Financial Report

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019

LEGACY TOWERS

Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019

TABLE OF CONTENTS

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Legacy Condominiums at Gulfport Home Owners Association,
Gulfport, Mississippi.

We have audited the accompanying financial statements of Legacy Condominiums at Gulfport Home Owners Association (the "Association"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses, changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

P.O. Box 60600 • NEW ORLEANS, LA 70160-0600 504.831.4949 BOURGEOISBENNETT.COM

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 25 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.

Report on Summarized Comparative Information

We have previously audited the Association's financial statements, and our report dated July 8, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein, as of and for year ended December 31, 2018 is consistent, in all material respects, with the 2018 audited financial statements from which it has been derived.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
April 22, 2020.

Exhibit A-1

BALANCE SHEET

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019

	General Fund	Replacement Fund	Totals
Assets			
Cash and cash equivalents	$ 32,966	$ 730,952	$ 763,918
Investments	-	152,955	152,955
Accounts receivable - members	12,493	-	12,493
Accounts receivable - other	1,100	-	1,100
Prepaid income taxes	2,763	-	2,763
Prepaid insurance	81,856	-	81,856
Utility deposits	9,285	-	9,285
Property and equipment, net of accumulated depreciation	95,140	-	95,140
Total assets	$ 235,603	$ 883,907	$ 1,119,510
Liabilities			
Accounts payable and accrued expenses	$ 27,136	$ 1,620	$ 28,756
Special assessments payable	10,988	-	10,988
Deferred revenue - dues	31,388	-	31,388
Contract liabilities (see Note 1g)	-	882,287	882,287
Total liabilities	69,512	883,907	953,419
Fund Balance	166,091	-	166,091
Total liabilities and fund balance	$ 235,603	$ 883,907	$ 1,119,510

See notes to financial statements.

BALANCE SHEET

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2018
(Comparative Totals)
(As Restated)

	General Fund	Replacement Fund	Totals
Assets			
Cash and cash equivalents	$ 43,574	$ 485,031	$ 528,605
Investments	-	319,145	319,145
Accounts receivable - members	11,078	17,133	28,211
Accounts receivable - other	36,810	1,592	38,402
Prepaid income taxes	2,763	-	2,763
Prepaid insurance	77,764	-	77,764
Prepaid expenses	16,928	-	16,928
Utility deposits	9,285	-	9,285
Property and equipment, net of accumulated depreciation	99,825	-	99,825
Total assets	$ 298,027	$ 822,901	$ 1,120,928
Liabilities			
Accounts payable and accrued expenses	$ 62,216	$ -	$ 62,216
Special assessments payable	10,988	-	10,988
Deferred revenue - dues	46,827	-	46,827
Contract liabilities (see Note 1g)	-	822,901	822,901
Total liabilities	120,031	822,901	942,932
Fund Balance	177,996	-	177,996
Total liabilities and fund balance	$ 298,027	$ 822,901	$ 1,120,928

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES

Legacy Condominiums at Gulfport Home Owners Association

For the year ended December 31, 2019

	General Fund	Replacement Fund	Totals
Revenues			
Member assessments	$ 1,012,124	$ 405,631	$ 1,417,755
Service income - utilities	155,480	-	155,480
Other income	147,144	-	147,144
Investment and interest	143	12,383	12,526
Office rent	11,250	-	11,250
Special assessments	-	316	316
Realized loss on sale of investments	-	(31,606)	(31,606)
Unrealized investment gain (loss)	-	35,332	35,332
Total revenues	1,326,141	422,056	1,748,197
Expenses			
Repairs and replacements	159,744	421,931	581,675
Insurance	274,333	-	274,333
Utilities	246,103	-	246,103
Payroll costs	195,595	-	195,595
Security	135,094	-	135,094
Cost of service - utilities	95,605	-	95,605
Grounds maintenance	84,245	-	84,245
Professional fees	62,687	-	62,687
Office expense	27,707	-	27,707
Elevator maintenance	24,535	-	24,535
Pool maintenance	14,806	-	14,806
Telephone	5,639	-	5,639
Depreciation	4,685	-	4,685
Pest control	3,187	-	3,187
Taxes and licenses	1,983	-	1,983
Uniforms	1,198	-	1,198
Bad debt expense	900	-	900
Bank charges and fees	-	125	125
Total expenses	1,338,046	422,056	1,760,102
Excess Revenues (Expenses)	$ (11,905)	$ -	$ (11,905)

