

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**

**FINANCIAL STATEMENTS,  
INDEPENDENT AUDITORS' REPORT AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2022  
(WITH COMPARATIVE TOTALS FOR 2021)**

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
Vero Beach, Florida

FINANCIAL STATEMENTS  
December 31, 2022

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Grand Harbor Community Association, Inc.  
Vero Beach, Florida

### ***Opinion***

We have audited the accompanying financial statements of Grand Harbor Community Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2022, 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 Grand Harbor Community Association, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***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 Grand Harbor Community Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibility of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Grand Harbor Community 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.

### ***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 Grand Harbor Community 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 Grand Harbor Community 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 Grand Harbor Community Association, Inc.'s 2021 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated April 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund revenues and expenses and the schedule of changes in replacement fund balances on pages 15-17 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, except for the portion marked "unaudited" on which we express no opinion, 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 information on future major repairs and replacements on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*OFFUTT BARTON SCHLITT LLC*

Vero Beach, Florida  
March 27, 2022

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2022**  
**(WITH COMPARATIVE TOTALS FOR 2021)**

	2022				2021	
	Operating Fund	Replacement Fund	Deferred Maintenance Fund	Litigation Fund	Total	Total (memo only)
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 22,300	\$ 410,611	\$ 686,123	\$ 224	\$ 1,119,258	\$ 1,309,304
Assessments receivable, net of allowance for doubtful accounts of \$7,120	155,720	-	-	-	155,720	40,526
Other receivables	20,343	-	-	-	20,343	8,319
Prepaid insurance	-	-	-	-	-	35,607
<b>Total current assets</b>	<b>198,363</b>	<b>410,611</b>	<b>686,123</b>	<b>224</b>	<b>1,295,321</b>	<b>1,393,756</b>
<b>OTHER ASSETS</b>						
Due from Developer	604,093	976	-	-	605,069	605,069
Deposits	5,104	-	-	-	5,104	5,104
<b>Total other assets</b>	<b>609,197</b>	<b>976</b>	<b>-</b>	<b>-</b>	<b>610,173</b>	<b>610,173</b>
<b>Total assets</b>	<b>\$ 807,560</b>	<b>\$ 411,587</b>	<b>\$ 686,123</b>	<b>\$ 224</b>	<b>\$ 1,905,494</b>	<b>\$ 2,003,929</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 114,617	\$ -	\$ -	\$ 54,273	\$ 168,890	\$ 162,295
Prepaid assessments	6,002	-	-	-	6,002	22,276
Deferred revenue	-	-	38,430	-	38,430	38,430
Notes payable	-	-	-	167,000	167,000	4,608
<b>Total current liabilities</b>	<b>120,619</b>	<b>-</b>	<b>38,430</b>	<b>221,273</b>	<b>380,322</b>	<b>227,609</b>
<b>LONG-TERM LIABILITIES</b>						
Deferred revenue	-	-	115,290	-	115,290	153,720
Notes payable	-	-	1,332,000	-	1,332,000	174,558
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>1,447,290</b>	<b>-</b>	<b>1,447,290</b>	<b>328,278</b>
<b>Total liabilities</b>	<b>120,619</b>	<b>-</b>	<b>1,485,720</b>	<b>221,273</b>	<b>1,827,612</b>	<b>555,887</b>
<b>FUND BALANCES</b>						
	686,941	411,587	(799,597)	(221,049)	77,882	1,448,042
<b>Total liabilities and fund balances</b>	<b>\$ 807,560</b>	<b>\$ 411,587</b>	<b>\$ 686,123</b>	<b>\$ 224</b>	<b>\$ 1,905,494</b>	<b>\$ 2,003,929</b>

*See Independent Auditors' Report and accompanying Notes to the Financial Statements.*

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
**(WITH COMPARATIVE TOTALS FOR 2021)**

