

Hammock Dunes Owners' Association, Inc.

Financial Statements

(Audited)

December 31, 2021

Hammock Dunes Owners' Association, Inc.

Financial Statements

December 31, 2021

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# Martin & Associates, PL

Certified Public Accountants & Business Advisors

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## Independent Auditors' Report

To the Board of Directors  
Hammock Dunes Owners' Association, Inc.  
Palm Coast, Florida

### Opinion

We have audited the accompanying financial statements of Hammock Dunes Owners' Association, Inc., (the "Association") 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 Association 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 Association 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 Association'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 Association'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 Association'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 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 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.



Martin & Associates, PL  
Daytona Beach, FL

February 14, 2022

## Financial Statements

Hammock Dunes Owners' Association, Inc.

Balance Sheet

December 31, 2021

	Operating Fund	Replacement and Restrictive Fund	Design Review Committee Fund	Capital Contributions Fund	Special Assessment	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 181,811	\$ 1,621,611	\$ 1,156,656	\$ 3,093	\$ 282,803	\$ 3,245,974
Owners' assessments receivable, less allowance for bad debts of \$22,000	38,667	-	-	-	870	39,537
Connection rights	615,960	-	-	-	-	615,960
Declarant rights	277,138	-	-	-	-	277,138
Intellectual property	138,569	-	-	-	-	138,569
Due from other entity	13,237	-	-	-	-	13,237
Due from other fund	30,736	-	-	-	-	30,736
Prepaid expenses	58,594	-	-	-	-	58,594
Loan cost	41,214	-	-	-	-	41,214
Accumulated amortization	(34,690)	-	-	-	-	(34,690)
Property and equipment	664,079	-	-	-	-	664,079
Accumulated depreciation	(113,546)	-	-	-	-	(113,546)
Utility deposits	10,000	-	-	-	-	10,000
<b>Total assets</b>	<b>\$ 1,921,769</b>	<b>\$ 1,621,611</b>	<b>\$ 1,156,656</b>	<b>\$ 3,093</b>	<b>\$ 283,673</b>	<b>\$ 4,986,802</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 146,468	\$ 3,795	\$ 6,421	\$ -	\$ -	\$ 156,684
Owners' prepaid assessments	107,804	-	-	-	-	107,804
Current portion of long-term debt	343,328	-	-	-	-	343,328
Refundable deposits	-	-	1,037,013	-	-	1,037,013
2 Camino del Mar - design review	-	-	10,000	-	-	10,000
Due to other funds	-	30,736	-	-	-	30,736
Deferred special assessment	-	-	-	-	272,094	272,094
<b>Total current liabilities</b>	<b>597,600</b>	<b>34,531</b>	<b>1,053,434</b>	<b>-</b>	<b>272,094</b>	<b>1,957,659</b>
Long-term debt, less current portion	720,718	-	-	-	-	720,718
<b>Fund balances and capital contributions - See Note 17</b>	<b>603,451</b>	<b>1,587,080</b>	<b>103,222</b>	<b>3,093</b>	<b>11,579</b>	<b>2,308,425</b>
<b>Total liabilities, fund balances and capital contributions</b>	<b>\$ 1,921,769</b>	<b>\$ 1,621,611</b>	<b>\$ 1,156,656</b>	<b>\$ 3,093</b>	<b>\$ 283,673</b>	<b>\$ 4,986,802</b>

Hammock Dunes Owners' Association, Inc.