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES

Legacy Condominiums at Gulfport Home Owners Association

For the year ended December 31, 2018
(Comparative Totals)
(As Restated)

	General Fund	Replacement Fund	Totals
Revenues			
Member assessments	$ 974,017	$ 218,741	$ 1,192,758
Service income - utilities	135,341	-	135,341
Other income	91,255	-	91,255
Investment and interest	208	17,073	17,281
Office rent	10,200	-	10,200
Special assessments	-	6,875	6,875
Recovery of bad debts	-	300	300
Realized loss on sale of investments	-	(3,647)	(3,647)
Unrealized investment gain (loss)	-	(4,833)	(4,833)
Total revenues	1,211,021	234,509	1,445,530
Expenses			
Insurance	265,740	-	265,740
Utilities	244,338	-	244,338
Payroll costs	222,077	-	222,077
Repairs and replacements	91,614	130,075	221,689
Security	142,783	-	142,783
Pool maintenance	15,706	103,406	119,112
Grounds maintenance	88,044	-	88,044
Cost of service - utilities	82,127	-	82,127
Professional fees	74,933	-	74,933
Office expense	41,580	-	41,580
Elevator maintenance	41,429	-	41,429
Telephone	9,116	-	9,116
Depreciation	4,685	-	4,685
Pest control	3,225	-	3,225
Interest	1,552	870	2,422
Taxes and licenses	2,016	-	2,016
Uniforms	1,085	-	1,085
Bad debt expense	663	-	663
Bank charges and fees	-	158	158
Total expenses	1,332,713	234,509	1,567,222
Excess Revenues (Expenses)	$ (121,692)	$ -	$ (121,692)

See notes to financial statements.

Exhibit C

STATEMENT OF CHANGES IN FUND BALANCE

Legacy Condominiums at Gulfport Home Owners Association

For the year ended December 31, 2019
(with comparative totals for 2018)

	2019			2018
	General Fund	Replacement Fund	Totals	Totals (As Restated)
Fund Balance - Beginning	$177,996	$ -	$177,996	$299,688
Excess revenues (expenses)	(11,905)	-	(11,905)	(121,692)
Fund Balance - Ending	$166,091	$ -	$166,091	$177,996

See notes to financial statements.

STATEMENT OF CASH FLOWS

Legacy Condominiums at Gulfport Home Owners Association

For the year ended December 31, 2019
(with comparative totals for 2018)

	2019			2018
	General Fund	Replacement Fund	Totals	Totals (As Restated)
Cash Flows From Operating Activities				
Excess revenues (expenses)	$ (11,905)	$ -	$ (11,905)	$ (121,692)
Adjustments to reconcile excess revenues (expenses) to net cash provided by (used in) operating activities:				
Depreciation	4,685	-	4,685	4,685
Bad debt expense	900	-	900	663
Unrealized and realized loss investments	-	(3,726)	(3,726)	8,480
Changes in assets - decrease (increase) in:				
Accounts receivable - members	(2,160)	17,133	14,973	407,917
Accounts receivable - other	35,555	1,592	37,147	4,512
Interfund transfers	-	-	-	84,806
Prepaid insurance	(4,092)	-	(4,092)	(2,388)
Prepaid expenses	16,928	-	16,928	(31)
Changes in liabilities - increase (decrease) in:				
Accounts payable and accrued liabilities	(35,080)	1,620	(33,460)	(164,587)
Interfund transfers	-	-	-	(84,806)
Deferred revenue - dues	(15,439)	-	(15,439)	30,379
Contract liabilities	-	59,386	59,386	284,383
Total adjustments	1,297	76,005	77,302	574,013
Net cash provided by (used in) operating activities	(10,608)	76,005	65,397	452,321
Cash Flows From Investing Activities				
Purchase of investments	-	(1,624,000)	(1,624,000)	-
Proceeds from sale of investments	-	1,793,916	1,793,916	50,000
Net cash provided by investing activities	-	169,916	169,916	50,000
Cash Flows From Financing Activities				
Repayments of notes payable	-	-	-	(11,865)
Payments on line of credit	-	-	-	(100,001)
Net cash used in financing activities	-	-	-	(111,866)

