

COCO WOOD LAKES ASSOCIATION, INC.

Financial Statements

***For the year ended
December 31, 2016***

Hafer & Company

Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Coco Wood Lakes Association, Inc.

We have audited the accompanying financial statements of Coco Wood Lakes Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2016, and the related statement of revenues and expenses and changes in fund balances 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

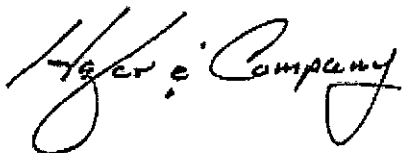
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Coco Wood Lakes 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.



Palm Beach, Florida
May 24, 2017

COCO WOOD LAKES ASSOCIATION, INC.
BALANCE SHEET
December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assets			
Cash and cash equivalents	\$ 40,710	\$ 137,444	\$ 178,154
Assessments receivable, net (Note 4)	44,595	-	44,595
Accounts receivable - other	228	-	228
Prepaid expenses	24,900	-	24,900
Property and equipment, net (Note 2)	54	-	54
Utility deposits	50	-	50
Total assets	<u>\$ 110,537</u>	<u>\$ 137,444</u>	<u>\$ 247,981</u>
Liabilities and fund balances			
Accounts payable and accrued expenses	\$ 11,931	\$ 23,211	\$ 35,142
Insurance payable (Note 9)	19,417	-	19,417
Prepaid maintenance fees	28,736	-	28,736
Total liabilities	60,084	23,211	83,295
Fund balances	<u>50,453</u>	<u>114,233</u>	<u>164,686</u>
Total liabilities and fund balances	<u>\$ 110,537</u>	<u>\$ 137,444</u>	<u>\$ 247,981</u>

See notes to financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Revenues			
Maintenance assessments	\$ 485,568	\$ 48,936	\$ 534,504
Interest income	160	691	851
Other income	57,120	-	57,120
Total revenues	<u>542,848</u>	<u>49,627</u>	<u>592,475</u>
Expenses			
Building operations and maintenance	236,472	-	236,472
Utilities	42,337	-	42,337
Administration	210,904	-	210,904
Depreciation expense	3,124	-	3,124
Major repairs and replacements	-	83,688	83,688
Total expenses	<u>492,837</u>	<u>83,688</u>	<u>576,525</u>
Excess (deficiency) of revenues over expenses	50,011	(34,061)	15,950
Fund balances, beginning of year	<u>442</u>	<u>148,294</u>	<u>148,736</u>
Fund balances, end of year	<u>\$ 50,453</u>	<u>\$ 114,233</u>	<u>\$ 164,686</u>

See notes to financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016

	Operating Fund	Replacement Fund	Total Funds
Cash flows from operating activities			
Excess (deficiency) of revenues over expenses	\$ 50,011	\$ (34,061)	\$ 15,950
<u>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:</u>			
Depreciation expense	3,124	-	3,124
Provision for bad debts	(41,918)	-	(41,918)
<u>Changes in assets and liabilities:</u>			
Assessment receivable	15,893	-	15,893
Accounts receivable - other	109	-	109
Prepaid expense	(4,618)	-	(4,618)
Utility deposits	(50)	-	(50)
Accounts and accrued expenses	(350)	21,161	20,811
Prepaid maintenance fees	(17,181)	-	(17,181)
Total changes in account balances	(6,197)	21,161	14,964
Net cash provided (used) by operating activities	5,020	(12,900)	(7,880)
Cash flows from financing activities			
Proceeds from insurance payable, net payments	3,366	-	3,366
Interfund borrowings	(14,283)	14,283	-
Net cash (used) provided by financing activities	(10,917)	14,283	3,366
Net (decrease) increase in cash and cash equivalents	(5,897)	1,383	(4,514)
Cash and cash equivalents, beginning of year	46,607	136,061	182,668
Cash and cash equivalents, end of year	<u>\$ 40,710</u>	<u>\$ 137,444</u>	<u>\$ 178,154</u>

Supplemental disclosures of cash flow information (Note 10)

See notes to financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: Organization

Coco Wood Lakes Association, Inc. ("the Association") was incorporated under the law of the State of Florida as a not-for-profit corporation on December 12, 1977. The Association is responsible for maintaining and preserving the common property of the Association in accordance with the terms of Florida Statutes §720 and the provisions of the Association's governing documents. The Association consists of 393 units located on 5 acres in Delray Beach, Florida.