	2022				2021	
	Operating Fund	Replacement Fund	Deferred Maintenance Fund	Litigation Fund	Total	Total (memo only)
<b>REVENUES</b>						
Regular assessments	\$ 3,754,098	\$ 49,203	\$ 165,797	\$ -	\$ 3,969,098	\$ 3,275,473
Special assessments	-	-	-	-	-	267,600
Security gate income	64,986	-	-	-	64,986	69,528
Cable revenue	-	-	38,430	-	38,430	30,075
Capital contributions	-	-	-	-	-	11,640
Other income	14,351	-	-	-	14,351	-
Assessment late fee/interest	17,315	-	-	-	17,315	-
Interest income	-	1,605	231	-	1,836	900
<b>Total revenues</b>	<b>3,850,750</b>	<b>50,808</b>	<b>204,458</b>	<b>-</b>	<b>4,106,016</b>	<b>3,655,216</b>
<b>EXPENSES</b>						
Utilities	1,242,511	-	-	-	1,242,511	725,836
Landscape maintenance	1,090,477	-	-	-	1,090,477	1,019,967
Security expense	711,166	-	-	-	711,166	664,801
General and administrative	436,835	-	34,909	-	471,744	450,190
General maintenance	222,735	-	-	-	222,735	140,596
Special projects:						
Bridges	-	-	1,208,232	-	1,208,232	178,091
Litigation	-	-	-	435,277	435,277	53,372
Reclaimed pond retention wall	-	-	73,064	-	73,064	-
Stormwater	-	-	20,970	-	20,970	-
Roadways	-	-	-	-	-	108,148
Sidewalks	-	-	-	-	-	169,093
<b>Total expenses</b>	<b>3,703,724</b>	<b>-</b>	<b>1,337,175</b>	<b>435,277</b>	<b>5,476,176</b>	<b>3,510,094</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<b>147,026</b>	<b>50,808</b>	<b>(1,132,717)</b>	<b>(435,277)</b>	<b>(1,370,160)</b>	<b>145,122</b>
Fund balances - beginning of year	652,925	360,779	220,110	214,228	1,448,042	1,302,920
Interfund transfers	(113,010)	-	113,010	-	-	-
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 686,941</b>	<b>\$ 411,587</b>	<b>\$ (799,597)</b>	<b>\$ (221,049)</b>	<b>\$ 77,882</b>	<b>\$ 1,448,042</b>

*See Independent Auditors' Report and accompanying Notes to the Financial Statements.*

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
**(WITH COMPARATIVE TOTALS FOR 2021)**

	2022				2021	
	Operating Fund	Replacement Fund	Deferred Maintenance Fund	Litigation Fund	Total	Total (memo only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Excess (shortfall) of revenues over expenses	\$ 147,026	\$ 50,808	\$ (1,132,717)	\$ (435,277)	\$ (1,370,160)	\$ 145,122
Adjustments to reconcile excess (shortfall) of revenues over expenses to net cash from (used in) operating activities:						
(Increase) decrease in:						
Assessments receivable, net	(120,794)	-	-	5,600	(115,194)	73,795
Other receivables	(12,024)	-	-	-	(12,024)	(7,464)
Prepaid insurance	35,607	-	-	-	35,607	91,065
(Increase) decrease in:						
Accounts payable and accrued liabilities	(47,678)	-	-	54,273	6,595	(76,068)
Prepaid assessments	(16,274)	-	-	-	(16,274)	16,981
Deferred revenue	-	-	(38,430)	-	(38,430)	162,075
Net cash from (used in) operating activities	(14,137)	50,808	(1,171,147)	(375,404)	(1,509,880)	405,506
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Interfund transfer	(113,010)	-	113,010	-	-	-
Proceeds from notes payable	-	-	1,157,442	167,000	1,324,442	179,166
Principle payments on lines of credit	(4,608)	-	-	-	(4,608)	-
Change in interfund borrowings	(458,044)	(337,402)	586,818	208,628	-	-
Net cash from (used in) financing activities	(575,662)	(337,402)	1,857,270	375,628	1,319,834	179,166
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(589,799)	(286,594)	686,123	224	(190,046)	584,672
<b>CASH AND CASH EQUIVALENTS - beginning</b>	612,099	697,205	-	-	1,309,304	724,632
<b>CASH AND CASH EQUIVALENTS - end of period</b>	\$ 22,300	\$ 410,611	\$ 686,123	\$ 224	\$ 1,119,258	\$ 1,309,304
<b>SUPPLEMENTAL DISCLOSURE:</b>						
Cash paid for interest	\$ -	\$ -	\$ 34,909	\$ 1,546	\$ 36,455	\$ 2,033