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended December 31, 2021

	Operating Fund	Replacement and Restrictive Fund	Design Review Committee Fund	Capital Contributions Fund	Special Assessment	Total
<b>Revenues</b>						
Owners' assessments	\$ 2,173,224	\$ -	\$ -	\$ -	\$ -	\$ 2,173,224
Reserve assessments - See Note 17	-	330,252	-	-	-	330,252
Adjustment to owners' assessments	(95,310)	-	-	-	-	(95,310)
Special assessment	-	-	-	-	-	-
Bad debt expense	(12,094)	-	-	-	-	(12,094)
Design review fees	-	-	77,000	-	-	77,000
Late and other fees	15,233	-	-	-	-	15,233
Other Income	12,398	29,340	-	-	-	41,738
Insurance claims proceeds	255	-	-	-	-	255
Commercial rental	84,000	-	-	-	-	84,000
Interest income	10	825	1,129	1	16	1,981
<b>Total revenues</b>	<b>2,177,716</b>	<b>360,417</b>	<b>78,129</b>	<b>1</b>	<b>16</b>	<b>2,616,279</b>
<b>Expenses</b>						
Access control	480,643	-	-	-	-	480,643
Administration and other	7,243	-	37	-	-	7,280
Design review committee	-	-	21,403	-	-	21,403
Depreciation and amortization expense	17,833	-	-	-	-	17,833
Insurance	31,286	-	-	-	-	31,286
Interest expense on loans	54,224	-	-	-	-	54,224
Building and grounds maintenance	751,637	-	-	-	-	751,637
Management fees and administrative costs	188,732	-	12,000	-	-	200,732
Professional fees	65,258	-	10,689	-	-	75,947
Utilities	92,342	-	-	-	-	92,342
Dune restoration cost share with County	-	-	-	-	-	-
Reserve expense	-	320,880	-	-	-	320,880
<b>Total expenses</b>	<b>1,689,198</b>	<b>320,880</b>	<b>44,129</b>	<b>-</b>	<b>-</b>	<b>2,054,207</b>
Excess of revenues (expenses) over expenses (revenues)	\$ 488,518	\$ 39,537	\$ 34,000	\$ 1	\$ 16	\$ 562,072
Fund balance, beginning of the year	114,933	1,547,543	69,222	3,092	11,563	1,746,353
Fund balance, end of year	\$ 603,451	\$ 1,587,080	\$ 103,222	\$ 3,093	\$ 11,579	\$ 2,308,425



Hammock Dunes Owners' Association, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2021

	Operating Fund	Replacement and Restrictive Fund	Design Review Committee Fund	Capital Contributions Fund	Special Assessment	Total
Cash flows from operating activities:						
Excess of revenues (expenses) over expenses (revenues):	\$ 488,518	\$ 39,537	\$ 34,000	\$ 1	\$ 16	\$ 562,072
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:						
Depreciation and amortization	17,833	-	-	-	-	17,833
(Increase) decrease in:						
Owners' assessments receivable	(9,122)	-	-	-	1,196	(7,926)
Prepaid expenses	(43,142)	-	-	-	-	(43,142)
Due from other entity	(1,760)	-	-	-	-	(1,760)
Connection rights	52,200	-	-	-	-	52,200
Increase (decrease) in:						
Accounts payable	16,175	3,795	6,421	-	-	26,391
Owners' prepaid assessments	(38,115)	-	-	-	-	(38,115)
Deferred special assessment	-	-	-	-	106,583	106,583
Refundable deposits	(500)	-	354,072	-	-	353,572
Total adjustments	(6,431)	3,795	360,493	-	107,779	465,636
Cash provided (used) by operating activities	482,087	43,332	394,493	1	107,795	1,027,708
Cash flows from investing activities:						
Purchase of property and equipment	-	-	-	-	-	-
Cash used by investing activities	-	-	-	-	-	-
Cash flows from financing activities:						
Interfund payables	(41,451)	31,451	10,000	-	-	-
Principal payments of note payable	(471,915)	-	-	-	-	(471,915)
Cash provided (used) by financing activities	(513,366)	31,451	10,000	-	-	(471,915)
Net increase (decrease) in cash	(31,279)	74,783	404,493	1	107,795	555,793
Cash balances at beginning of the year	213,090	1,546,828	752,163	3,092	175,008	2,690,181
Cash balances at end of the year	\$ 181,811	\$ 1,621,611	\$ 1,156,656	\$ 3,093	\$ 282,803	\$ 3,245,974
Cash paid for income tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash paid for interest expense	\$ 54,224	\$ -	\$ -	\$ -	\$ -	\$ 54,224

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### 1. Organization

#### Organization

Hammock Dunes Owners' Association, Inc. (the "Association" or "Master Association"), was 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 in Palm Coast, Florida.

