

**WATERFORD LAKES COMMUNITY  
ASSOCIATION, INC.**

---

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2020**

---

**Glickstein ▪ Laval ▪ Carris ▪ P.A.**

CERTIFIED PUBLIC ACCOUNTANTS



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Waterford Lakes Community Association, Inc., which comprise the balance sheet as of December 31, 2020, 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.

### **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, 2020, 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.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information about future repairs and replacements of common property on page 11 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.

### **Emphasis of Matter**

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

*Glickstein Laval Carris, P.A.*

*Glickstein Laval Carris, P.A.*

Altamonte Springs, FL  
April 15, 2021

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2020**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,336,496	\$ 1,347,472	\$ 2,683,968
Maintenance fees receivable – net	10,285	-	10,285
Prepaid expenses	19,061	-	19,061
Deposits	19,641	-	19,641
Building - net of accumulated depreciation of \$125,591	854,014	-	854,014
	<u>\$ 2,239,497</u>	<u>\$ 1,347,472</u>	<u>\$ 3,586,969</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable and accrued expenses	\$ 33,121	\$ -	\$ 33,121
Assessments received in advance - operating fund	242,373	-	242,373
Contract liabilities (Assessments received in advance - reserve fund)	-	1,336,525	1,336,525
Total liabilities	275,494	1,336,525	1,612,019
Fund balance	1,964,003	10,947	1,974,950
	<u>\$ 2,239,497</u>	<u>\$ 1,347,472</u>	<u>\$ 3,586,969</u>

See accompanying notes.

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	OPERATING FUND	RESERVE FUND	TOTAL
<b>REVENUES</b>			
Maintenance assessments	\$ 2,260,060	\$ 22,681	\$ 2,282,741
Interest income	5,682	7,857	13,539
Recreation income	16,003	-	16,003
Paycheck Protection Program	138,496	-	138,496
Other income	107,587	21,617	129,204
	<u>2,527,828</u>	<u>52,155</u>	<u>2,579,983</u>
<b>EXPENSES</b>			
General and administrative	94,867	-	94,867
Professional fees	28,417	-	28,417
Insurance	82,714	-	82,714
Utilities	150,997	-	150,997
Personnel expenses	602,704	-	602,704
Building maintenance	15,857	-	15,857
Grounds maintenance	234,509	-	234,509
Recreation	33,726	-	33,726
Site improvements	218,987	-	218,987
Contract expenses	861,113	-	861,113
Bad debt expense	6,134	-	6,134
Depreciation	25,118	-	25,118
Major repairs and replacements	-	49,402	49,402
	<u>2,355,143</u>	<u>49,402</u>	<u>2,404,545</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	172,685	2,753	175,438
<b>FUND BALANCE – Beginning of year</b>	<u>1,791,318</u>	<u>8,194</u>	<u>1,799,512</u>
<b>FUND BALANCE – End of year</b>	<u>\$ 1,964,003</u>	<u>\$ 10,947</u>	<u>\$ 1,974,950</u>

See accompanying notes.

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	OPERATING FUND	RESERVE FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 172,685	\$ 2,753	\$ 175,438
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	25,118	-	25,118
Decrease in maintenance fees receivable	21,544	-	21,544
Increase in prepaid expenses	(1,915)	-	(1,915)
Decrease in accounts payable and accrued expenses	(28,429)	-	(28,429)
Decrease in assessments received in advance - operating fund	(66,263)	-	(66,263)
Increase in contract liabilities (Assessments received in advance - reserve fund)	-	222,819	222,819
Net cash provided by operating activities	122,740	225,572	348,312
Net increase in cash and cash equivalents	122,740	225,572	348,312
<b>CASH AND CASH EQUIVALENTS –</b>			
Beginning of year	1,213,756	1,121,900	2,335,656
<b>CASH AND CASH EQUIVALENTS –</b>			
End of year	\$ 1,336,496	\$ 1,347,472	\$ 2,683,968
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Interest			\$ -
Income taxes			\$ -

See accompanying notes.

-5-

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Waterford Lakes Community Association, Inc. is incorporated in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 3,104 residential units located in Orange County, Florida.

Date of Management's Review

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 15, 2021, the date that the financial statements were available to be issued.

Fund Accounting

The Association presents its financial statements on the accrual basis using fund accounting. The financial statements are therefore segregated into funds based upon different funding policies established for operating and capital expenditures.

The Operating Fund reflects the maintenance assessments paid by unit owners to meet the regular, recurring costs of operations. Expenditures from this fund are limited to those connected with daily operations.

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

Cash and Cash Equivalents

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

Interest Earned

Interest income earned in the operating fund or the replacement fund is recorded in its respective fund.

Common Area Property and Equipment

The Association follows prevalent industry practice in accounting for the common property of the Association. Property that is not directly associated with the lots is capitalized only if the Association has title or other evidence of ownership of the property and the Association can either dispose of the property at the discretion of the Board of Directors or the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. As a result, commonly owned assets are not recorded on the Association's financial statements. Assets not recorded on the books of the Association include buildings, pool, roads, walkways, and other common elements. In 2016 the Association constructed the community building which meets criteria for capitalization and is recorded as an asset, net of depreciation, on the Association's financial statements.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Member Assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are 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 these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. Any excess assessments at year end are retained by the Association for use in future years. The Association's policy is to retain legal counsel and place liens or foreclose on the units of members whose assessments are delinquent. The Board of Directors has determined that an allowance of \$7,776 is necessary at December 31, 2020. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. For the year ended December 31, 2020, net variable consideration of \$1,360 was recognized as revenue. The balances of assessments receivable as of the beginning and end of the year are \$47,355 and \$18,061, respectively

The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the Statement of Revenues, Expenses, and Changes in Fund Balance:

For the year ended December 31, 2020			
	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Budgeted regular assessments	\$ 2,258,700	\$ 245,500	\$ 2,504,200
Add variable consideration	1,360	--	1,360
Less addition to contract liabilities	--	(245,500)	(245,500)
Add releases from contract liabilities	--	22,681	22,681
Total assessments	\$ 2,260,060	\$ 22,681	\$ 2,282,741

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, payables, prepaid assessments, and other liabilities approximate fair value due to the short maturity of these financial instruments.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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.



