

2013

Financial Statements and
Supplementary Information
September 30, 2013

[WATERFORD LAKES COMMUNITY ASSOCIATION, INC.]

INDEPENDENT AUDITOR'S REPORT

January 23, 2014

To the Board of Directors and Members
Waterford Lakes Community Association, Inc.

Report on the Financial Statements

We have audited the accompanying balance sheet of Waterford Lakes Community Association, Inc. (the Association) which comprise the balance sheet from September 1, 2012 to August 31, 2013, and the related revenues, expenses and changes in fund balance and cash flows for the years 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 also 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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Waterford Lakes Community Association, Inc. from September 1, 2012 to August 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

The American Institute of Certified Public Accountants has determined that supplementary information about future major repairs and replacements of common property is required to supplement, but not required to be a part of, the basic financial statements. This information has not been audited and we express no opinion on it.

Mapili CPAs LLC

Mapili CPAs LLC
Certified Public Accountants

WATERFORD LAKES COMMUNITY ASSOCIATION INC.
BALANCE SHEET
August 31, 2013

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,182,126	\$ 766,048	\$ 1,948,174
Assessments receivable (net)	256,349	-	256,349
Due from Operating	-	39,273	39,273
Other assets	2,408	-	2,408
Deposits	25,061	-	25,061
Prepaid insurance	22,578	-	22,578
Total Assets	<u>\$ 1,488,522</u>	<u>\$ 805,321</u>	<u>\$ 2,293,843</u>
 Liabilities and Fund Balance			
Accounts payable and accruals	\$ 217	\$ -	\$ 217
Omni payable	8,945	-	8,945
Due to Reserves	39,273	-	39,273
Deferred assessments	183,511	-	183,511
Prepaid assessments	90,199	-	90,199
Total Liabilities	<u>322,145</u>	<u>-</u>	<u>322,145</u>
 Fund Balance	 <u>1,166,377</u>	 <u>805,321</u>	 <u>1,971,698</u>
Total Liabilities and Fund Balance	<u>\$ 1,488,522</u>	<u>\$ 805,321</u>	<u>\$ 2,293,843</u>

See accompanying notes and auditor's report

WATERFORD LAKES COMMUNITY ASSOCIATION INC.
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCE
Period September 1, 2012 to August 31, 2013

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 2,004,517	\$ 101,176	\$ 2,105,693
Waterline connection	-	50,000	50,000
Legal fees income	215,431	-	215,431
Late fees and finance charges	25,110	-	25,110
Recreation income	15,292	-	15,292
Rental income	30,865	-	30,865
Other income	42,623	-	42,623
Interest income	2,820	2,265	5,085
Total Revenues	<u>2,336,658</u>	<u>153,441</u>	<u>2,490,099</u>
Expenses			
Acquired property expenses	33,016	-	33,016
Bad debt expense	727,404	-	727,404
Building maintenance	11,720	-	11,720
General and administrative	19,928	-	19,928
Insurance expense	43,969	-	43,969
Landscaping and grounds	879,746	-	879,746
Legal and professional fees	288,246	-	288,246
Major improvements	97,349	66,576	163,925
Management and staffing	232,077	-	232,077
Pool and amenities	145,962	-	145,962
Supplies, printing and postage	28,568	-	28,568
Utilities expense	129,139	-	129,139
Total Expenses	<u>2,637,124</u>	<u>66,576</u>	<u>2,703,700</u>
Excess (deficiency) of revenues over expenses	(300,466)	86,865	(213,601)
Fund balance at August 31, 2012	<u>1,466,843</u>	<u>718,456</u>	<u>2,185,299</u>
Fund balance at August 31, 2013	<u>\$ 1,166,377</u>	<u>\$ 805,321</u>	<u>\$ 1,971,698</u>

See accompanying notes and auditor's report

WATERFORD LAKES COMMUNITY ASSOCIATION INC.
STATEMENT OF CASH FLOWS
Period September 1, 2012 to August 31, 2013

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Excess (deficiency) of revenues over expenses	\$ (300,466)	\$ 86,865	\$ (213,601)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
Decrease in member assessments receivable	595,677	-	595,677
Change in due to/from accounts	(23,858)	23,858	-
Increase in other assets	(2,408)	-	(2,408)
Increase in deposits	(5,178)	-	(5,178)
Increase in prepaid insurance	(3,826)	-	(3,826)
Increase in accounts payable and accruals	24,895	-	24,895
Increase in other liabilities	8,945	-	8,945
Increase in deferred assessments	3,248	-	3,248
Decrease in prepaid assessments	(12,599)	-	(12,599)
Prior period adjustment	34,611	-	34,611
Net cash provided (used) by operating activities	<u>619,507</u>	<u>23,858</u>	<u>643,365</u>
Net increase (decrease) in cash	319,041	110,723	429,764
Cash at beginning of year	<u>863,085</u>	<u>655,325</u>	<u>1,518,410</u>
Cash at end of year	<u><u>\$ 1,182,126</u></u>	<u><u>\$ 766,048</u></u>	<u><u>\$ 1,948,174</u></u>

See accompanying notes and auditor's report

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2013

NOTE 1: ORGANIZATION

Waterford Lakes Community Association, Inc. is incorporated as a not-for-profit corporation in the State of Florida in April 1985. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Orange County, Florida and consists of 3,380 residential units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

Operating Fund - The operating fund is used to account for the regular, recurring costs of the Association. Expenses from this fund are limited to those connected with daily operations.