	2019			2018
	General Fund	Replacement Fund	Totals	Totals (As Restated)
Net Increase (Decrease) In Cash and Cash Equivalents	(10,608)	245,921	235,313	390,455
Cash and Cash Equivalents				
Beginning of year	43,574	485,031	528,605	138,150
End of Year	$ 32,966	$ 730,952	$ 763,918	$ 528,605
Supplemental Disclosures of Cash Flow Information				
Cash paid for:				
Interest	$ -	$ -	$ -	$ 2,422

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019 and 2018

Note 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of Organization

Legacy Condominiums at Gulfport Home Owners Association (the "Association") is a statutory condominium association incorporated in the State of Mississippi. The Association is responsible for the operation and maintenance of the Legacy Condominiums at Gulfport located in Gulfport, Mississippi. The declaration of condominium was filed on March 24, 2005, for the first tower of the development ("Tower One"), by Gulf Condos, LLC (the "Developer"). The declaration of condominium was amended on October 25, 2006, to add the second tower of the development ("Tower Two"). The control of the Association was turned over to the unit owners on March 24, 2007. The condominium consists of 103 residential units in Tower One and 121 residential units and 3 commercial units in Tower Two.

b) Fund Accounting

The Association's governing documents provide certain guidelines for managing its financial activities. 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 into the following funds according to their nature and purpose.

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

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

Note 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Estimates

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

d) Cash and Cash Equivalents

For the statement of cash flows the Association considers all highly liquid investments contributed with an initial maturity of three months or less from the date of acquisition to be cash and cash equivalents.

e) Investments

Investments purchased by the Association are recorded at fair value based on quoted prices in active markets and a corresponding realized unrealized gain or loss is recorded in the statement of revenue and expenses.

Investments are exposed to various market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in net values of investments will occur in the near term and those changes could materially affect the amounts reported in the balance sheet.

f) Property and Equipment

Real property and common areas acquired by the developer and related improvements to such property are not recorded on 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 personal property at cost and depreciates it using straight-line method over the estimated useful life of each asset.

Note 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Contract Liabilities

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment prior to the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year are $822,901 and $882,287, respectively.

h) 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. Regular assessments receivable at the balance sheet date represents fees due from unit owners. Assessment revenue is recognized as the related performance obligations are satisfied at the transaction amount expected to be collected. The Association's performance obligations related to its general operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when those funds are expended for their designated purpose. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

In addition to regular monthly assessments, the Association has the authority to assess special assessments for significant repairs, replacements or expenditures. During the years ended December 31, 2019 and 2018, the Association recognized special assessment revenue of $316 and $6,875, respectively, related to assessments made prior to January 1, 2018.

As of December 31, 2019 and 2018, the Association had delinquent assessments in the amount of $2,551 and $2,806, respectively. The Association's policy is to retain legal counsel to enforce the liens on properties of unit owners whose assessments are sixty days or more delinquent. The Association believes no allowance for uncollectible accounts is considered necessary. Any assessments that are not collectible will be expensed as bad debt after all legal remedies are exhausted. The amount of bad debt expense was $900 and $663 for the years ended December 31, 2019 and 2018, respectively.

Note 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Investment and Interest Income

Interest income is allocated to the General and Replacement Funds in proportion to the interest bearing deposits of each. Investment income is allocated to the Replacement Fund.

j) Income Taxes

Under Internal Revenue Code Section 528, homeowners' associations may make an annual election to be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2019 and 2018, the Association elected to be taxed as a regular corporation and filed Form 1120. As a regular corporation, membership income dedicated to capital reserve and replacement is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, commercial rents, rebates at regular Federal and state corporate rates. Similar provisions apply to Mississippi income taxes provisions. For the years ended December 31, 2019 and 2018, the Association had no Federal and state income tax expense.