*See Independent Auditors' Report and accompanying Notes to the Financial Statements.*



**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 NATURE OF ORGANIZATION**

Grand Harbor Community Association, Inc., (the Association) was incorporated on March 11, 1987, as a corporation, not-for-profit, under the terms and provisions of Chapter 720, Florida Statutes. The Association is located in Vero Beach, Florida and is responsible for the maintenance, preservation and architectural control of the common areas of the Association, which include the member neighborhoods within Grand Harbor and Oak Harbor. At December 31, 2022, the community is still under development and consists of approximately 1,488 units.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Accounting**

The financial statements of the Association are prepared on the accrual basis of accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the financial statements have been prepared 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. The income and expenses of the Association are allocated to unit owners equally.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements for reserves established pursuant to Florida Statute §720.303(6)(d) (statutory reserves). As of December 31, 2022, statutory reserves comprise of road resurfacing reserves. Expenditures from this fund are restricted to those items for which assessments were levied.

Deferred Maintenance Fund – This fund is used to accumulate financial resources for voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance. The deferred maintenance funds are not subject to the restrictions on use of such funds set forth in Florida Statute §720.303(6)(d). Expenditures from this fund are primarily limited to those connected with replacements, major repairs, and purchase of additional commonly owned assets for which no statutory reserve has been established.

Litigation Fund – This fund is used to account for activities related to a lawsuit filed by the Association against the Developer. Expenditures from the fund are directly related to the lawsuit.

The Association's practice is to fund fully within the replacement funds each month without regard to underpayments or overpayments by members to the operating fund.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash is defined as demand deposits and money markets with original maturities of three months or less.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**Commonly Owned Assets**

Real and common area property, as well as replacements and improvements to such property are not capitalized on the Association's financial statements because those properties are owned by the individual members in common and not by the Association. It is the Association's policy to expense insignificant purchases of equipment and other property that is used for the maintenance and management of the Association.

**Capital Contributions**

The Association requires that the initial purchaser of a unit pay a one-time only working capital contribution in an amount equal to one-sixth (1/6) of the amount of the annual base assessment per unit for that year as determined by the Board of Directors. Capital contributions are allocated between the operating and replacement fund as outlined in the budget in effect at the closing of each unit.

**Member Assessments**

Association members are assessed monthly to provide funds for the Association's operating fund and future major repairs and replacements. Assessments are recognized as revenue in the period in which they are assessed. For the year ending December 31, 2022, operating assessments were \$3,754,098, assessments designated to the replacement fund were \$49,203, and assessments designated to the deferred maintenance fund were \$165,797.

The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Financial Accounting Standards Board (FASB) issued guidance for revenue recognition, Accounting Standards Code 606, *Revenue from Contracts with Customers*, requiring the deferral of the recognition of replacement fund income until the services are rendered and any unspent replacement funds to be recorded as a contract liability. The Association has determined ASC 606 does not apply to the Association as no customer relationship exists as it is defined by the Code. The Association does not defer the recognition of any portion of revenue as a contract liability.