NOTE 2: Summary of significant accounting policies

Fund accounting

The Association prepares its financial statements on the accruals basis of accounting and presents them using fund accounting, using separate funds for operations and future major repairs and replacements. Disbursements from the operating fund are generally for the day-to-day operations and non-recurring unanticipated expenditures of the Association and are made at the discretion of the Board of Directors. Disbursements from the replacement fund generally are made only for designated purposes.

Interest earned

Interest earned by each fund is allocated to the appropriate fund. Income taxes on the interest earned are paid from the operating fund.

Property and depreciation

The Association capitalizes all personal and real property which it purchases. Common areas owned by the Association are reserved for the use of the owners and/or are required to be maintained as common areas under the Declaration and/or governmental restrictions; therefore, the sale of such common areas for revenue is remote. Accordingly, such common areas are not recorded in the financial records of the Association. Capitalized property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. For the year ended December 31, 2016, depreciation expense was \$3,124. At schedule of property and equipment at December 31, 2016 is as follows:

Property and equipment	\$ 31,915
Less: accumulated depreciation	(31,861)
	<u>\$ 54</u>

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. Accordingly, actual results could differ from those estimates.

Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash and cash equivalents, assessments and accounts receivable, accounts payable, accrued expenses, and other assets and liabilities, approximate their fair values due to their short-term maturities.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including money market funds. Cash equivalents include highly liquid securities with original maturity of 90 days or less.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2016

NOTE 2: Summary of significant accounting policies (continued)

Utility pass-through

In accordance with FASB ASC 605-45, the Association recognizes utility pass-through assessments using principal agent considerations. The Association is primarily involved in the determination of a specific service, it has the discretion in selecting the suppliers of such services, and it bears the credit risk for the amounts billed for the service; accordingly the management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

Subsequent events

Subsequent events have been evaluated through May 24, 2017, the date the financial statements were available to be issued in accordance with FASB ASC 855.

Recently issued accounting guidance, not yet adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases*". The standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For non-public entities, such as the Association, the new standard is effective for annual periods beginning after December 15, 2019. While the Association expects the adoption of this standard to result in an increase to its reported assets and liabilities, the Association has not yet determined the full impact that the adoption of this standard will have on its financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*". This new guidance will replace most existing U.S. GAAP guidance on this topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issues ASU No. 2015-14, which deferred, by one year, the effective date for the revenue reporting standard. Additionally, in March 2016, the FASB issued ASU No. 2016-08, "*Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*" clarifying the implementation guidance on principal versus agent considerations. Specifically, an entity is required to determine whether the nature of a promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The determination influences the timing and amount of revenue recognition. For non-public entities, such as the Association, these new ASUs are effective for annual periods beginning after December 15, 2018. The Association is evaluating the impact that these ASUs will have on its financial statements and related disclosures.

NOTE 3: Concentration of credit risk

The Association maintains its cash in bank at various financial institutions whereby deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2016, the Association does not have any uninsured deposits.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2016

NOTE 4: Owners assessments

Quarterly assessments to unit owners are based upon a share of the budgeted operating expenses and future major repairs and replacements. The Association retains excess operating funds at the end of the year for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments paid in advance are included on the balance sheet as prepaid maintenance fees. The Association's policy is to retain legal counsel and place liens or foreclose on units of members whose assessments are delinquent. At December 31, 2016, assessments receivable totaled \$82,677, less an allowance for uncollectible accounts in the amount of \$38,082, for a net receivable of \$44,595.

NOTE 5: Income taxes

The Association makes a yearly election to be taxed either under Internal Revenue Code Section 528 as a homeowners' association or under regular corporate income tax provisions. For 2016, the Association was taxed under Section 528. Under this election, the Association is generally taxed only on non-membership income, such as interest earnings, at applicable rates. Additionally, from time to time, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as whole. As such, the Association has not recorded deferred income taxes at December 31, 2016. The Association's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense. Generally, the Association's federal income tax returns for 2014 – 2016 remain subject to possible examination by the Internal Revenue Service.

