SANDY KEY OWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2023

SANDY KEY OWNERS' ASSOCIATION, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Sandy Key Owners' Association, Inc.

Opinion

We have audited the accompanying financial statements of Sandy Key Owners' Association, Inc., which comprise the balance sheet as of December 31, 2023, 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 Sandy Key Owners' Association, Inc. as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 11 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

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 Sandy Key Owners Association Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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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 Sandy Key Owners Association Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sandy Key Owners' Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Sandy Key Owners' Association, Inc.'s, December 31, 2022, financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 17, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that future major repairs and replacements on page 10 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.

Jackson & Smith CPA Group, PC
Perdido Key, Florida
August 9, 2024

SANDY KEY OWNERS' ASSOCIATION, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023				2022
	Operating Fund	Reserve Fund	Rental Fund	Total	Total for Comparison Only
ASSETS					
Cash	$ 863,501	$ 447,268	$ 376,486	$ 1,687,255	$ 5,937,566
Assessments receivable	6,092	-	2,828	8,920	16,177
Special assessments receivable	466,346	-	-	466,346	-
Advance receivable	1,850	-	-	1,850	-
Prepaid insurance	1,252,873	-	-	1,252,873	1,367,794
Other prepaids	7,764	-	-	7,764	11,416
Property and equipment, net	48,478	-	10,993	59,471	47,100
TOTAL ASSETS	$ 2,646,904	$ 447,268	$ 390,307	$ 3,484,479	$ 7,380,053
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	$ 291,541	$ -	$ (17)	$ 291,524	$ 33,969
Prepaid assessments	14,881	-	-	14,881	23,009
Miscellaneous liabilities	1,492	-	4,571	6,063	2,943
Deferred Hurricane Sally insurance proceeds	2,784,782	-	-	2,784,782	6,474,203
Prepaid insurance assessment	-	-	-	-	40,999
Rental escrow liabilities	-	-	294,145	294,145	345,153
Due to (from) other funds	(16,928)	-	16,928	-	-
TOTAL LIABILITIES	3,075,768	-	315,627	3,391,395	6,920,276
FUND BALANCE	(428,864)	447,268	74,680	93,084	459,777
TOTAL LIABILITIES AND FUND BALANCE	$ 2,646,904	$ 447,268	$ 390,307	$ 3,484,479	$ 7,380,053

See accompanying notes.

SANDY KEY OWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023				2022
	Operating Fund	Reserve Fund	Rental Fund	Total	Total for Comparison Only
REVENUES					
Regular assessments	$ 1,237,725	$ 331,886	$ -	$ 1,569,611	$ 1,357,820
Rental income	-	-	2,447,526	2,447,526	2,261,966
Less: payments to owners	-	-	(1,539,744)	(1,539,744)	(1,469,372)
Unit 118 and 126 rental income	92,482	-	-	92,482	75,782
Hurricane Sally insurance proceeds	3,689,421	-	-	3,689,421	1,505,399
Water event proceeds	249,621	-	-	249,621	-
Insurance assessments	974,321	-	-	974,321	-
Interest	1,205	4,938	-	6,143	1,440
Late fees	2,069	-	-	2,069	610
Other	14,964	-	-	14,964	5,341
TOTAL REVENUES	6,261,808	336,824	907,782	7,506,414	3,738,986
EXPENSES					
Booking and administrative	849	-	115,000	115,849	51,365
Credit card fees	-	-	68,303	68,303	58,469
Depreciation	5,706	-	-	5,706	5,706
Housekeeping and cleaning	-	-	169,846	169,846	182,362
Hurricane Sally repairs	3,689,421	-	-	3,689,421	769,603
Elevator maintenance	36,981	-	-	36,981	19,389
Exterminator	2,148	-	-	2,148	2,114
Federal income tax	3,665	-	-	3,665	3,133
Fire protection	41,085	-	-	41,085	21,808
Insurance	1,618,787	-	-	1,618,787	733,170
Landscape service	40,021	-	-	40,021	32,641
Management	14,215	-	-	14,215	16,065
Marketing	-	-	13,512	13,512	11,691
Office	25,943	-	300	26,243	20,768
Pool service	59,303	-	-	59,303	19,958
Professional fees	10,320	-	3,300	13,620	20,707
Repairs and maintenance	163,251	440,320	55,337	658,908	250,627
Security	27,541	-	-	27,541	45,683
Supplies	28,421	-	-	28,421	36,392
Taxes and licenses	11,871	-	210	12,081	1,823
Unit 118 and 126 expense	34,647	-	-	34,647	25,797
Utilities	403,796	-	15,263	419,059	334,655
Water event	411,974	-	-	411,974	-
Wage and payroll expense	101,081	-	260,690	361,771	480,715
TOTAL EXPENSES	6,731,026	440,320	701,761	7,873,107	3,144,641
EXCESS REVENUES OVER (UNDER) EXPENSES	(469,218)	(103,496)	206,021	(366,693)	594,345
FUND BALANCE - BEGINNING OF YEAR	(226,903)	550,764	135,916	459,777	(134,568)
EQUITY TRANSFER	267,257	-	(267,257)	-	-
FUND BALANCE - END OF YEAR	$ (428,864)	$ 447,268	$ 74,680	$ 93,084	$ 459,777

See accompanying notes.