The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any periods. As of December 31, 2019 and 2018, management of the Association believes that it had no uncertain tax positions that qualify for disclosure in the financial statements. Tax years ended December 31, 2016 and later remain subject to examination by the taxing authorities.

k) Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a single comprehensive model for entities to use in accounting for revenue from contracts with customers and members and supersedes most current revenue recognition models. Subsequent to the issuance of ASU 2014-09, the FASB issued several additional ASUs which amended and clarified the guidance and deferred the effective date. The ASU is effective for annual reporting periods beginning after December 15, 2018, with certain early adoption provisions available. Adoption of these requirements is discussed in Note 2.

Note 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Recently Issued Accounting Standards (Continued)

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230). ASU 2016-18 requires that a Statement of Cash Flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. The amendments in ASU 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The adoption of this standard did not affect the financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This update eliminates the requirement to disclose the fair value of financial instruments measured at cost and requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The ASU is effective for fiscal years beginning after December 15, 2018, and adopted by the Association. See Note 2 for the effects of applying this new guidance.

l) Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

m) Subsequent Events

Management evaluates events subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 22, 2020, which is the date the financial statements were available to be issued.

Note 2 - FASB ASC 606 NEW GUIDANCE IMPLEMENTATION

The FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). This standard eliminated and consolidated numerous industry-specific specialized revenue recognition guidance and created one singular unified method for recognizing revenue from contracts. Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate-Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers and members 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 new guidance as of January 1, 2019, using the full retrospective method of transition, which requires that prior periods reported be restated to match the new guidance. 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 as of January 1, 2019 and 2018. Adoption of the new guidance resulted in changes to accounting policies for assessment revenue and contract liabilities related to the reserve fund, as previously described. The effect of transition on opening balances in the 2018 financial statements are presented below:

Fund balances, as previously reported, January 1, 2018	$838,206
Adjustment	(538,518)
Fund balances, as adjusted, January 1, 2018	$299,688

The full retrospective method of transition requires the Association to disclose the effect of applying the new guidance on each item included in the 2018 financial statements. Following are the line items from the Balance Sheet as of December 31, 2018, that were affected, the amounts that were previously reported, the effects of applying the new guidance, and the balances reported under the new guidance, as restated:

	Amounts Previously Reported	Effects of Applying New Guidance	As Restated
Liabilities:			
Contract liabilities:	$ -	$ 822,901	$822,901
Fund Balance:			
Ending fund balances:	$1,000,897	$(822,901)	$177,996

Note 2 - FASB ASC 606 NEW GUIDANCE IMPLEMENTATION (Continued)

The following are the line items from the Statement of Revenues, Expenses and the Statement of Cash Flows for the year ended December 31, 2018, that were affected, the amounts that were previously reported, the effects of applying the new guidance, and the balances reported under the new guidance, as restated:

	Amounts Previously Reported	Effects of Applying New Guidance	As Restated
Revenue:			
Member assessments	$1,477,141	$(284,383)	$1,192,758
Excess revenues (expenses)	$ 162,691	$(284,383)	$ (121,692)
Cash Flows:			
Excess revenues (expenses)	$ 162,691	$(284,383)	$ (121,692)
Increase in contract liabilities	$ -	$ 284,383	$ 284,383

Note 3 - CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances in financial institutions which at times may exceed the federally insured limit of $250,000. The Association also maintains Merrill Lynch Money Market Mutual Funds that are not insured by FDIC. The total uninsured balance as of December 31, 2019 was approximately $112,000. The Association has not experienced any such losses in the past and does not believe it is exposed to any significant credit risk on these balances.

Note 4 - INVESTMENTS

Investments as of December 31, 2019 and 2018 consist of the following:

	December 31, 2019		
	Cost	Fair Value	Excess of Market Over Cost
Certificates of deposit	$150,000	$152,955	$ 2,955

	December 31, 2018		
	Cost	Fair Value	Excess of Cost Over Market
Mutual funds	$351,522	$319,145	$(32,377)

	Cost	Market Value	Excess of Market Over Cost (Cost Over Market)
Balances as of December 31, 2019	$150,000	$152,955	$ 2,955
Balances as of December 31, 2018	$351,522	$319,145	(32,377)
Increase in unrealized appreciation			$ 35,332

	Cost	Market Value	Excess of Cost Over Market Value
Balances as of December 31, 2018	$351,522	$319,145	$(32,377)
Balances as of December 31, 2017	$405,169	$377,625	(27,544)
Increase in unrealized depreciation			$ (4,833)

Note 5 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

As of December 31, 2019 and 2018, the Association did not invest in any assets with fair values measured with Level 2 inputs.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As of December 31, 2019 and 2018, the Association did not invest in any assets with fair values measured with Level 3 inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Note 5 - FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held are deemed to be actively traded.