**Interest Earned**

The Board's policy is to allocate interest earned to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

**Estimates**

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

**Fair Value of Financial Instruments**

The financial position of the Association at December 31, 2022 includes certain financial instruments that may have a fair value that is different from the value currently reflected in the financial statements. In reviewing the financial statements of the Association, certain assumptions and methods were used to determine the fair value of each category of financial instruments for which it is practical to estimate that value. The carrying amounts of the Association's financial instruments generally approximate their fair values at December 31, 2022.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**Prior-Period Information**

The financial statements include certain prior-year summarized information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year from which the summarized information was derived.

**NOTE 3 INCOME TAXES**

The Association has elected to file as a homeowner's association in accordance with Internal Revenue Code 528, using Form 1120-H. The Association's investment income and other nonexempt income are subject to tax. The Association has evaluated its tax position and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Tax Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification. With few exceptions, the Association is no longer subject to income tax examinations by the U.S. federal or state tax authorities for years prior to 2020. The Association recorded no income tax expense in 2022.

**NOTE 4 CONCENTRATION OF CREDIT RISK**

The Association maintains its bank accounts with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage for up to \$250,000 through December 31, 2022. At December 31, 2022, the Association had amounts that exceeded the federally insured limits by \$944,779. The Association has not experienced any losses on such accounts, and believes it is not exposed to any significant risk on bank deposits.

**NOTE 5 ASSESSMENTS RECEIVABLE**

Assessments receivable are stated net of an allowance for doubtful accounts. The amount of any specific allowance is estimated by management based on various assumptions including the age of past due amounts, an assessment of the member's ability to pay, lien and foreclosure status, legal fees and Florida mandated collection liability limits. Account balances are charged off against the allowance for doubtful accounts from members when the potential for recovery is remote. Recoveries of receivables previously charged off are recorded when payment is received. There were \$162,840 in assessments receivable and \$7,120 in allowance for doubtful accounts at December 31, 2022.

**NOTE 6 PREPAID ASSESSMENTS**

Assessments received before the date due are reflected on the balance sheet as prepaid assessments. As of December 31, 2022, prepaid assessments totaled \$6,002.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 7 DUE FROM DEVELOPER**

The Declaration of Covenants provides that, during the period of developer control, so long as the Developer has an option unilaterally to subject additional property to the Declaration, in lieu of paying base assessments on its unsold units, the Developer shall be obligated for the difference between the amount of assessments levied on all units subject to assessment and the amount of actual expenditures required to operate the Association during the fiscal year. This obligation may be satisfied in the form of a cash subsidy, or by "in kind" contributions of services of materials, or a combination of these. Effective December 4, 2020, the Developer relinquished control of the Association and the Association was turned over from the Developer to the unit owners. For the year ended December 31, 2020, common operating expenditures net of turnover legal fees of \$77,466 exceeded assessments and other income and capital contributions levied on all units subject to assessment by \$605,069. At December 31, 2022, the developer's total obligation to the Association is \$605,069. The future value of this asset is among various items subject to the litigation (See Note 11).

**NOTE 8 NOTES PAYABLE**

On August 27, 2021, the Association entered into an agreement with Marine Bank and Trust for a promissory note for the purpose of restructuring the Harbor Village Drive bridge. The note is a closed-end line of credit during the first twenty-four months of the term of the note. The note carries a maximum balance of \$2,000,000 and bears interest at a fixed rate of 3.99% per annum. Effective September 27, 2021 through August 27, 2023, the Association is required to make monthly payments of interest only on all sums advanced. Effective September 27, 2023 through August 27, 2031, the Association shall make monthly payments of principal and interest. Beginning September 27, 2031 through August 27, 2036, the interest rate at which the unpaid balance of the obligation will change and will accrue interest at the rate of the *Five-Year United States Treasury Rate* plus 3.5%. Beginning September 27, 2036 through August 27, 2038, the interest rate at which the unpaid balance of the obligation will change and will accrue interest at the rate of the *Five-Year United States Treasury Rate* plus 3.5%. All remaining sums of principal and accrued interest shall become immediately due and payable in full on August 27, 2038. The note is subject to prepayment penalties if prepaid prior to the fifth anniversary date of the note if the note is refinanced with another lender. The note is secured by the Association's present and future rights, title and interest in, to and under all assessments, (recurring and special) and other amounts due and owing from Members to the Association under the governing documents of the Association. As of December 31, 2022, the Association owed \$1,332,000 on the note. Interest expense was \$34,909 for the year ended December 31, 2022.

