

2016

Financial Statements as
of December 31, 2016

[WATERFORD LAKES COMMUNITY ASSOCIATION, INC.]

INDEPENDENT AUDITOR'S REPORT

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

Report of the Financial Statements

We have audited the accompanying financial statements of Waterford Lakes Community' Association, Inc. (the Association) which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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 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 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.



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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, 2016, 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.

Supplementary Information about Future Major Repairs and Replacements

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
Winter Park, Florida
February 22, 2017

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

12/31/2016

ASSETS	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,250,356	\$ 882,638	\$ 2,132,994
Member assessments receivable, net of allowance for doubtful accounts of \$86,586	73,266	-	73,266
Building, net of accum depr of \$25,118	954,487	-	954,487
Due from other HOAs	492	-	492
Due from Operating	-	2,500	2,500
Prepaid expenses	8,862	-	8,862
Deposits	<u>22,278</u>	<u>-</u>	<u>22,278</u>
	<u>\$ 2,309,741</u>	<u>\$ 885,138</u>	<u>\$ 3,194,879</u>
 LIABILITIES AND FUND BALANCE			
Accounts payable and accruals	\$ 61,948	\$ -	\$ 61,948
Due to other HOAs	188	-	188
Due to Reserves	2,500	-	2,500
Prepaid member assessments	<u>275,639</u>	<u>-</u>	<u>275,639</u>
Total liabilities	340,275	-	340,275
Fund balance	<u>1,969,466</u>	<u>885,138</u>	<u>2,854,604</u>
	<u>\$ 2,309,741</u>	<u>\$ 885,138</u>	<u>\$ 3,194,879</u>

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 1,867,748	\$ 122,500	\$ 1,990,248
Waterline connection	-	50,000	50,000
Late fees and finance charges	12,485	-	12,485
Legal fees reimbursements	95,513	-	95,513
Rental income	26,960	-	26,960
Recreation income	13,567	-	13,567
Interest income	2,580	1,668	4,248
Other income	84,901	-	84,901
	<u>2,103,754</u>	<u>174,168</u>	<u>2,277,922</u>
Expenses:			
Bad debt expense	14,798	-	14,798
Building repairs and maintenance	39,184	-	39,184
Depreciation expense	25,118	-	25,118
Grounds and landscaping	838,052	-	838,052
Insurance expense	59,658	-	59,658
Major repairs and replacements	182,636	191,761	374,397
Management and staffing	403,993	-	403,993
Other general and administrative	95,830	-	95,830
Pool and amenities	108,783	-	108,783
Printing and postage	38,187	-	38,187
Professional fees	123,898	-	123,898
Utilities expense	138,171	-	138,171
	<u>2,068,308</u>	<u>191,761</u>	<u>2,260,069</u>
Excess of revenues over expenses	35,446	(17,593)	17,853
Fund balance at December 31, 2015	1,936,520	900,231	2,836,751
Interfund transfer	(2,500)	2,500	-
Fund balance at December 31, 2016	<u>\$ 1,969,466</u>	<u>\$ 885,138</u>	<u>\$ 2,854,604</u>

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess of revenues over expenses	<u>\$ 35,446</u>	<u>\$ (17,593)</u>	<u>\$ 17,853</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease in net member assessments receivable	54,451	-	54,451
Increase in work in progress	(33,395)	-	(33,395)
Decrease in prepaid expenses	1,534	-	1,534
Change in due to/from accounts	2,196	(2,500)	(304)
Decrease in accounts payable and accruals	(227,447)	-	(227,447)
Decrease in other liabilities	(91,869)	-	(91,869)
Decrease in prepaid member assessments	(8,261)	-	(8,261)
Change in interfund transfers	<u>(2,500)</u>	<u>2,500</u>	<u>-</u>
Total adjustments	<u>(305,291)</u>	<u>-</u>	<u>(305,291)</u>
Net increase in cash	(269,845)	(17,593)	(287,438)
Cash at beginning of year	<u>1,520,201</u>	<u>900,231</u>	<u>2,420,432</u>
Cash at end of year	<u>\$ 1,250,356</u>	<u>\$ 882,638</u>	<u>\$ 2,132,994</u>

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

A. ORGANIZATION

Waterford Lakes Community Association, Inc. is incorporated as a not-for-profit corporation in the State of Florida. 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 approximately 3,104 residential units.

B. 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 day-to-day activities of the Association, including the general management and upkeep of the common property.

Replacement Fund - The replacement fund is used to account for monies accumulated to fund capital expenditures and maintenance, repair and replacement of property.

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. Any excess assessments at year-end are retained by the Association for use in future years.

Allocation of Revenues and Expenses to Owners

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

Income Taxes

The Association may be taxed either as a homeowners' association or as a regular corporation. For the year ended December 31, 2016, the Association filed IRS Form 1120H and 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 nonmembership income items, such as interest earnings. The State of Florida does not require an association that files IRS Form 1120H to file a state income tax return. The Association's federal income tax returns are subject to examination by the IRS generally for three years after they are filed. At December 31, 2016, the tax years that remain subject to examination begin with 2013.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Subsequent Events - Date of Management's Review

In preparing these financial statements, the Association has evaluated subsequent events and transactions for potential recognition and disclosure through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

C. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts and certificates of deposit with balances in excess of amounts insured by the Federal Deposit Insurance Corporation (\$250,000) and member assessments receivable. 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 receivable from its members and may be secured by a lien on their property. The Association monitors the collectibility of these receivables and pursues collection. Management routinely assesses the uncollectibility of these receivables and provides for an allowance for doubtful accounts based on this assessment.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

D. COMMITMENTS

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

E. 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:

<u>Components</u>	<u>Balance 1/1/16</u>	<u>Fund Additions</u>	<u>Major Repairs/ Replacements</u>	<u>Interfund Transfers</u>	<u>Balance 12/31/16</u>
General Reserves	\$ 668,160	\$ 126,119	\$ 191,761	\$ -	\$ 602,518
Waterline Connection	232,071	50,549	-	-	282,620
Total	<u>\$ 900,231</u>	<u>\$ 176,668</u>	<u>\$ 191,761</u>	<u>-</u>	<u>\$ 885,138</u>

SUPPLEMENTARY INFORMATION

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR

REPAIRS AND REPLACEMENTS

December 31, 2016

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 of the study which was last updated by the Board of Directors in 2016. 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.

<u>Components</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Component Balance 12/31/2016</u>	<u>2017 Approved Annual Funding</u>
General Reserves	---	\$ ---	\$ 602,518	\$ 124,400
Waterline Connection	---	---	282,620	50,000
Other Amenities	0-20 years	569,875	-	-
Sites and Grounds	1-25 years	266,800	-	-
Clubhouse and Pool Area	0-29 years	574,525	-	-
Lakes and Irrigation	1-29 years	<u>274,275</u>	<u>-</u>	<u>-</u>
Total		<u>\$ 1,685,475</u>	<u>\$ 885,138</u>	<u>\$ 174,400</u>