Certificates of deposit: Valued at cost plus accrued interest, which approximates fair value.

These methods may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 are comprised of and determined as follows:

		2019 Based on		
	Total Assets Measured at Fair Value	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of deposit	$152,955	$152,955	$ -	$ -

		2018 Based on		
	Total Assets Measured at Fair Value	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	$319,145	$319,145	$ -	$ -

Note 6 - PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, property and equipment consists of the following:

	2019	2018	Estimated Useful Life In Years
Land	$90,000	$ 90,000	N/A
Office equipment	45,584	45,584	3 - 5
Maintenance equipment	17,942	17,942	3 - 5
Total property and equipment	153,526	153,526	
Less accumulated depreciation	(58,386)	(53,701)	
Totals	$95,140	$ 99,825	

Depreciation expense totaled $4,685 for both of the years ended December 31, 2019 and 2018.

Note 7 - NOTES PAYABLE

In March 2018, the Association obtained a loan from AFS/IBEX to finance insurance premiums. The loan carried interest at a fixed rate of 3.35% and was payable in ten monthly installments of principal and interest of $12,553. To secure the loan, the Association granted the lender a security interest in any unearned premiums. Final payment was made early in August 2018. As of December 31, 2018, there was no outstanding balance.

Interest expense was $1,552 for the year ended December 31, 2018.

Note 8 - LINE OF CREDIT

On March 22, 2017, the Association obtained a line of credit of $500,256 with a variable interest rate equal to the Prime Rate as published in the Wall Street Journal (5.50% as of December 31, 2018). The line of credit was secured by the assignment of the special assessment receivable balance. Outstanding principal plus unpaid accrued interest was due on March 22, 2018. Interest payments were due monthly. The line of credit was paid in full on March 12, 2018. As of December 31, 2018, there was no outstanding balance on the line of credit.

Interest expense was $870 for the year ended December 31, 2018. There was no interest expense during the year ended December 31, 2019.

Note 9 - INCOME TAXES

For income tax purposes the Association has operating losses and capital losses carryforwards as of December 31, 2019 which expire as follows:

Year	Expires	Federal Net Operating Loss	State Net Operating Loss	Capital Loss
2013	2033	$ 2,634	$ 16,582	$ -
2014	2034	37,516	40,796	-
2015	2020	-	1	14,515
2016	2036	221,879	220,050	-
2017	2037	96,628	91,897	-
2017	2022	-	-	30,319
2018	2038	86,216	88,841	
2018	2023	-	-	3,647
2019	2024	-	-	31,606
	Totals	$444,873	$458,167	$80,087

Note 10 - TENANT LEASES

The Association leases common area space to a for-profit commercial entity. The lease commenced on October 1, 2007, for an initial term of five years, payable in monthly amounts of $850. The lease was extended through September 30, 2019. A new lease was signed beginning October 1, 2019, for an initial term of five years, payable in monthly amounts of $1,200. The minimum future rentals under the lease for the final year is as follows:

Year Ending December 31,	Amount
2020	$14,400
2021	14,400
2022	14,400
2023	14,400
2024	10,800
Total	$68,400

Office rent income totaled $11,250 and $10,200 for the years ended December 31, 2019 and 2018, respectively.

Note 11 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements ("Replacement Fund"). Accumulated funds are held in separate savings and investment accounts and generally are not available for expenditures for normal operations.

During 2008, the Association engaged a Reserve Specialist to conduct a "full" reserve study. Commencing January 1, 2009, the Association began funding the Replacement Fund based upon that study using the component funding analysis. The study estimates the remaining useful lives and the replacement costs of the components of common property. The reserve study was updated in 2013, 2017, and 2019. The updated reserve study was issued July 2, 2019. Schedule 1 - Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The Board of Directors intends to fund for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund. During the years ended December 31, 2019 and 2018, the Association decided to fund $465,017 and $503,124, respectively, into the Replacement Fund from the General Fund from member assessments.

