

Audited Financial Statements

**BEACH WALK PLACE
HOMEOWNERS ASSOCIATION, INC.**

Year Ended December 31, 2021

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2021

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheet	3
Statement of Revenues and Expenses and Changes in Fund Balance	4-5
Statement of Cash Flows	6
Notes to Financial Statements	7-10

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Beach Walk Place Homeowners Association, Inc.
Myrtle Beach, South Carolina

Opinion

I have audited the accompanying financial statements of Beach Walk Place Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2021 and the related statement of revenues and expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beach Walk Place Homeowners Association, Inc. as of December 31, 2021, 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

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Beach Walk Place Homeowners Association, Inc. and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to the audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities 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, 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 Beach Walk Place Homeowners Association, Inc.'s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

(continued on next page)

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I:

- 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 Beach Walk Place Homeowners 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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Beach Walk Place Homeowners Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Matter

Management has omitted supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by the missing information.

Wayne E. Fussaw, CPA

Surfside Beach, South Carolina

March 13, 2023

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2021

<u>ASSETS</u>	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Totals</u>
Cash & cash equivalents	\$ 1,504	\$ 5,384	\$ 6,888
Assessments & other amounts receivable	2,365	-	2,365
(Less: allowance for doubtful accounts)	(2,365)	-	(2,365)
Prepaid insurance	3,019	-	3,019
Total assets	\$ 4,523	\$ 5,384	\$ 9,907
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Accounts payable & accrued expenses	\$ 4,361	\$ -	\$ 4,361
Assessments received in advance - operating	3,520	-	3,520
Note payable	31,468	-	31,468
Contract liabilities (assessments received in advance-reserve fund)	-	5,384	5,384
Total liabilities	39,349	5,384	44,733
Fund balances (deficit)	(34,826)	-	(34,826)
Total liabilities & fund balances (deficit)	\$ 4,523	\$ 5,384	\$ 9,907

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

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2021

	Operating Fund	Reserve Fund	Totals
<u>Revenues</u>			
Regular assessments	\$ 72,004	\$ 7,196	\$ 79,200
FASB ASC 606	-	19,953	19,953
Fines, late fees & other revenues, net	565	-	565
	<u>72,569</u>	<u>27,149</u>	<u>99,718</u>
Total revenue			
<u>Expenses</u>			
Repairs & maintenance			
General maintenance & supplies	5,120	-	5,120
Landscape maintenance & supplies	13,960	-	13,960
Pool maintenance contract & supplies	5,478	-	5,478
Pest control	2,640	-	2,640
	<u>27,198</u>	<u>-</u>	<u>27,198</u>
Total repairs & maintenance			
General & administrative			
Management services	9,000	-	9,000
Legal & professional services, net	268	-	268
Insurance expense	29,703	-	29,703
Office supplies & expense	64	384	448
	<u>39,035</u>	<u>384</u>	<u>39,419</u>
Total general & administrative			

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

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES (continued)

Year Ended December 31, 2021

	Operating Fund	Reserve Fund	Totals
<u>Expenses (continued)</u>			
Utilities			
Electricity	4,074	-	4,074
Water & sewer	961	-	961
Telephone	1,283	-	1,283
Total utilities	6,318	-	6,318
 Major repairs and replacements			
Building and other common property repairs & replacements	-	26,765	26,765
Total major repairs and replacements	-	26,765	26,765
 Other expenses			
Contract security	204	-	204
Interest expense	1,956	-	1,956
Taxes & licenses, net	125	-	125
Bad debt expense, net	2,365	-	2,365
Total other expenses	4,650	-	4,650
Total expenses	77,201	27,149	104,350
(Deficiency) of revenues over expenses	(4,632)	-	(4,632)
Beginning fund balances (deficit)	(30,194)	-	(30,194)
Ending fund balances (deficit)	\$ (34,826)	\$ -	\$ (34,826)