At December 31, 2021, the Association is currently estimated to consist of 1,182 units. Of these units, 870 are part of established sub-associations, 12 are part of the Hammock Dunes Club (see Note 2), and 90 are part of future sub-associations. As of December 31, 2021, 1,091 were sold as residential units and 90 units are owned by parcel developers. The Declarant did reserve the right to designate additional real property as part of Hammock Dunes Owners' Association, Inc. at its sole discretion prior to the sale of these rights to the Association on June 12, 2013.

Acreage of the developed common property of the Association, including all neighborhood and sub-associations, is approximately 109.20 acres. Other common elements of the Association include roadways, guardhouses, bike paths, fencing, signage, bridges, and dune walkovers.

Hammock Dunes Owners' Association, Inc. is the Master Owners' Association of Hammock Dunes, a private community. Granada Estates Neighborhood ("Granada"), Ocean ("Ocean") Estates Neighborhood, and other neighborhood associations and sub-associations have also been established and are part of the Master Association. These financial statements present the financial position, results of operations, and cash flows of Hammock Dunes Owners' Association, Inc. only and not that of any neighborhood or sub-association of Hammock Dunes, a private community.

### 2. Summary of Significant Accounting Policies

#### Fund Accounting

The Association 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, funds used for design review of certain contraction activities and capital contributions 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, restrictive funds and the capital contributions fund may generally be made only for designated purposes.

# Hammock Dunes Owners' Association, Inc.

## 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 Association. In conformity with industry practice, the Association recognized the following common property as assets:

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

(b) Common real property to which the Association has title and that it 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.

#### Cash and Cash Equivalents

For purposes of reporting cash flows, the Association, Granada, and Ocean considers all monies deposited with financial institutions in checking accounts, money market accounts, and certificates of deposit to be cash equivalents. The Association, Granada, 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 Association, Granada, 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 Association, Granada, 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

Association members are subject to monthly assessments to provide funds for the Association operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees from unit owners. The Association uses the allowance for doubtful accounts method for any member assessments that may be considered uncollectible. As of December 31, 2021, the Association has estimated an allowance of \$22,000 for doubtful accounts.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### **2. Summary of Significant Accounting Policies (Continued)**

#### **Concentration of Credit Risk**

The Association has one primary source of income, which are assessments paid by unit owners. Assessments receivable from the unit owners are from residents of the Association and may be secured by a lien on their property.

#### **Declarant Rights**

The Association purchased certain assets from HD Associates, LP which resulted in recognizing Declarant Rights of \$277,138. The Declarant Rights provide the Association additional rights related to certain governing documents and increasing the number of units with the Association. Under generally accepted accounting principles, the carrying amount for Declarant Rights is not amortized but is reduced if the Association determines that its implied fair value has been impaired.

#### **Trademarks**

The Association purchased certain assets from HD Associates, LP which included recognizing an amount of \$138,569 for Trademarks. The Trademarks include certain branding, images, and other items related to the community. Under generally accepted accounting principles, the carrying amount for Trademarks is not amortized but is reduced if the Association determines that its implied fair value has been impaired.

#### **Connection Rights**

The Association purchased certain assets from HD Associates, LP which included the Connection Rights for 240 remaining units to connect to the water and sewer tap within Association. These rights were value at \$3,500 per remaining unit as of the date of the purchase. Each Connection Right has an administrative fee of \$20. The carrying value of Connection Rights is reduced by \$3,480 for each unit connected.

#### **Impairments of Long-Lived Assets**

The Association reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation of recoverability is required, the estimated undiscounted future cash flows directly associated with the asset are compared to the asset's carrying amount. If this comparison indicated that there is impairment, the amount of the impairment is calculated by comparing the carrying value to discounted expected future cash flows or comparable market values, depending on the nature of the asset. No long-lived assets were considered impaired at December 31, 2021.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### 2. Summary of Significant Accounting Policies (Continued)

#### Property and Depreciation

Property and equipment are stated at cost. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the related depreciable assets. Estimated useful lives are as follows:

Buildings	40 years
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#### Management Review

Subsequent events have been evaluated through to February 14, 2022 which is the date the financial statements were available to be issued.

