

# 2017

Financial Statements as  
of December 31, 2017

**[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, 2017, 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, 2017, 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 21, 2018

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**BALANCE SHEET**

**December 31, 2017**

<b>ASSETS</b>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,042,664	\$ 986,883	\$ 2,029,547
Member assessments receivable, net of allowance for doubtful accounts of \$95,362	34,520	-	34,520
Building, net of accum depr of \$50,236	929,369	-	929,369
Due from other HOAs	65	-	65
Prepaid expenses	4,869	-	4,869
Deposits	<u>18,791</u>	<u>-</u>	<u>18,791</u>
	<u>\$ 2,030,278</u>	<u>\$ 986,883</u>	<u>\$ 3,017,161</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable and accruals	\$ 34,406	\$ -	\$ 34,406
Due to other HOAs	42	-	42
Prepaid member assessments	<u>302,741</u>	<u>-</u>	<u>302,741</u>
Total liabilities	337,189	-	337,189
Fund balance	<u>1,693,089</u>	<u>986,883</u>	<u>2,679,972</u>
	<u>\$ 2,030,278</u>	<u>\$ 986,883</u>	<u>\$ 3,017,161</u>

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

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

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 1,862,862	\$ 125,190	\$ 1,988,052
Waterline connection	-	50,000	50,000
Late fees and other charges	36,454	-	36,454
Legal fees reimbursements	100,477	-	100,477
Rental income	21,449	-	21,449
Recreation income	15,315	-	15,315
Interest income	3,010	2,290	5,300
Other income	49,438	-	49,438
	<u>2,089,005</u>	<u>177,480</u>	<u>2,266,485</u>
Expenses:			
Bad debt expense	78,038	-	78,038
Building repairs and maintenance	32,372	-	32,372
Depreciation expense	25,118	-	25,118
Grounds and landscaping	900,869	-	900,869
Insurance expense	66,818	-	66,818
Major repairs and improvements	294,895	75,735	370,630
Management and staffing	461,244	-	461,244
Other general and administrative	57,006	-	57,006
Pool and amenities	125,948	-	125,948
Printing and postage	40,448	-	40,448
Professional fees	132,020	-	132,020
Utilities expense	150,606	-	150,606
	<u>2,365,382</u>	<u>75,735</u>	<u>2,441,117</u>
Excess of revenues over expenses	(276,377)	101,745	(174,632)
Fund balance at December 31, 2016	1,969,466	885,138	2,854,604
<b>Fund balance at December 31, 2017</b>	<b><u><u>\$ 1,693,089</u></u></b>	<b><u><u>\$ 986,883</u></u></b>	<b><u><u>\$ 2,679,972</u></u></b>

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess of revenues over expenses	<u>\$ (276,377)</u>	<u>\$ 101,745</u>	<u>\$ (174,632)</u>
<b>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:</b>			
Decrease in net member assessments receivable	38,746	-	38,746
Decrease in net building addition	25,118	-	25,118
Decrease in prepaid expenses	3,993	-	3,993
Decrease in deposits	3,487	-	3,487
Change in due to/from accounts	281	-	281
Decrease in accounts payable and accruals	(27,542)	-	(27,542)
Increase in prepaid member assessments	27,102	-	27,102
Change in interfund transfers	<u>(2,500)</u>	<u>2,500</u>	<u>-</u>
Total adjustments	<u>68,685</u>	<u>2,500</u>	<u>71,185</u>
Net increase in cash	(207,692)	104,245	(103,447)
Cash at beginning of year	<u>1,250,356</u>	<u>882,638</u>	<u>2,132,994</u>
Cash at end of year	<u>\$ 1,042,664</u>	<u>\$ 986,883</u>	<u>\$ 2,029,547</u>

# WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

### 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, 2017, 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, 2017, the tax years that remain subject to examination begin with 2014.

# WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

### **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.

In 2017, a reinforced cash handling policy was implemented due to the possible mishandling of immaterial petty cash. For further details, please discuss with management.

#### 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, 2017**

**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 1/1/17</u>	<u>Fund Additions</u>	<u>Major Repairs/ Replacements</u>	<u>Balance 12/31/17</u>
General Reserves	\$ 602,518	\$ 126,942	\$ 75,735	\$ 653,725
Waterline Connection	282,620	50,538	-	333,158
Total	<u>\$ 885,138</u>	<u>\$ 177,480</u>	<u>\$ 75,735</u>	<u>\$ 986,883</u>

**SUPPLEMENTARY INFORMATION**

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**

**REPAIRS AND REPLACEMENTS**

**December 31, 2017**

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 12/31/2017</u>	<u>2018 Approved Annual Funding</u>
General Reserves	---	\$ ---	\$ 653,725	\$ 127,000
Waterline Connection	---	---	333,158	50,000
Other Amenities	0-19 years	569,875	-	-
Sites and Grounds	1-24 years	266,800	-	-
Clubhouse and Pool Area	0-28 years	574,525	-	-
Lakes and Irrigation	1-28 years	<u>274,275</u>	<u>-</u>	<u>-</u>
Total		<u>\$ 1,685,475</u>	<u>\$ 986,883</u>	<u>\$ 177,000</u>