

# 2014

Financial Statements and  
Supplementary Information  
December 31, 2014

**[WATERFORD LAKES COMMUNITY ASSOCIATION, INC.]**

## INDEPENDENT AUDITOR'S REPORT

February 22, 2015

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 as of December 31, 2014, and the related revenues, expenses and 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 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 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 financial statements are free from 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Waterford Lakes Community Association, Inc. as of December 31, 2014, and the results of their operations and their cash flows for the year 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**  
**December 31, 2014**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,664,609	\$ 976,090	\$ 2,640,699
Assessments receivable (net)	183,375	-	183,375
Deposits	24,904	-	24,904
Prepaid expenses	10,018	-	10,018
Total Assets	<u>\$ 1,882,906</u>	<u>\$ 976,090</u>	<u>\$ 2,858,996</u>
<b>Liabilities and Fund Balance</b>			
Accounts payable and accruals	\$ 57,698	\$ 15,235	\$ 72,933
Prepaid assessments	285,766	-	285,766
Total Liabilities	<u>343,464</u>	<u>15,235</u>	<u>358,699</u>
<b>Fund Balance</b>	<u>1,539,442</u>	<u>960,855</u>	<u>2,500,297</u>
Total Liabilities and Fund Balance	<u>\$ 1,882,906</u>	<u>\$ 976,090</u>	<u>\$ 2,858,996</u>

See accompanying notes and auditor's report

**WATERFORD LAKES COMMUNITY ASSOCIATION INC.**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCE**  
**Period Ending December 31, 2014**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
<b>Revenues</b>			
Member assessments	\$ 2,052,041	\$ 117,359	\$ 2,169,400
Waterline connection	-	50,011	50,011
Legal fees reimbursements	289,718	-	289,718
Late fees and finance charges	49,646	-	49,646
Rental income	34,019	-	34,019
Recreation income	15,428	-	15,428
Other income	92,301	-	92,301
Interest income	3,225	2,579	5,804
<b>Total Revenues</b>	<u>2,536,378</u>	<u>169,949</u>	<u>2,706,327</u>
<b>Expenses</b>			
Acquired property expenses	121,544	-	121,544
Bad debt expense	9,003	-	9,003
Building maintenance	8,185	-	8,185
General and administrative	35,578	-	35,578
Insurance expense	51,626	-	51,626
Landscaping and grounds	789,474	-	789,474
Major repairs and replacements	170,498	51,947	222,445
Management and staffing	367,504	-	367,504
Pool and amenities	25,426	-	25,426
Professional fees	375,607	-	375,607
Security and monitoring	109,000	-	109,000
Supplies, printing and postage	30,112	-	30,112
Utilities expense	132,893	-	132,893
<b>Total Expenses</b>	<u>2,226,450</u>	<u>51,947</u>	<u>2,278,397</u>
Excess (deficiency) of revenues over expenses	309,928	118,002	427,930
Fund balance at December 31, 2013	1,341,647	730,720	2,072,367
Interfund transfer	(112,133)	112,133	-
Fund balance at December 31, 2014	<u>\$ 1,539,442</u>	<u>\$ 960,855</u>	<u>\$ 2,500,297</u>

See accompanying notes and auditor's report

**WATERFORD LAKES COMMUNITY ASSOCIATION INC.**  
**STATEMENT OF CASH FLOWS**  
**Period Ending December 31, 2014**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Excess (deficiency) of revenues over expenses	<u>\$ 309,928</u>	<u>\$ 118,002</u>	<u>\$ 427,930</u>
 <b>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:</b>			
Increase in member assessments receivable	(43,830)	-	(43,830)
Decrease in deposits	407	-	407
Increase in prepaid expenses	(2,492)	-	(2,492)
Increase in accounts payable	4,142	15,235	19,377
Decrease in other liabilities	(8,945)	-	(8,945)
Increase in prepaid assessments	9,945	-	9,945
Prior period adjustment	7,187	-	7,187
Net cash provided (used) by operating activities	<u>(33,586)</u>	<u>15,235</u>	<u>(18,351)</u>
 Net increase (decrease) in cash	 276,342	 133,237	 409,579
 Cash at beginning of year	 <u>1,388,267</u>	 <u>842,853</u>	 <u>2,231,120</u>
 Cash at end of year	 <u><u>\$ 1,664,609</u></u>	 <u><u>\$ 976,090</u></u>	 <u><u>\$ 2,640,699</u></u>