On August 27, 2021, the Association obtained a \$500,000 revolving line of credit (revolving LOC) with Marine Bank and Trust, with an interest rate at the adjustable rate of *The Wall Street Journal Prime Rate* plus .50% floating. *The Wall Street Journal Prime Rate* is defined as the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks as published in the Wall Street Journal. Effective September 27, 2021, and on the 27<sup>th</sup> day of each and every month thereafter, the Association will make interest only payments at the rate set forth above on any outstanding balance. All remaining sums of principal and accrued interest are due and payable in full upon demand payment by Marine Bank and Trust. Such demand must be made in writing and will specify the date on which all unpaid sums of principal and unpaid, accrued interest will be due and payable in full and such due date will be at least 30 days from the date of such written demand for payment. The revolving LOC is secured by the Association's present and future rights, title and interest in, to and under all assessments, (recurring and special) and other amounts due and owing from Members to the Association under the governing documents of the Association. As of December 31, 2022, the Association owed \$167,000 on the line of credit. Interest expense was \$1,546 for the year ended December 31, 2022.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 9    COMMITMENTS**

On September 15, 2021, the Association renegotiated their agreement with Comcast Cable to provide bulk digital service at reduced rates. The contract is for a five-year term, beginning December 21, 2021, with automatic renewals for three successive periods of thirty days and provides for annual increases not to exceed 4.0%. As an incentive, Comcast Cable agreed to prepay the Association a discount of \$192,150, which is being amortized over the five-year agreement. For the year ended December 31, 2022, the Association recognized \$38,430 into cable revenue, \$38,430 in current deferred revenue, and \$115,290 in long-term deferred revenue.

The Association has a contractual agreement with A.R. Choice Management, Inc. (A.R. Choice) to provide community management services for approximately \$169,848 per year or \$14,154 per month, payable monthly. The rate is \$10.50 per month for every entity, to include the Grand Harbor Golf Club and Marina owner, unit or home with a certificate of occupancy. The agreement commenced on December 4, 2020, for a three-year period, and automatically renews for periods of three years unless terminated by either party. The monthly fee will increase by \$10.50 on the first day of the following month when an entity, unit or home receives a certificate of occupancy. During January 1, 2022, the \$10.50 fee increased by 1.5%. The 1.5% increase will continue annually through 2024. The Association can terminate the agreement with or without cause by giving sixty days written notice. For the year ended December 31, 2022, expenses for A.R. Choice management services totaled approximately \$175,481.

During 2021, the Association entered into various contracts for the purpose of restructuring the Harbor Village Drive bridge. On September 16, 2021, the Association entered into a contract with Cobalt Construction Group, LLC for the superstructure replacement of the Harbor Village Drive bridge over the Indian River Flushing Channel. The total contract agreement for this project, including change orders, was estimated to be approximately \$1,060,000. For the year ended December 31, 2022, the Association had incurred bridge restructuring costs in the amount of \$1,208,232.

Effective October 1, 2022, the Association entered into a contractual agreement with Creative Landscaping and Pest Management to provide lawncare and maintenance services for approximately \$420,000 per year for a term of three years. The contract may be terminated by either party upon thirty days written notice.

Effective July 1, 2015, the Association entered into a contractual agreement with Securitas Security Services USA to provide on-site guard services for approximately \$42,515 per month. The contract ended November 30, 2022 when the Association entered into a contractual agreement with St. Moritz Security Services, Inc. for approximately \$19,000 per month. For the year ended December 31, 2022, expenses for security service contracts totaled approximately \$590,074.