#### Income Taxes

The Association is 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 an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal tax purposes, the Association 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, 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 Association files Form 1120, which has a 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.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### **2. Summary of Significant Accounting Policies (Continued)**

#### **Income Taxes (Continued)**

For the year ended December 31 2021, Granada Estates Neighborhood and Ocean Estates Neighborhood are expected to file their federal and state tax returns as part of the Master Association federal and state returns.

#### **Fair Value of Financial Instruments**

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to short maturity of these instruments. The carrying value of short and long-term debt approximates fair value based on discounting the projected cash flows using market rates available for similar maturities. None of the financial instruments are held for trading purposes.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

#### **Owners' Assessments**

For the year ended December 31, 2021 the Association's monthly assessments for the residential units were \$176.50 per unit.

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 Association retains excess operating funds at the end of the operating year, if any, for use in the future operating period. The Association's practice, if needed, is to place liens on the properties of homeowners whose assessments become delinquent.

Assessments are allocated to lot owners based on total lots. Hammock Dunes Club also pays assessments based on 12 equivalent units.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### 3. Property and Equipment

During 2013, the Association purchased certain real property located at 2 Camino Del Mar Parkway, Palm Coast, FL and a sign parcel. Property and equipment consist of following as of December 31, 2021:

	<u>2021</u>
Land	\$ 131,736
Building	<u>532,343</u>
	664,079
Less accumulated depreciation:	<u>113,546</u>
Total	<u>\$ 550,533</u>

### 4. Loan Costs

During 2013, the Association incurred certain costs obtaining a loan which amounted to \$28,634 and was recorded as Loan Costs. The Association is amortizing these loan costs on a straight-line basis over the term of the loan. The amortization expense for the year ended December 31, 2021 amounted to \$2,863 and the net Loan Costs as of December 31, 2021 was \$1,271.

On March 10, 2017, the Association incurred certain costs obtaining a loan which amounted to \$12,560 and was recorded as Loan Costs. The Association is amortizing these loan costs on a straight-line basis over the term of the loan. The amortization expense for the year ended December 31, 2021 amounted to approximately \$1,256 and the net Loan Costs as of December 31, 2021 was approximately \$5,233.

### 5. Intangible Assets

The Association purchased certain intangible assets in 2013. Intangible assets consist of the following as of December 31, 2021:

	<u>2021</u>
Connection rights	\$ 615,960
Declarant rights	277,138
Trademarks	<u>138,569</u>
Total	<u>\$ 1,031,667</u>

The connection fee agreements permit Dunes Community Development District ("DCDD") to collect \$4,500 from each Hammock Dunes Phase I vacant lot that applies for water and sewer connection, with DCDD retaining \$1,020 and disbursing \$3,480 to the association. As of December 31, 2021, there are 177 remaining vacant lots available for build-out. The

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### 5. Intangible Assets (Continued)

Association sold 15 Connection Right in 2021 reducing the carrying value of Connection Rights to \$615,960 as of December 31, 2021. Each Connection Right sold has an administrative fee of \$20 deducted from the \$3,500 Association fee.

Declarant rights and trademarks are not required to be amortized. Under generally accepted accounting principles, these amounts will be evaluated annually for any impairment in fair value.

### 6. Note Payable for Purchase

On June 12, 2013, the Association obtained a note payable with Intracoastal bank for \$1,375,000. The Association used the proceeds provided by the note to help fund the purchase of real property, rights and intangible assets from HD Associates, LP which totaled \$1,899,214. In August 2021, the Association renegotiated the interest terms of the original note. The note is payable in monthly installments of \$10,565, including interest at a rate of 3.5% until paid off. The note is secured by the Association assets. As of December 31, 2021, the note had a remaining balance of \$412,693.

Maturities on long term debt over the next five years are as follows:

	<u>Amount</u>
2022	\$ 111,135
2023	115,669
2024	120,365
2025	65,524
Thereafter	—
	<u>\$ 412,693</u>

### 7. Note Payable for Dunes Restoration

On March 10, 2017, the Association obtained a note payable with Intracoastal Bank for \$2,000,000. The Association used the proceeds provided by the note to fund a dune restoration project caused by damage to the dunes by the hurricanes. In August 2021, the Association renegotiated the interest terms and monthly payment amount of the original note. The note is payable in monthly installments of \$21,654, including interest of 3.5% until paid off. The note is secured by Association assets. As of December 31, 2021, the note had a remaining balance of \$651,353.



# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### 7. Note Payable for Dunes Restoration (Continued)

Maturities on long term debt over the next four years are as follows:

	<u>Amount</u>
2022	\$ 232,193
2023	243,011
2024	176,149
	<u>\$ 651,353</u>

### 8. Future Major Repairs and Replacements

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements unless waived by the membership. The Board of Directors had 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 of the components of the replacement fund. Where applicable, licensed contractors have been consulted regarding useful lives and current replacement costs. In 2019, the Association had an independent study performed by a professional consulting firm to determine the reserve components, estimated total useful and estimated remaining lives and the projected future 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 Association has the right, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

### 9. Design Review Committee and Refundable Deposits

The Association charges design reviews fees for new house construction, alterations or additions. These fees are used by the Association to cover certain professional, administration and committee costs incurred during review process.

The Association requires a refundable deposit for approved construction projects. In the event of failure to complete the project, the Association would use the deposit to assist in gaining control of the project and or completing for future sale. At this time, the Association believes all deposits are fully refundable. The Association had refundable deposits amounting to \$1,037,013 recorded in the Design Review Committee Fund as of December 31, 2021.

Hammock Dunes Owners' Association, Inc.

Notes to Financial Statements

December 31, 2021

**10. Dune Restoration and Agreement with Flagler County**

During 2018, the Association reached an Agreement with Flagler County ("County") to share in the expenses related to the reconstruction of an emergency protective berm of approximately 10 cubic yards to create an enhanced protective berm to mitigate against the loss of land and structures along the 2.34 miles of dunes abutting the Hammock Dunes Community.

The Association's allocated portion of the County's \$6,997,334 estimated total project cost is \$2,421,494 ("Project Amount"), subject to certain adjustments. This estimated Project Amount includes core project costs as well as County debt issuance and financing costs. This amount does not include any assessment early payment discounts available to the Association, as provided for in the Florida Statutes. The Agreement also provides for the County to reduce the assessment should the County realize savings in the construction costs of the dunes restoration. The Agreement provides for a contribution by the Dunes Community Development District, DCDD, in the amount of \$400,000 of which the County agreed to credit \$274,400 that is reflected in the Project Amount. The Association agreed to an initial \$383,100 payment directly to the County Board of Commissioners, and thereafter, in annual installments of \$407,659 directly to the County Tax Collector, due January 1st of each year.

Project Amount (net of the DCDD Contribution of \$274,400)	<b><u>\$2,147,094</u></b>
Less: Initial Payment (2018)	<b>383,100</b>
Less: Project Cost Savings	<b>414,697</b>
Less: County Tax Collect Payments:	
Year Ended December 31, 2018	<b>401,081</b>
Year Ended December 31, 2019	<b>391,352</b>
Year Ended December 31, 2020	<b>391,353</b>
Estimated Remaining Unpaid Project Amount before adjustments as of December 31, 2020	<b><u>165,511</u></b>
Less: Adjustment for Actual Cost Savings	<b>272,094</b>
Amount of County Taxes Refunded to the Association During 2021	<b><u>\$ 106,583</u></b>

In addition to the refund of \$106,583 due to overpayment of taxes, the tax payments for year four and five, amounting to \$813,318 are cancelled.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### **11. Special Assessment**

During 2018, in accordance with the terms of the Declaration of Protective Covenants, Conditions and Restrictions for the Community, the Association approved a Special Assessment of \$2,000 per unit for the funding of Dunes Restoration Agreement (See Note 10) for a total Special Assessment of \$2,440,000. In lieu of a single payment, unit owners were provided the option to make four payments of \$500, commencing on March 1, 2018, with final payment due December 1, 2018. This Special Assessment Revenue is recognized as payments are made to Flagler County or adjustments for cost savings determined in accordance with the Dunes Restoration Agreement. During the year ended December 31, 2021, the Dune Restoration Cost Share project with County was completed and the total cost saving in accordance with the Dunes Restoration Agreement allocated to the Association. Therefore, the Association received a refund of prior year taxes paid of \$106,583 which was recorded as Deferred Special Assessment. As of December 31, 2021, the Association had Deferred Special Assessment totaling \$272,094.