SANDY KEY OWNERS' CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023				2022
	Operating Fund	Reserve Fund	Rental Fund	Total	Total for Comparison Only
Cash Flows From Operating Activities					
Excess revenues over (under) expenses	$ (469,218)	$ (103,496)	$ 206,021	$ (366,693)	$ 594,345
Adjustments to reconcile excess revenues over (under) expenses to net cash provided (used) by operating activities					
Depreciation	5,706	-	-	5,706	5,706
(Increase) decrease in:					
Assessments receivable	(962)	-	8,219	7,257	(6,319)
Special assessments receivable	(466,346)	-	-	(466,346)	-
Advance receivable	(1,850)	-	-	(1,850)	-
Prepaid insurance	114,921	-	-	114,921	(924,346)
Other prepaids	3,652	-	-	3,652	7,568
Inventory	-	-	-	-	13,669
Increase (decrease) in:					
Accounts payable	266,512	(5,000)	(3,957)	257,555	13,306
Prepaid assessments	(8,128)	-	-	(8,128)	(22,600)
Miscellaneous liabilities	806	-	2,314	3,120	(1,770)
Deferred Hurricane Sally insurance proceeds	(3,689,421)	-	-	(3,689,421)	6,474,203
Prepaid insurance assessment	(40,999)	-	-	(40,999)	40,999
Rental escrow liabilities	-	-	(51,008)	(51,008)	77,410
Due to (from) other funds	28,625	-	(28,625)	-	-
Total adjustments	(3,787,484)	(5,000)	(73,057)	(3,865,541)	5,677,826
Net Cash Provided (Used) By Operating Activities	(4,256,702)	(108,496)	132,964	(4,232,234)	6,272,171
Cash Flows from Investing Activities					
Purchase of equipment	(8,743)	-	(9,334)	(18,077)	-
Cash Flows from Financing Activities					
Equity transfer	267,257	-	(267,257)	-	-
Repayment of line of credit	-	-	-	-	(850,000)
Repayment of insurance financing	-	-	-	-	(392,501)
Net Cash (Used) By Financing Activities	267,257	-	(267,257)	-	(1,242,501)
NET INCREASE (DECREASE) IN CASH	(3,998,188)	(108,496)	(143,627)	(4,250,311)	5,029,670
CASH - BEGINNING OF YEAR	4,861,689	555,764	520,113	5,937,566	907,896
CASH - END OF YEAR	$ 863,501	$ 447,268	$ 376,486	$ 1,687,255	$ 5,937,566
Supplemental Disclosures					
Noncash Investing and Financing Activities: None					
Cash Paid During the Year for:					
Interest	$ -	$ -	$ -	$ -	$ -
Income taxes	$ -	$ -	$ -	$ -	$ -

See accompanying notes.

NOTE 1: NATURE OF ORGANIZATION

The Sandy Key Owners' Association, Inc., (the Association) is responsible for the operation and maintenance of 183 condominium units, grounds, recreation facilities, and swimming pools located on approximately 8 acres in Pensacola, Florida. The Association is a statutory condominium association incorporated in the State of Florida on March 15, 1982. The Association consists of the owners of 183 units. Monthly assessments are made of the owners for operations.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common and the limited common property as mentioned above. Disposition of common property requires consent of the members in accordance with the Association's governing documents and Florida Statutes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Reserve Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Rental Fund

This fund is used to account for the Association's in-house rental program that owners may use for managing the rental of their unit. The rental management contracts are between the individual unit owners and the Association.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association has the right to levy liens on members' property to ensure payment of assessments due to the Association. Prepaid assessments represent membership dues which were paid prior to the assessment period.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes at cost real and personal property and equipment to which it holds title or other evidence of ownership and depreciates it using the straight-line method over its estimated useful life.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents.

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, 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.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2023, no interest or penalties were paid or accrued.

NOTE 3: INSURANCE PROCEEDS

The Association received $7,979,602 of insurance proceeds related to damages sustained in Hurricane Sally in the prior year. $3,689,421 of the proceeds were recognized in the current year as related repair expenses were incurred. At December 31, 2023, there were $2,784,782 of the proceeds deferred on the balance sheet.

NOTE 4: UNINSURED DEPOSITS

The Association's bank accounts are insured up to $250,000 at each financial institution by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2023, the Association had $960,100 at Truist Bank, $119,592 at Synovus Bank, and $14,204 at Alabama Credit Union in excess of FDIC coverage.

NOTE 5: COMMITMENTS

The Association contracted with Texas Claremont Property Company for Hurricane Sally related repairs in the amount of $4,139,449. At year end, there is $910,836 remaining on the contract.

The Association contracted with Otis Elevator for elevator updating project and replacements in the amount of $30,625. At year end, there is $15,313 remaining on the contract.