The Association has entered into various other annual service contracts in the ordinary course of business.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 10 FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents and Florida Statutes provide certain guidelines for funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and generally are not available for expenditures for normal operations.

Grand Harbor engaged an independent engineering firm, which conducted a study dated January 27, 2020, to estimate the remaining useful lives and replacement costs of the common property components. During 2022, the Board conducted an internal study and updated some of the costs of the components of common property. Estimates were based on professional judgement, which may include contractor estimates for major components. The table included in the unaudited supplementary information on future repairs and replacements is based on this study. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the major repairs and replacements fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, make special assessments, or delay major repairs and replacements until funds are available.

The Association is funding for statutory major road resurfacing repairs and replacements over the estimated useful life of the component based on the study's estimates of current replacement cost, considering amounts previously accumulated in the replacement fund. The balance of funds for future major road resurfacing repairs and replacements, designated as the Road Resurfacing Reserve, totaled \$411,587 at December 31, 2022.

*The budget of the Association does not provide for fully funded reserve accounts for capital expenditures and deferred maintenance that may result in special assessments regarding those items. Owners may elect to provide for fully funded reserve accounts under § 720.303(6), Florida Statutes, upon obtaining the approval of a majority of the total voting interests of the Association by vote of the members at a meeting or by written consent.*

*The budget of the Association provides for limited voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance, subject to limits on funding contained in the governing documents. Because the owners have not elected to provide for reserve accounts under Florida Statutes § 720.303(6), the deferred maintenance funds are not subject to the restrictions on use of such funds set forth in that statute, nor are reserves calculated in accordance with that statute.*

**NOTE 11 SUBSEQUENT EVENTS**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 27, 2023, the date that the financial statements were available to be issued.

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 12 LITIGATION**

On April 28, 2021, the Association filed a Circuit Civil Complaint in and for Indian River County, Florida, against the Developer and certain members of the Developer-appointed Board of Directors for damages for multiple deficiencies that represent violations of the Declaration, the Florida Homeowners Association Act and the fiduciary duty of the Developer and the Developer-appointed Board members of the Association. The Association's case with the Developer will proceed to jury trial in May 2023. The Association is seeking damages for deficiencies that include:

1) Failure to maintain funded reserves for capital expenditures: The Complaint states that the Declaration required the Association to prepare annual budgets to cover estimated common expenses for the coming year, which included capital contributions needed to establish reserve funds to meet capital budgets. The capital budgets were to take into account the number, nature, expected lifespan, and expected repair and replacement costs of the replaceable assets. All capital contributions necessary to meet those capital budgets were to be included in the annual budget and assessments levied on all unit owners, including Developer's units. In lieu of paying the assessments on its units, the Developer is obligated to pay any difference between the base assessments levied on all units and the amount of actual expenditures required to operate the Association during the fiscal year. The Complaint asserts that the Developer failed to establish and fund reserve accounts in amounts sufficient to meet capital budgets and that the funds remaining as of the date of turnover were deficient and inadequate to meet the capital improvement needs of the Association.

2) Overcharging non-developer assessments: The Complaint asserts that the Developer reduced certain funding obligations by reducing assessments on Developer units by undercounting Developer units that were or should have been subject to assessment, discounting assessments on Developer units in violation of the Declaration and failing to assess required reserves on Developer units. The Developer reduced certain other funding obligations by improperly allocating reserve funds to unrelated repairs, improperly offsetting certain income against operating deficits and misclassifying annual deficits to a reserve account.

3) Breach of Declaration and fiduciary duty: The Complaint asserts that the Developer's failures to fund capital reserve accounts and its improper reductions of its other funding obligations as set forth above are breaches of the Declaration and breaches of fiduciary duty that are a legal cause of loss to the Association and its members. The Association is demanding judgement for damages, prejudgment interest, costs of this action including attorney's fees under §720.305(1), Fla. Stat., and such other and further relief as the Court deems just and proper.