See accompanying notes and auditor's report

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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 December 31, 2014, gross member assessments receivables were approximately \$464,527 with \$281,152 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, four 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 year ended December 31, 2014, 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**  
**DECEMBER 31, 2014**

**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: LITIGATION**

On May 19, 2014, the Association paid \$110,000 to the Crest at Waterford Lakes Condominium Association, Inc. per the mediation settlement agreement. This matter settled outstanding claims on rental units through May 2014 directly between the two Associations. The agreement also outlines the process beyond May 2014 to handle future units under similar circumstances to potentially avoid further litigation between the two Associations.

The two Associations have another open dispute regarding the collection of assessments. Per the Association attorney, the case is in the pleading stage with a potential to be dismissed in 2015. An unfavorable outcome is neither expected nor monetary loss at this time by the Association.

**NOTE 5: BUILDING CONSTRUCTION**

As of November 2014, the Association has approved the construction of a 3,228 square foot office building and a 1,600 square foot maintenance building, at a total estimated cost of \$860,778. Drawings are underway and construction is expected to be completed in 2015. The funds are provided out of the operating fund without the need of a special assessment or use of reserves. These buildings will replace the current office building and surrounding area. A prior project of renovating the existing offices was terminated in 2014 due to the discovery of extensive additional repairs and upgrades.

**NOTE 6: SUBSEQUENT EVENTS**

For the period ended December 31, 2014, the Association has evaluated subsequent events for potential recognition and disclosure through February 22, 2015, the date of the Independent Auditor's Report (the date the financial statements were available to be issued).

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 7: 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 insured by the Federal Deposit Insurance Corporation (\$250,000) and member assessment receivable as of 12/31/2014. 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.

**NOTE 8: THE ESTATES AT WLCA**

In 1996, the Estates at WLCA formerly known as Huckleberry Fields Tracts N-9 & N-10, Unit Two, Neighborhood Association, Inc. dissolved itself. Subsequently, any common assets are under the maintenance and control of the Waterford Lakes Community Association. Although not required, a separate budget, bank accounts, balance sheet, and income statement are managed for the Estates at WLCA for transparency and operational purposes. For year-end purposes, these financials are consolidated within the Waterford Lakes Community Association.

**NOTE 9: 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 1/1/14	Fund Additions	Major Repairs / Replacements	Reallocation	Balance 12/31/14
General Reserves	\$ 841,761	\$ 165,251	\$ 51,947	\$ (175,832)	\$ 779,233
Waterline Connection	1,092	4,698	-	175,832	181,622
<b>Total</b>	<b>\$ 842,853</b>	<b>\$ 169,949</b>	<b>\$ 51,947</b>	<b>\$ -</b>	<b>\$ 960,855</b>



## **SUPPLEMENTARY INFORMATION**

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS (UNAUDITED)  
DECEMBER 31, 2014**

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 12/31/14	2015 Funding Budget
General Reserves	---	---	\$ 779,233	\$ 117,359
Waterline Connection	---	---	181,622	50,000
Roofs	1-15	17,874	-	-
Painting and Waterproofing	1-5	15,261	-	-
Paving	1-17	75,427	-	-
Building Components	1-24	82,383	-	-
Site Improvements	1-31	1,090,231	-	-
Furniture, Fixtures and Equipment	1-12	84,792	-	-
Irrigations	1-8	109,170	-	-
Entry Features and Signage	1-23	116,937	-	-
Total		\$ 1,592,075	\$ 960,855	\$ 167,359