### **12. Members' Initial Capital Contributions**

Each initial lot owner, at the time of closing on their lot, is required to contribute two months' assessments to the Association to provide additional working capital for items such as insurance premiums, utility deposits, unforeseen expenditures, etc. The original Declarant also contributed money to pay for the Association's utility deposits.

### **13. Commitments and Contingencies**

In 2019, a three-year management agreement with Southern States Management Group, Inc. was entered into at approximately \$15,500 per month plus administrative costs, subject to certain cancellation provisions. For the year ending December 31, 2021, the Management costs incurred were split with \$212,200 being recorded within the operating fund and \$12,000 being recorded within the design review committee fund.

In 2020, the Association entered a three-year security contract with Securitas Security Services USA, Inc, subject to certain cancellation provisions. For the year ended December 31, 2021, the security contract costs incurred were \$426,580.

In 2021, the Association 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 \$622,295

In 2021, the Association entered a 15-year dune restoration and maintenance contract with Olsen Associates, Inc., subject to certain cancellation provisions. The Association paid contract cost of \$40,000 to Olsen Associates, Inc. which will be expensed over 15-years.

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### **14. Related Party**

In 2018, the Association entered into a 5-year triple-net lease with Southern States Management Group, Inc., for the sales office owned by the Association located at 2 Camino del Mar. Southern States pays \$7,000 monthly for the lease, plus all expenses relating to occupancy, including insurance premiums, utilities and ongoing maintenance.

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

Ocean reimbursed the Master Association for certain insurance costs for Ocean which amounted to \$2,794 for the year ended December 31, 2021. In addition, Ocean reimbursed the Master Association \$7,820 for maintenance engineering expenses.

### **15. Legal**

Prior to 2020, the Association filed a lawsuit against WCI Communities, LLC ("WCI") for the recovery of delinquent assessments that are owed to the Association. The lawsuit was filed after numerous demands by the Association for payment of assessments and special assessments were disregarded by WCI. WCI filed counterclaims, requesting declaratory relief that it does not owe the assessments as well as account for unjust enrichment for previously paid assessments. The counterclaim was later amended to include counts for: declaratory relief regarding condominiums that WCI wants to build; declaratory relief as to equitable accounting; violations of Florida Statutes; tortious interference; and civil conspiracy.

In September of 2020, the Association and WCI reached a settlement. Under the settlement terms, WCI paid the Association \$664,000 in 2020. Additionally, the parties agreed that beginning in November of 2020, WCI shall only be required to pay 50% of the assessments levied against the WCI property, which assessments will be for either 90 units or 120 units at WCI's sole election, pursuant to the Association's governing documents and no greater than the per unit amounts charged to other similarly situated owners in the Association, from November 1, 2020 to January 1, 2023, or the closing of a unit to a third party, whichever is earlier. After January 1, 2023, WCI shall pay 100% of the assessments levied against the WCI property.

### **16. 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

# Hammock Dunes Owners' Association, Inc.

## Notes to Financial Statements

December 31, 2021

### **16. FASB ASC 606 New Accounting Guidance (continued)**

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 Association considers reserve assessments as capital contributions which functions such as a savings fund rather than a continuous revenue stream. Therefore, the Association does not believe that Topic 606 would apply such that such that reserve assessments should be recorded as contract liabilities. The Association 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.

### **17. 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 Association to date has been primarily inflationary increases on certain operating items and a delay in completing of projects due to supply chain/delivery challenges.

### **18. 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

Hammock Dunes Owners' Association, Inc.