Due to the uncertainty of the outcome of the Complaint, no amounts claimed as damages have been recorded in these financial statements.

Furthermore, other than the mandatory reserve for roadways, due to the pending litigation, the Board believes that the Association does not have sufficient information to determine the appropriate annual funding and allocation needed for the future repair and replacement of assets under its control.

**SUPPLEMENTARY INFORMATION**



**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES (CONTINUED)**  
**DECEMBER 31, 2022**  
**(WITH COMPARATIVE TOTALS FOR 2021)**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	2022		Variance Favorable (Unfavorable) (Unaudited)	2021
	Actual	Budget (Unaudited)		Actual
<b>REVENUES</b>				
Regular assessments	\$ 3,754,098	\$ 3,760,045	\$ (5,947)	\$ 3,060,473
Security gate income	64,986	75,000	(10,014)	69,528
Late fee/interest income	17,315	-	17,315	-
Miscellaneous income	9,386	-	9,386	-
Bad debt recoveries	1,465	-	1,465	-
Arctitecural reviews	3,500	-	3,500	-
Capital contributions	-	5,000	(5,000)	11,521
	<u>3,850,750</u>	<u>3,840,045</u>	<u>10,705</u>	<u>3,141,522</u>
<b>EXPENSES</b>				
<b>Landscape maintenance:</b>				
Lawn care	458,560	460,000	1,440	450,383
Lake & estuary maintenance	251,400	251,400	-	227,229
Mangrove trimming	137,910	163,000	25,090	146,510
Irrigation repair parts & labor	84,650	62,000	(22,650)	64,946
Tree pruning	70,770	65,000	(5,770)	59,282
Tree & plant replacement	58,891	30,000	(28,891)	18,377
Invasive - removal	24,655	25,000	345	15,200
Lake bank planting	3,641	5,000	1,359	31,395
Mulch	-	41,000	41,000	-
Annuals	-	29,155	29,155	6,645
	<u>1,090,477</u>	<u>1,131,555</u>	<u>41,078</u>	<u>1,019,967</u>
<b>Utilities:</b>				
Cable TV	1,171,261	1,177,956	6,695	649,693
Electric	71,250	67,900	(3,350)	63,352
	<u>1,242,511</u>	<u>1,245,856</u>	<u>3,345</u>	<u>713,045</u>
<b>Security Expenses:</b>				
Security provider contract	590,074	613,900	23,826	588,461
Security gate expense	85,527	35,000	(50,527)	32,495
Guard house supplies & equipment	21,989	22,000	11	22,767
Guard house - phone	9,142	4,000	(5,142)	17,134
Guard house - water/sewer	4,434	2,600	(1,834)	3,944
Security - special events	-	1,000	1,000	-
	<u>711,166</u>	<u>678,500</u>	<u>(32,666)</u>	<u>664,801</u>

