
Owners' assessments	\$ 106,164	\$ -	\$ 106,164
Reserve assessments - See Note 8	-	31,464	31,464
Bad debt expense	(680)	-	(680)
Other income	2,571	-	2,571
Interest income	-	856	856
	<u>108,055</u>	<u>32,320</u>	<u>140,375</u>
Total revenues			
Expenses			
Administrative	4,058	-	4,058
Insurance	5,810	-	5,810
Management fee	19,530	-	19,530
Building and grounds maintenance	47,405	-	47,405
Utilities	21,148	-	21,148
Reserve expense	-	22,625	22,625
	<u>97,951</u>	<u>22,625</u>	<u>120,576</u>
Total expenses			
Excess of revenues (expenses) over expenses (revenues)	<u>\$ 10,104</u>	<u>\$ 9,695</u>	<u>\$ 19,799</u>
Fund balance, beginning of the year	<u>22,939</u>	<u>623,538</u>	<u>646,477</u>
Fund balance, end of year	<u>\$ 33,043</u>	<u>\$ 633,233</u>	<u>\$ 666,276</u>

Granada Estates Neighborhood

Statement of Cash Flows

For the Year Ended December 31, 2021

	Operating Fund	Reserve and Restrictive Fund	Total
Cash flows from operating activities: excess of revenues (expenses) over expenses (revenues):	\$ 10,104	\$ 9,695	\$ 19,799
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Owner assessments receivable	(1,755)	-	(1,755)
Increase (decrease) in:			
Accounts payable	(3,720)	-	(3,720)
Prepaid owners' assessments	294	-	294
Net increase (decrease) in cash	4,923	9,695	14,618
Cash balances at beginning of the year	37,065	623,538	660,603
Cash balances at end of the year	\$ 41,988	\$ 633,233	\$ 675,221
Cash paid for income tax	\$ -	\$ -	\$ -
Cash paid for interest expense	\$ -	\$ -	\$ -

See auditors' report and accompanying notes to financial statements.

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

1. Organization

Granada Estates Neighborhood (the “Neighborhood”), a division of Hammock Dunes Owners’ Association, Inc. (the “Master Association”), was organized in 1989 for purposes of maintaining and preserving the common property of Granada Estates Neighborhood, a section of Hammock Dunes, a private community, in conjunction with the Master Association. It was created pursuant to Article 7 of the Declaration of Protective Covenants, Conditions and Restrictions of the Master Association. Granada Estates Neighborhood currently consists of 210 lots. Common area acreage is approximately 45 acres. The Declarant reserves the right to designate additional real property as part of the Granada Estates Neighborhood at its sole discretion. These financial statements present the financial position, results of operations, and cash flows of Granada Estates Neighborhood only.

The Master Association, Hammock Dunes Owners’ Association, Inc. is a homeowners’ association organized in 1989 as a not-for-profit corporation under the laws of the State of Florida for purposes of maintaining and preserving the common property of Hammock Dunes, a private community. The Master Association currently consists of 1,182 units of which Granada Estates Neighborhood and Ocean Estates Neighborhood (“Ocean”) are a part.

These financial statements present the financial position, results of operations, and cash flows of the Neighborhood and not those of the Hammock Dunes Owners’ Association.

2. Summary of Significant Accounting Policies

Fund accounting

The Neighborhood uses fund accounting which requires that funds, such as operating funds, funds designated for future major repairs and replacements, funds restricted for use by the Board of Directors, and capital contribution funds 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 restricted and replacement fund and the capital contributions fund may generally be made only for designated purposes.

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

2. Summary of significant accounting policies (Continued)

Common areas

As provided in the Declaration of Covenants, Conditions and Restrictions, each owner owns an undivided share in the common elements of the Neighborhood. In conformity with industry practice, the Neighborhood recognized the following common property as assets:

(a) Common personal property used by the Neighborhood in operating, preserving, maintaining, repairing and replacing common property and providing other services.

(b) Common real property to which the Neighborhood has title and that is can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members on the basis of usage from nonmembers.

The Neighborhood has no personal or real property that should be recognized as assets. Common elements include, but are not limited to, entry features, street lights, roadways and landscaping.

Cash and cash equivalents

For purposes of reporting cash flows, the Neighborhood, Master Association, and Ocean consider all monies deposited with financial institutions in checking accounts, money market accounts, and certificates of deposit to be cash equivalents. The Neighborhood, Master Association, and Ocean have had no policy requiring collateral or other security to support its deposits, although all deposits with banks are federally insured up to \$250,000 under FDIC protection. The Neighborhood, Master Association, and Ocean have demand deposits and certificates of deposit with multiple banks. The Association, Granada and Ocean place its cash with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents. At December 31, 2021, the Neighborhood, Master Association, and Ocean had combined amounts of demand deposits and money markets in three banks in excess of the \$250,000 amounting to approximately \$1,455,000.