**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contract Liabilities (Assessments received in advance – reserve fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – reserve fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance – reserve fund) as the beginning and the end of the year are \$1,113,706 and \$1,336,525, respectively.

**2. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Building	\$	979,605
Less accumulated depreciation		<u>(125,591)</u>
Net property and equipment	\$	<u>854,014</u>

The building is depreciated using the straight-line method over useful life of 39 years.

**3. INCOME TAXES**

Homeowner associations may be taxed as regular corporations or as homeowner associations. The Association elected to be taxed as a homeowner association for the year ended December 31, 2020. Under that election, the Association is generally taxed only on nonexempt function income, such as interest earnings, net of directly related expenses, at a rate of 30%. There was no income tax expense for the year ended December 31, 2020.

Under federal and state income tax laws, the Association’s income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the latter of three years after the initial due date of the return or three years after the return is filed.

**4. RESERVE FOR REPAIRS AND REPLACEMENTS**

The Association is funding for major repairs and replacements based on a cash flow projection that takes into consideration estimates of the remaining useful lives of the components of the pooled reserve account, estimated current replacement costs, anticipated interest earnings on accumulated funds, future projected cash outflows, and amounts previously accumulated in the fund. Accumulated funds, which aggregate \$1,347,472 are presented on the accompanying balance sheet as a contract liability (assessments received in advance - reserve fund) and fund balance at December 31, 2020, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent engineer who conducted a study in October, 2020 to estimate the remaining useful lives and the replacement costs of the common property components.

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**4. RESERVE FOR REPAIRS AND REPLACEMENTS (continued)**

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

The following is a schedule of reserve funds for the year ended December 31, 2020:

	Balance 01/01/20	Assessments and other income during year	Interest during year	Expenses during year	Transfers	Balance 12/31/20
<u>Contract liability</u>						
General	\$ 628,467	\$ 195,500	\$ --	\$ (22,681)	\$ --	\$ 801,286
Waterline	<u>485,239</u>	<u>50,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>535,239</u>
	<u>1,113,706</u>	<u>245,500</u>	<u>--</u>	<u>(22,681)</u>	<u>--</u>	<u>1,336,525</u>
<u>Fund balance</u>						
General	\$ 1	\$ 21,617	\$ 3,902	\$ (25,519)	\$ --	\$ 1
Waterline	<u>8,193</u>	<u>--</u>	<u>3,955</u>	<u>(1,202)</u>	<u>--</u>	<u>10,946</u>
	<u>8,194</u>	<u>21,617</u>	<u>7,857</u>	<u>(26,721)</u>	<u>--</u>	<u>10,947</u>
Total accumulated	<u>\$ 1,121,900</u>	<u>\$ 267,117</u>	<u>\$ 7,857</u>	<u>\$ (49,402)</u>	<u>\$ --</u>	<u>\$ 1,347,472</u>

**5. AGREEMENTS**

The Association has various agreements for the maintenance of the common property and for other services. These agreements have various expiration dates, renewal terms and cancellation clauses.

**6. COMMITMENTS AND CONTINGENCIES**

The Association maintains insurance coverage for damage sustained by the common property. The insurance coverage in force includes substantial deductible amounts which the Association would be required to fund. In addition, inasmuch as certain other expense may be incurred by the Association in the event of a loss, the ultimate extent of any such loss in excess of the aforementioned maximum deductible cannot be determined.

**7. CONCENTRATION OF CREDIT RISK**

The Association maintains its cash balance at several financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) up to certain limits. Balances uninsured by the FDIC or SIPC at December 31, 2020, were approximately \$2,076,666 as funds were being transferred to better performing accounts. The risk was analyzed by the Finance Committee which determined there was minimal risk as the funds were transferred quickly to insured accounts in accordance with the Association's investment policy.

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**8. LEASES**

The Association leases certain office equipment under operating lease agreements. These operating lease agreement have various expiration dates from January 2021 through September 2023. Total lease expense under these lease agreements was \$7,201 for the year ended December 31, 2020.

Minimum annual rental payments required under the above lease agreements are as follows:

Years ended <u>December 31,</u>	
2021	5,946
2022	5,832
2023	<u>4,374</u>
	<u>\$ 16,152</u>

**9. PAYCHECK PROTECTION PRORAM**

The Association was granted a \$138,496 loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. The Association initially recorded the loan as an advance and subsequently recognized revenue when the PPP loan was forgiven.

---

## **SUPPLEMENTARY INFORMATION**

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS**  
**AND REPLACEMENTS (COMPILED)**  
**DECEMEBR 31, 2020**

The Board of Directors had a formal reserve study conducted in October, 2020 to estimate 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. Estimated current replacement costs have not been revised since that date.

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

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>
Roofs	5-14	\$ 30,100
Painting & Waterproofing	0-4	26,308
Paving	0-7	93,317
Misc Building Components	6-29	292,889
Misc Site Improvements	0-27	1,601,443
Furniture, Fixtures & Equipment	0-12	270,686
Irrigation	0-5	127,105
Entry Features & Signage	0-19	137,790