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES (CONTINUED)**  
**DECEMBER 31, 2022**  
**(WITH COMPARATIVE TOTALS FOR 2021)**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	2022		Variance Favorable (Unfavorable) (Unaudited)	2021
	Actual	Budget (Unaudited)		Actual
<b>General and Administrative:</b>				
Management fees	175,481	175,310	(171)	172,484
Insurance	156,896	146,490	(10,406)	131,027
Legal fees	59,795	30,000	(29,795)	113,925
Legal - MRTA	30,422	-	(30,422)	
Accounting fees	8,396	8,500	104	9,474
Administration expenses	3,059	1,800	(1,259)	3,873
Interest expense	2,710	62,534	59,824	
Line of credit expenses	76	-	(76)	4,681
Bad debt expense	-	-	-	2,582
	<u>436,835</u>	<u>424,634</u>	<u>(12,201)</u>	<u>438,046</u>
<b>General Maintenance:</b>				
Repairs & maintenance	65,630	50,000	(15,630)	39,948
Maintenance services	54,674	44,140	(10,534)	42,940
Hurricane repairs	43,404	-	(43,404)	-
Christmas lights	16,960	16,960	-	16,960
Fountain maintenance	14,954	15,300	346	15,588
Repair & maintenance - pumps	10,991	21,500	10,509	16,579
Contingency fund	8,132	100,000	91,868	-
Maintenance supplies	7,990	11,600	3,610	8,581
Capital plan	-	100,000	100,000	
	<u>222,735</u>	<u>359,500</u>	<u>136,765</u>	<u>140,596</u>
Total expenses	<u>3,703,724</u>	<u>3,840,045</u>	<u>136,321</u>	<u>2,976,455</u>
<b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b>	<u>\$ 147,026</u>	<u>\$ -</u>	<u>\$ 147,026</u>	<u>\$ 165,067</u>

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCES**  
**DECEMBER 31, 2022**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

The following is a table of the activity in the replacement fund for the year ending December 31, 2022:

	Beginning Fund Balance	Additions to Fund	Charges to Fund	Interfund Transfers	Ending Fund Balance
<b>Statutory Reserves:</b>					
Road resurfacing	\$ 360,779	\$ 50,808	\$ -	\$ -	\$ 411,587

**GRAND HARBOR COMMUNITY ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS**  
**AND REPLACEMENTS (UNAUDITED)**  
**DECEMBER 31, 2022**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

An independent engineering firm conducted a study dated January 27, 2020, to estimate the remaining useful lives and replacement costs of the common property components. During 2022, the Board conducted an internal study and updated some of the costs of the components of common property. The following information is based on the study. This table presents significant information about the components of common property for the year ending December 31, 2022:

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Balance January 1, 2023	2023 Full Funding Requirement	2023 Amount per Approved Budget
<b>STATUTORY RESERVES</b>					
Road Resurfacing	9	\$ 852,811	\$ 411,587	\$ 49,025	\$ 49,034
<b>DEFERRED MAINTENANCE*</b>					
<b>Bridges &amp; Tunnels</b>					
Bridge #1	17	2,340,000	-	137,647	
Bridge #2	75	1,700,000	-	22,667	
<b>Buildings</b>					
East guardhouse roof	9	15,428	-	1,714	
West guardhouse roof	23	22,800	-	991	
<b>Irrigation</b>					
Reclaim water tank	35	1,200,000	-	34,286	
Oak Harbor irrigation pumps	15	400,000	-	26,667	
<b>Miscellaneous</b>					
Main fountain lighting	15	40,000	-	2,667	
<b>Right of Way</b>					
Sidewalks	30	434,700	-	14,490	
Guardrails	25	102,350	-	4,094	
Lighting poles	10	525,000	-	52,500	
Lighting fixtures	10	150,000	-	15,000	
<b>Security</b>					
Cameras, kiosks, software	10	50,000	-	5,000	
Electric bar gates (7)	11	70,000	-	6,364	
45th Street gate	9	20,000	-	2,222	
<b>Walls</b>					
Seawalls	24	235,000	-	9,792	
		<u>\$ 7,305,278</u>	<u>\$ (799,597)</u>	<u>\$ 336,100</u>	<u>\$ 302,139</u>
<b>Total Statutory Reserves and Deferred Maintenance</b>		<u>\$ 8,158,089</u>	<u>\$ (388,010)</u>	<u>\$ 385,125</u>	<u>\$ 351,173</u>

*\*The budget of the Association provides for limited voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance, subject to limits on funding contained in our governing documents. Because the owners have not elected to provide for reserve accounts under Section 720.303(6), Florida Statutes, these funds are not subject to the restrictions on use of such funds set forth in that statute, nor are reserves calculated in accordance with that statute.*