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

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021

	Operating Fund	Reserve Fund	Totals
Cash flows from operating activities:			
(Deficiency) of revenues over expenses	\$ (4,632)	\$ -	\$ (4,632)
Adjustments to reconcile (deficiency) of revenues over expenses to net cash (used in) operating activities:			
(Increase) decrease in:			
Assessments & other amounts receivable, net	-	19,493	19,493
Prepaid insurance	1,131	-	1,131
Inter-fund payable / receivable	(3,671)	3,671	-
Increase (decrease) in:			
Accounts payable	1,007	(37,465)	(36,458)
Assessments received in advance-operating	1,960	-	1,960
Contract liabilities (assessments received in advance - reserve fund)	-	(19,953)	(19,953)
Net cash (used in) operating activities	<u>(4,205)</u>	<u>(34,254)</u>	<u>(38,459)</u>
Cash flows from financing activities:			
Principal payments on note payable borrowing	(6,074)	-	(6,074)
Proceeds from note payable borrowing	10,000	-	10,000
Net cash provided by financing activities	<u>3,926</u>	<u>-</u>	<u>3,926</u>
Net (decrease) in cash	(279)	(34,254)	(34,533)
Cash & cash equivalents, beginning of year	1,783	39,638	41,421
Cash & cash equivalents, end of year	<u>\$ 1,504</u>	<u>\$ 5,384</u>	<u>\$ 6,888</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	<u>\$ 1,956</u>	<u>\$ -</u>	<u>\$ 1,956</u>

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

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

1 - NATURE OF ORGANIZATION

Beach Walk Place Homeowners Association, Inc. (the Association) is a statutory association incorporated and existing under the laws of the state of South Carolina. The Association is responsible for maintaining and preserving common property, enforcing rules for mutual benefit, and providing other common services to Association members. Beach Walk Place Homeowners consists of thirty (30) residential units. The Association is located in Myrtle Beach, SC and began its operation in 2000.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association has elected to report its revenues and expenses on the accrual basis. Consequently, revenues and expenses are recognized when the revenues are earned rather than when received and when the expenses are incurred rather than when paid.

Fund Accounting

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in specific funds established according to their nature and purpose. The Association's funds are separated between operating funds and funds for future major repairs and replacements. Operating disbursements are made generally at the discretion of the Board of Directors and the Association's property management company. Replacement funds have been set aside for a specific purpose and are to be disbursed accordingly.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits and temporary, highly liquid investment accounts. The Association considers all certificates of deposit with original maturities of less than ninety (90) days 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assessments Received in Advance – Operating Fund

Assessments received in advance in the operating fund at December 31, 2021 represents payments received in advance for homeowners' operating assessments. These advance payments will be recognized as revenue in the months in which they are earned.

Contract Liabilities (Assessments received in advance-reserve fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-reserve fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and dedicated for the use of the entire community. These common areas cannot be sold separately and thus have no fair market value other than that related to their intended use. All expenditures for real property common elements and improvements are reflected as an expense in the period incurred. Common property elements not recognized as assets in the financial statements consist primarily of pool amenities, elevators, landscaping and other common areas.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable, at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners and other amounts owed to the Association. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has recorded an allowance for doubtful accounts at December 31, 2021. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained included consideration of past experience and susceptibility to factors outside of the Association's control.

3 - CONCENTRATIONS OF CREDIT RISK

Cash, cash equivalents and certificates of deposit held at financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2021, all funds maintained by the Association were insured under the FDIC. To limit the risk associated with uninsured balances, the Association reviews the financial condition of the institutions in which cash and cash equivalents are deposited.

4 - COMMITMENTS & CONTINGENCIES

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

From time to time, the Association may enter into contracts with vendors, towards the end of the calendar year. Some of these contracts may call for a down-payment to begin the job and payments as the work progresses. The Association recognizes these expenses as the work is completed and billed by the contractor.