NOTE 6: FANNIE MAE/FREDDIE MAC REPLACEMENT RESERVE REQUIREMENTS

As a result of the mortgage loan crisis during 2009 and 2010, mortgage underwriters Fannie Mae and Freddie Mac published new regulations in the *Single-Family Seller/Servicer Guide (Fannie Mae Part B.4-2.2-06 Lender Full Review: Additional Eligibility Requirements for Established Condo Projects and Freddie Mac Chapter 42: Special Warranties for Condominiums*). One of these regulations states that in order to conform with a Full Project Review, the association must budget 10% of its annual operating revenues as designated replacement reserves for capital expenditures and deferred maintenance, as well as adequate funding for insurance deductibles. If the association does not meet this standard and the individual loan applications do not meet the requirements for a "Streamlined Review" (generally >20% down payment), then the borrower may not be eligible for a Fannie Mae/Freddie Mac backed mortgage loan.

Based on the current year calculation, the Association is currently designating 21% of its operating revenues for future replacement reserves.

NOTE 7: OWNERS' ASSESSMENTS

In 2023, the Association's regular monthly assessments were $677 for two-bedroom units and $808 for three-bedroom units.

NOTE 8: INSURANCE ASSESSMENTS

In 2022, the Association proposed and approved a special assessment due in 2023 for insurance premiums in the amount of $424,313. Two-bedroom units were assessed at $2,206 and three-bedroom units were assessed at $2,634.

In 2023, the Association proposed and approved a special assessment for insurance premiums in the amount of $550,008. Two-bedroom units were assessed at $2,833 and three-bedroom units were assessed at $3,383.

NOTE 9: 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, 2023. It does not qualify as a tax 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 member transactions, nonmember transactions, and capital transactions.

For federal income tax purposes, the Association is taxed on all net income from nonmember 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% applied to net taxable income. Federal income tax expense for the year ended December 31, 2023 was $3,665.

For state income tax purposes, the Association is also taxed on all net income from nonmember 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 not applied to the subsequent tax year is subject to taxation. The first $50,000 of taxable income is exempt from income tax. The tax rate applied to taxable income over this amount is 5.5%. There was no state income tax expense for the year ended December 31, 2023.

The Association is subject to examination by tax authorities for tax years 2020 through 2022. As of December 31, 2023, there are no active examinations.

NOTE 10: ADVERTISING

The Association has advertisements for its rental program that were advertised by Google, Facebook, and RealTech Services during the year. The Association expenses advertising as it is incurred.

NOTE 11: RESERVE FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. In 2017, the Association engaged an engineering firm to conduct a study to estimate the remaining useful lives and replacement costs of the components of common property. The Association is funding for such major repairs and replacements based on the study's estimates. Actual future major repairs and replacement expenses may vary from estimated amounts, and the variations may be significant. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

The Association's reserve funding is composed of the following components:

Components	Beginning Balances	Additions	Expenditures	Ending Balances
Pooled reserve components	$ 550,764	$ 336,824	(440,320)	$ 447,268

NOTE 12: PROPERTY AND EQUIPMENT

At December 31, 2023, property and equipment consisted of the following:

Unit #118	$ 102,087
Unit #118 improvements	24,862
Furniture and equipment	109,673
Rental assets	54,128
Total property and equipment at cost	290,750
Less: Accumulated depreciation	(231,279)
Property and equipment, net	$ 59,471

Depreciation expense for the year ended December 31, 2023 was $5,706.

NOTE 13: DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 9, 2024, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SANDY KEY OWNERS' ASSOCIATION, INC.
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2023

In 2017, the Board engaged an engineering firm to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs.

The information in the table below presents significant information about the components of common property and was obtained from the 2017 study. The information has not been reevaluated since 2017 but will be reevaluated after all Hurricane Sally projects are completed.

Components	Estimated Replacement Cost	Estimated Useful Life (Years)	Estimated Required Annual Funding	Estimated Remaining Life (Years)	Estimated Reserve Funding Required at December 31, 2023
Building exterior painting and waterproofing	$ 598,500	12	$ 49,875	0	$ 598,500
Common walkway coating	245,000	11	22,273	5	133,638
Steel mansard roofs	195,000	21	9,286	0	195,000
SBS modified roofs (flat)	396,000	16	24,750	10	148,500
Main/laundry roof	44,600	21	2,124	15	12,744
Elevators	450,000	21	21,429	15	128,574
Asphalt paving	133,000	12	11,083	6	66,498
Gates/fences (except tennis)	24,000	6	4,000	0	24,000
Brick pavers	10,000	8	1,250	2	7,500
Beach access structures	38,000	18	2,111	12	12,666
Fire pump	29,000	21	1,381	14	9,667
Domestic water pumps	27,500	11	2,500	5	15,000
Emergency generator	80,000	31	2,581	25	15,486
Trash equipment/doors	38,000	11	3,455	5	20,730
Fire alarm systems	240,000	16	15,000	10	90,000
Common area HVAC	12,000	6	2,000	0	12,000
Tennis courts/lights/fencing	7,500	6	1,250	0	7,500
Recreation/exercise	1,000	13	77	7	462
TOTAL	$ 2,569,100		$ 176,425		$ 1,498,465