Assessments receivable

Neighborhood members are subject to monthly assessments to provide funds for the Neighborhood operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees from unit owners. The Neighborhood uses the allowance for doubtful accounts method for any member assessments that may be considered uncollectible. As of December 31, 2021, the Neighborhood had an allowance for doubtful accounts of \$900.

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

2. Summary of significant accounting policies (Continued)

Income taxes

For the year ended December 31, 2021, the Neighborhood is expected to file its federal income tax return as part of the Master Association federal and state tax returns. The interest income is subject to tax after certain limited deductions. The Master Association will pay any income tax liability.

The Master Association and Neighborhood are classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2021. It does not qualify as exempt organization. The Master Association and Neighborhood are subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Master Association and Neighborhood are required to separate its taxable income and deduction into membership transactions, nonmembership transactions, and capital transactions.

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

For state income tax purposes, the Association also is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 4.458 percent after the first \$50,000.

As of December 31, 2021, the tax years that remain subject to examination by taxing authorities begin with 2018.

Management review

Subsequent events have been evaluated through to January 27, 2022.

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

2. Summary of significant accounting policies (Continued)

Concentration of credit risk

The Neighborhood has one primary source of income, which are assessments paid by unit owners.

The Neighborhood invests its excess cash and cash equivalents in both certificates of deposits and high quality short-term liquid money market instruments with major financial institutions and the carrying value approximates market value. The Neighborhood has not experienced losses on such accounts. The Neighborhood believes it is not exposed to any significant credit risk on cash and cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require the use of estimates made by management. Actual results may differ from those estimates.

3. Owners' assessments

For the year ended December 31, 2021 the Neighborhood's regular monthly assessments were \$55 per lot for 207 units and \$28 per lot for 3 units which include amounts from owners of certain lots who are also required to pay certain limited common element assessments.

The annual budget and owners' assessments are determined and approved by the Board of Directors. Annual budgets are approved and assessments are divided between the operating fund to meet normal operation costs and contributions to the restricted and replacement funding program. The Neighborhood retains excess operating funds at the end of the operating year, if any, for use in the future operating period. The Neighborhood's practice, if needed, is to allow the Master Association to place liens on the properties of homeowners whose assessments become delinquent.

4. Future major repairs and replacements

The Neighborhood's governing documents and Florida Statutes require the Neighborhood to accumulate funds for future major repairs and replacements unless waived by the membership. The Board of Directors has reviewed the major components of common property and, as a part of this review, evaluated the estimated useful lives and the estimated current replacement costs

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

4. Future major repairs and replacements (Continued)

of the components of the replacement fund. Where applicable, licensed contractors have been consulted regarding useful lives and current replacement costs.

The Board of Directors intends to fund for major repairs and replacements over the estimated useful lives of the components based on estimates of current replacement costs. 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. If additional funds are needed, the Neighborhood has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

In December of 2020, the Neighborhood had a professional reserve study prepared for the 2021 fiscal year.

5. Members' initial capital contributions

Each initial lot owner, at the time of closing on their lot, was required to contribute two months' assessments to the Neighborhood to provide additional working capital.

6. Commitments

In 2019, a three-year management agreement with Southern States Management Group, Inc. was entered into at approximately \$1,627 per month plus administrative costs, subject to certain cancellation provisions.

For the year ended December 31, 2021, the management contract costs incurred were \$19,530.

In 2021, the Neighborhood entered a three-year landscape maintenance contract with Corey Enterprises, subject to certain cancellation provisions. For the year ended December 31, 2021, the landscape maintenance contract costs incurred were \$38,065.

7. Related party transaction

The Neighborhood reimbursed the Master Association for certain insurance costs for the Neighborhood which amounted to \$5,810 for the year ended December 31, 2021. In addition, the Neighborhood reimbursed the Master Association \$4,356 for maintenance engineering expenses.

Granada Estates Neighborhood

Notes to Financial Statements

December 31, 2021

8. FASB ASC 606 New Accounting Guidance

Effective for years beginning on January 1, 2019, and thereafter, the Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate-Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The adoption of Topic 606 could result in changes to certain and new accounting policies for assessment revenue and contract liabilities (assessments received for replacement funding), as previously reported in prior years. However, the Neighborhood considers reserve assessments as capital contributions which functions such as a savings fund rather than a continuous revenue stream. Therefore, the Neighborhood does not believe that Topic 606 would apply such that reserve assessments should be recorded as contract liabilities. The Neighborhood will continue to record reserve assessments when levied and contributed to replacement reserves and report replacement reserves as an equity account in the financial statements which is consistent with prior years.