Schedule of Changes in Replacement and Restrictive  
Fund Balance

For the Year Ended December 31, 2021

Component	12/31/2020 Balance	Amount Funded	Other Income	Interest	Expenditures	12/31/2021 Balance (a)
<b>Restricted Replacement:</b>						
Pavement	\$ 168,938	\$ 39,540	\$ -	\$ -	\$ (1,400)	\$ 207,078
Fence	52,751	37,440	-	-	-	90,191
Bike Path	33,797	15,804	-	-	(21,245)	28,356
Monument signs	50,858	-	-	-	-	50,858
Signage - traffic signs	56,519	2,004	-	-	-	58,523
Dune walkovers	20,436	15,996	-	-	(13,740)	22,692
Electronic gate	9,778	20,196	-	-	(10,400)	19,574
Fountains / water feature	15,143	4,056	-	-	-	19,199
Bridge repair	204,160	22,188	-	-	(6,750)	219,598
Street lights	320,954	13,644	-	-	(73,934)	260,664
Irrigation and plants	26,998	33,780	-	-	-	60,778
Subtotal	<u>960,332</u>	<u>204,648</u>	<u>-</u>	<u>-</u>	<u>(127,469)</u>	<u>1,037,511</u>
<b>Unrestricted Replacement:</b>						
Smart passes system	47,678	6,732	-	-	-	54,410
Smart passes	8,489	-	29,340	-	(20,540)	17,289
Bridge light fixtures	139,017	3,552	-	-	(134,074)	8,495
Gatehouse/Comfort station/Clock tower	111,867	31,572	-	-	(10,931)	132,508
Maintenance contingency	65,071	20,137	-	-	(17,669)	67,539
Natural disaster	159,142	57,323	-	-	-	216,465
Lighting	49,443	612	-	-	-	50,055
Camino Del Mar	6,504	5,676	-	-	(10,197)	1,983
Unallocated interest	-	-	(12,413)	13,238	-	825
Subtotal	<u>587,211</u>	<u>125,604</u>	<u>16,927</u>	<u>13,238</u>	<u>(193,411)</u>	<u>549,569</u>
Total	<u>\$ 1,547,543</u>	<u>\$ 330,252</u>	<u>\$ 16,927</u>	<u>\$ 13,238</u>	<u>\$ (320,880)</u>	<u>\$ 1,587,080</u>

(a) See Note 17

Exhibit II

Hammock Dunes Owners' Association, Inc.

Supplementary Information on  
Future Major Repairs and Replacements

December 31, 2021  
(Unaudited)

Component	Estimated Remaining Lives (a)	Estimated Current Replacement Costs (a)	2022 Funding Requirement
<b>Restricted Reserves:</b>			
Pavement	11 Years	\$ 675,528	\$ 42,586
Fence	9 Years	448,510	39,813
Bike Path / sidewalks	29 Years	533,333	16,867
Monument signs	23 Years	40,565	-
Signage - traffic signs	9 Years	82,365	2,649
Dune walkovers	16 Years	163,968	16,000
Electronic gate	4 Years	128,323	29,787
Fountains / water feature	1 Year	20,159	960
Bridge repair	63 Years	1,710,969	23,673
Street lights	20 Years	470,655	12,270
Irrigation and plants	5 Years	241,160	36,076
Subtotal		<u>\$ 4,515,535</u>	<u>\$ 220,681</u>
<b>Unrestricted Reserves:</b>			
Smart passes system	1 Year	\$ 58,717	\$ 4,306
Bridge light fixtures	20 Year	155,039	7,406
Gatehouse / Comfort station /			
Clock tower	5 Years	309,766	33,266
Maintenance contingency	1 Year	69,466	75,333
Natural disaster	30 Years	2,100,000	61,613
Lighting	10 Years	62,292	1,259
Camino Del Mar	30 Years	262,500	8,524
Subtotal		<u>\$ 3,017,780</u>	<u>\$ 191,707</u>
Total		<u>\$ 7,533,315</u>	<u>\$ 412,388</u>

- (a) 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.



Hammock Dunes Owners' Association, Inc.

Supplementary Information on  
Future Major Repairs and Restricted Funds

December 31, 2021  
(Unaudited)

(continued)

The Association's current policy is to assess each unit owners a monthly assessment to meet all future replacement and major repair costs. In 2019, the Association had an independent study performed by a professional consulting firm to determine the reserve components, estimated total useful and estimated remaining lives and the projected future replacement costs. This study will be reviewed on an annual basis. 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 \$412,388 reserve funding for the year ended December 31, 2022.