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INCOME TAXES

Under the provisions of the Internal Revenue Code, the Association is allowed to elect each year to file as an eligible Section 528 homeowner's association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. For the year ended December 31, 2021, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its net nonexempt function income, which consists primarily of interest, rental and vending income, at a flat rate of 30% by the federal government and at 5% by the State of South Carolina. Income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property, is not taxable.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns generally remain open to examination by the Internal Revenue Service and the South Carolina Department of Revenue for three (3) years after they were filed. In evaluating the Association's tax calculations, the Association believes that its estimates are appropriate based on current facts and circumstances.

6 - MAJOR REPAIRS AND REPLACEMENTS

As of December 31, 2021, the Association had not conducted a study to determine the estimated remaining useful lives of the components of common property and current estimates of cost of major repairs and replacements that may be required in the future. The Association's governing documents require funds to be accumulated for future major repairs and replacements, however, nothing prohibits the Board of Directors from applying these funds to meet other requirements of the Association in operating and managing the project. The Association intends to fund major repairs and replacements over the estimated useful lives of the components. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments or levy a special assessment subject to assent of its members, or it may delay the major repairs and replacements until funds are available.

Accumulated net funds totaling \$5,384 at December 31, 2021, are presented on the accompanying balance sheet as a contract liability (assessments received in advance – reserve fund) and are held in separate accounts and are generally not available for operating purposes. However, these funds may be used, as needed, for any Association purpose at the discretion of the Board of Directors.

7 - ASSESSMENTS & ALLOWANCE FOR DOUBTFUL ACCOUNTS

Regular monthly assessments to residential unit owners were \$220 in 2021.

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has recorded an allowance for doubtful accounts of \$2,365 at December 31, 2021, which is presented on the balance sheet. For the year ended December 31, 2021, the Association recognizes bad debt expense of \$2,365, which is presented on the statements of revenues and expenses and changes in fund balances. Management's policy is to aggressively pursue all amounts due to the Association any subsequent collections of doubtful accounts will be recognized in the year(s) in which the recovery occurs.

BEACH WALK PLACE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - NOTE PAYABLE

During a prior year, the Association obtained a note payable with a financial institution in the amount of \$28,060. During 2021, the Association refinanced this loan and borrowed an additional \$10,000, which was added to the principal balance. The refinanced note is payable in monthly installments of \$787, including interest at 6.25%, and matures in November 2025. The balance of the note payable at December 31, 2021 is \$31,468 and is presented as a liability on the balance sheet.

Future estimated debt maturities of the note payable are as follows:

December 31, 2022	\$7,695
December 31, 2023	8,190
December 31, 2024	8,717
December 31, 2025	<u>6,866</u>
	<u>\$31,468</u>

Interest expense for the year ended December 31, 2021 was \$1,956.

9 - FASB ASC 606 ACCOUNTING GUIDANCE IMPLEMENTATION

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

The Association adopted the requirements of the guidance using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the reserve fund, as previously described.

The effect of the adoption is an increase in 2021 revenues by \$19,953. The effect of the adoption also resulted in the recording of a contract liability (assessments received in advance-reserve fund) at December 31, 2021 of \$5,384. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

10 - SUBSEQUENT EVENTS AND CONTINGENCIES

Management has evaluated subsequent events through March 13, 2023, the date the financial statements were available to be issued, and has concluded that no significant subsequent events meet the criteria of professional standards to be recognized, or not recognized but disclosed, in the financial statements.

In consideration of the operating fund balance of negative \$34,826 at December 31, 2021, the Association is reviewing expenses and cash requirements for their current and future year budgets. The Association is evaluating opportunities to increase revenues and to reduce expenses, to recover from the negative fund balance position. Potential operating fund balance increases are also related to the repayment of the note payable detailed in Note 8 above. In addition, during May 2022, the Association levied a special assessment of \$800 per unit owner to provided additional working capital funds.