Funds are being accumulated in the Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The 2019 Reserve Study recommended for 2020 and future years that $399,600 (cash flow method) to $724,936 (component funding method) per year be contributed from the General Fund until the Replacement Fund is fully funded.

Note 11 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Association's funding of reserve amounts was as follows for the years ended December 31, 2019 and 2018.

	2019	2018
Cash flow method:		
Actual contribution	$ 465,017	$ 503,124
Recommended contribution	399,600	426,000
Excess contribution	$ 65,417	$ 77,124
Component funding method:		
Actual contribution	$ 465,017	$ 503,124
Recommended contribution	724,936	767,487
Excess (deficit) contribution	$(259,919)	$(264,363)

The Replacement Fund held assets of $883,907 and $822,901 as of December 31, 2019 and 2018, respectively, designated for future major repairs and replacements.

Note 12 - CURRENT VULNERABILITY DUE TO CERTAIN CONDITIONS

The Association operates a 227-unit condominium development located on the Gulf Coast in Gulfport, Mississippi. Its operations are vulnerable to economic conditions and, due to its coastal location, damages from tropical storms or hurricanes and limited supplies, suppliers and service providers.

Note 13 - OTHER MATTERS FOR DISCLOSURE

Property Insurance Deductible

The Replacement Fund does not include funds necessary to meet the deductible on property insurance for approximately the first 1% of insured replacement cost of the property or approximately $800,000 of any insured property loss. The Board of Directors currently plans to fund such a loss, if incurred, by an assessment of the owners.

Note 14 - SUBSEQUENT EVENTS

During 2020, the Association entered into a contract valued at approximately $260,000 to replace Tower 2 dehumidifiers and entered into a contract valued at approximately $147,000 to repair ramp support beams in the parking garage. Beginning April 1, 2020, the Association increased member assessments $50,000 on an annual basis and increased various fees charged to owners.

The recent global outbreak of the Coronavirus (COVID-19) has raised concerns regarding business and the financial markets have recently experienced significant volatility. While the Association has not been immediately impacted by the adverse conditions in the financial markets, the long term impact on the Association's operations is uncertain at this time.

SUPPLEMENTARY INFORMATION

Schedule 1

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

Legacy Condominiums at Gulfport Home Owners Association

December 31, 2019

Components	Estimated Remaining Useful Life Months	Estimated Replacement Costs Per 2020 Study	(1) Estimated Current Replacement Cost	(2) Estimated Replacement Fund Balance as of December 31, 2019	Estimated Unfunded Balance as of December 31, 2019	Recommended Annual Reserve Funding Contribution Amount Based Upon Cash Flow Analysis	Recommended Annual Reserve Funding Contribution Amount Based Upon Component Funding Analysis
Common area interiors	0-233	$ 495,049	$ 495,049	$ 146,143	$ 348,906	$ 26,483	$ 104,045
Fire safety and security	5-141	409,296	409,296	46,402	362,894	19,766	38,630
Internet	5	2,500	2,500	2,455	45	2,174	-
Mechanical	2-321	1,499,004	1,499,004	370,923	1,128,081	59,690	99,548
Painting and waterproofing	78-122	2,492,614	2,492,614	114,342	2,378,272	205,693	297,294
Pavement	28-132	82,107	82,107	10,706	71,401	4,494	14,704
Pool and spa	39-154	352,356	352,356	33,410	318,946	17,826	38,213
Railings	183-201	1,203,500	1,203,500	112,053	1,091,447	34,890	70,486
Roof replacement	173-317	849,097	849,097	39,865	809,232	23,424	34,770
Site improvements	15-161	75,388	75,388	7,608	67,780	5,160	27,246
Totals		$ 7,460,911	$ 7,460,911	$ 883,907	$ 6,577,004	$ 399,600	$ 724,936

Notes:

(1) Current replacement costs have been estimated based upon the 2020 replacement cost per the study.

(2) Component balances as of December 31, 2019 have been allocated based upon the percentage of the December 31, 2019 component balances to the total fund balance of $900,000 per the 2020 study multiplied by the replacement fund assets balance as of December 31, 2019.