9. Covid -19 Pandemic

The COVID-19 pandemic has affected major economic and financial markets, and virtually all industries and governments could face challenges associated with the economic conditions resulting from it.

The effects of the economic impact on the Neighborhood to date has been primarily inflationary increases on certain operating items and a delay in completing of projects due to supply chain/delivery challenges.

10. Oasis Development

On June 2nd, 2021, the Flagler County Planning & Development Board approved the Site Development Plan and the Preliminary Plat for the new subdivision, The Oasis at Hammock Dunes, in the PUD district lying South of Hammock Dunes Parkway and West of Camino del Mar Parkway. The new neighborhood is being developed by Old Florida Family, Inc. and will consist of 33 single family homes on an approximate 8-acre parcel. The development project is anticipated to commence in 2021, with the installation of the neighborhood infrastructure and the sale of homes. This new neighborhood will become part of the Granada Estates Neighborhood, which is a division of Hammock Dunes.

Supplementary Information

Exhibit I

Granada Estates Neighborhood

Schedule of Changes in Replacement and
Restrictive Fund Balance

For the Year Ended December 31, 2021

Replacement Component and Fund:	12/31/2020 Balance	Amount Funded	Interest	Expenditures	12/31/2021 Balance (a)
Restrictive Reserves					
Paving	\$ 360,764	\$ 23,232	\$ -	\$ (3,613)	380,383
Signage	25,682	-	-	-	25,682
Street lights	98,930	2,472	-	(3,340)	98,062
Plant replacement /irrigation	32,466	816	-	-	33,282
Total Restrictive Reserves	517,842	26,520	-	(6,953)	537,409
Unrestrictive Reserves					
Lighting accent	19,488	480	-	-	19,968
Maintenance contingency	54,476	-	856	(15,672)	39,660
Natural disaster	23,865	4,464	-	-	28,329
Professional fees	7,867	-	-	-	7,867
Total Unrestrictive Reserves	105,696	4,944	856	(15,672)	95,824
Total Reserves	\$ 623,538	\$ 31,464	\$ 856	\$ (22,625)	\$ 633,233

(a) See Note 8.

Exhibit II

Granada Estates Neighborhood

Supplementary Information on
Future Major Repairs and Replacements

December 31, 2021
(Unaudited)

<u>Replacement Component and Funds</u>	<u>Estimated Remaining Lives Years (a)</u>	<u>Estimated Current Replacement Costs (a)</u>	<u>Balance at 12/31/2021</u>	<u>2022 Budgeted Funding</u>
Restrictive Reserves				
Paving	3 to 4 years	\$ 445,042	\$ 380,383	\$ 18,500
Signage	19 Years	26,838	25,682	-
Street lights	2 Years	112,009	98,062	9,300
Irrigation/plant replacement	1 Year	<u>35,648</u>	<u>33,282</u>	<u>2,400</u>
Total Restrictive Reserves		619,537	537,409	30,200
Unrestrictive Reserves				
Lighting accent	1 Year	21,378	19,968	1,500
Maintenance contingency	5 Years	69,719	39,660	3,000
Natural disaster	8 Years	52,500	28,329	1,500
Professional fees	NA	<u>-</u>	<u>7,867</u>	<u>-</u>
Total Unrestrictive Reserves		143,597	95,824	6,000
Total		<u>\$ 763,134</u>	<u>\$ 633,233</u>	<u>\$ 36,200</u>

The State of Florida requires certain associations to have reserves for the future replacement of common property and for deferred maintenance. The Board of Directors is required to present a budget that reflects full funding of reserve items. However, the members of the Association may vote to reduce, consolidate, or eliminate reserve items.

The Association's current policy is to assess each unit owners a monthly assessment to meet all future replacement and major repair costs. This policy is based on an independent study of what funds might be needed. The Association had a professional reserve study prepared in December of 2020 for the 2021 fiscal year. The reserve study is utilized by the Board of Directors as a guide and the Board may make changes as necessary.

Future replacement and major repair costs may exceed the accumulated funds. In that event, the Association, based on provisions in its Declaration, has the authority to assess unit owners for additional funds needed at the time of replacement or major repair, or may delay major repairs and replacements until funds are available.

The Association adopted a budget with \$36,200 reserve funding for the year ended December 31, 2022.