Replacement Fund - The replacement fund is composed of capital assessments paid by unit owners to fund future replacements and major repairs. Expenses from this fund are restricted to those items for which assessments were specifically collected.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Member assessments receivable at the balance sheet date represents fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. As of August 31, 2013, gross member assessments receivables were approximately \$752,659 with \$496,310 allowance of bad debt provision. Any excess assessments at year-end are retained by the Association for use in future years.

Association-Owned Units

The Association in prior years had foreclosed on, and had obtained title to, eight units. The mortgagees have not yet completed foreclosure proceedings. However, when such foreclosure is enforced, the Association will turn over title of the units to the mortgagees. Accordingly, the units have not been recorded as assets in the Association's financial statements.

Income Taxes

The Association may be taxed either as a homeowners' association or as a regular corporation. For the period from September 1, 2012 to August 31, 2013, the Association elected to be taxed as a homeowners' association. Under this election, the Association is generally exempt from taxation on membership income and is taxed only on non-membership income items, such as interest earnings.

Real and Common Area Property

Real and common area property acquired by the original homeowners from the developer is not capitalized on the Association's financial statements, since it is owned by the individual owners in common and not by the Association. As a result, improvements to the real property and common areas are expensed as incurred.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid instruments with original maturities of twelve months or less.

Allocation of Revenues and Expenses to Owners

Common revenue and expenses are allocated equally among all of the owners within the Association.

NOTE 3: COMMITMENTS AND CONTINGENCIES

The Association has entered into various short term contractual agreements with outside vendors and service providers to maintain its common property and to administer the Association. These contracts have different expiration dates and renewal terms.

NOTE 4: SUBSEQUENT EVENTS

For the period from September 1, 2012 to August 31, 2013, the Association has evaluated subsequent events for potential recognition and disclosure through January 23, 2014, the date of the Independent Auditor's Report (the date the financial statements were available to be issued). The management company, Omni Management Services, was terminated effective August 31, 2013. The Association has chosen to be self-managed.

NOTE 5: CONCENTRATIONS OF CREDIT RISK

Financial instruments which may potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist mostly of bank accounts and certificates of deposit with balances not insured by the Federal Deposit Insurance Corporation (\$250,000) and member assessment receivable as of 8/31/2013. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote.

The Association's major source of revenue is member assessments, which are received from its members and may be secured by a lien on their property. The Association monitors the collectability of these receivables and pursues collection if needed. Management routinely assesses the uncollectibility of these receivables and provides for an allowance for doubtful accounts.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

NOTE 6: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The funds are segregated and held primarily in interest-bearing accounts. The Association's Board of Directors has estimated the remaining useful lives and replacement costs of common property components.

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on current estimates of replacements costs considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Member's equity designated for future major repairs and replacements has been allocated by the Board of Directors to the components of common property as follows:

Component	Balance 9/1/12	Fund Additions	Major Repairs / Replacements	Balance 8/31/13
General Reserves	\$ 637,947	\$ 103,076	\$ 66,576	\$ 674,447
Waterline Connection	80,509	50,365	-	130,874
Total	\$ 718,456	\$ 153,441	\$ 66,576	\$ 805,321

SUPPLEMENTARY INFORMATION

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
AUGUST 31, 2013

The Association's Board of Directors has estimated the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date which was last updated by the Board of Directors in 2014. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following is based on the study and presents significant information about the components of common property.

Component	Estimated Remaining Useful Lives (Years) (Unaudited)	Estimated Current Replacement Costs (Unaudited)	Balance 8/31/13
General Reserves	---	---	\$ 674,447
Waterline Connection	---	---	\$ 130,874
Roofs	1-16	17,874	-
Painting and Waterproofing	1-6	15,261	-
Paving	1-18	75,427	-
Building Components	1-25	82,383	-
Site Improvements	1-32	1,090,231	-
Furniture, Fixtures and Equipment	1-13	84,792	-
Irrigations	1-9	109,170	-
Entry Features and Signage	1-24	116,937	-
Total		<u>\$ 1,592,075</u>	<u>\$ 805,321</u>