NOTE 6: Litigation

The Association is a party to various legal actions normally associated with homeowners associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 7: Insurance contingencies

In the event of a loss due to a hurricane the Association would be responsible for a deductible of approximately 3% of the total insured value of the property under the provisions of the hurricane loss insurance contract.

NOTE 8: Other commitments and contingencies

The Association has contracted with various vendors for various services to maintain the common property related to certain administrative, grounds maintenance, and security expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE 9: Insurance payable

During 2016, the Association financed its insurance premiums with Premium Assignment Corporation. The total amount financed was \$23,787 and is payable in monthly installments of approximately \$2,427 including interest at 4.42% through August 2017. The financing is secured by any unearned premiums or other sums which may become collectible under the terms of the agreement. At December 31, 2016, the outstanding balance, including accrued interest, was \$19,417.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2016

NOTE 10: Supplemental disclosures of cash flow information

Non-cash financing activities during 2016 were as follows:

Cost of insurance coverage acquired via financing agreements	\$ 31,688
Cash paid related to financing agreements (down payments)	<u>(7,901)</u>
Liabilities assumed (Note 9)	<u>\$ 23,787</u>

NOTE 11: Future major repairs and replacements

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and are generally not available for operating purposes. The Board of Directors has not conducted an independent study to estimate the remaining useful lives and replacement costs of the common property components. The Association is funding \$48,936 for 2017.

Actual expenditures may vary from the estimated amounts and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Components of the replacement fund are as follows:

	Balance 01/01/16	Additions	Interest Income	Expenses	Transfers	Balance 12/31/16
Clubhouse	\$ 75,000	\$ -	\$ -	\$ -	\$ -	\$ 75,000
Grounds	8,302	-	-	-	-	8,302
Pool and spa	18,000	-	-	-	-	18,000
General	45,256	48,936	-	83,688	-	10,504
Interest	1,736	-	691	-	-	2,427
	<u>\$ 148,294</u>	<u>\$ 48,936</u>	<u>\$ 691</u>	<u>\$ 83,688</u>	<u>\$ -</u>	<u>\$ 114,233</u>

THE BUDGET OF THE ASSOCIATION PROVIDES FOR THE LIMITED VOLUNTARY DEFERRED EXPENDITURE ACCOUNTS INCLUDING CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE, SUBJECT TO LIMITS ON FUNDING CONTAINED IN OUR GOVERNING DOCUMENTS. BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, THESE FUNDS ARE NOT SUBJECT TO THE RESTRICTIONS ON USE OF SUCH FUNDS SET FORTH IN THAT STATUTE, NOR ARE RESERVES CALCULATED IN ACCORDANCE WITH THAT STATUTE.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors
Coco Wood Lakes Association, Inc.

Report on the Financial Statements

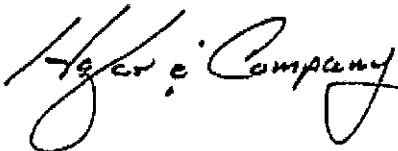
We have audited the financial statements of Coco Wood Lakes Association, Inc. ("the Association") as of and for the year ended December 31, 2016, and our report thereon dated May 24, 2017, which expressed an unmodified opinion on those financial statements, appears on Page 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of operating expenses compared to budget on Pages 10 and 11, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the supplementary Schedule of Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.



Palm Beach, Florida
May 24, 2017

COCO WOOD LAKES ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2016

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Building operations and maintenance			
Building maintenance and repairs	\$ 3,209	\$ 5,500	\$ 2,291
Cable TV	176,036	185,000	8,964
Cleaning supplies	382	1,400	1,018
Common area supplies	1,082	3,000	1,918
Equipment	1,157	1,500	343
Fire safety maintenance	146	-	(146)
General	1,170	2,500	1,330
HVAC	671	1,200	529
Hardware supplies	120	-	(120)
Lakes, canals and preserves	8,992	4,800	(4,192)
Landscape extras	2,145	2,500	355
Landscaping	21,540	18,200	(3,340)
Lighting	1,289	300	(989)
Lock and key supplies	206	-	(206)
Pest control	1,505	1,545	40
Plumbing	65	300	235
Pool and spa maintenance	4,295	5,775	1,480
Pool and spa supplies	568	1,000	432
Security alarm monitoring	254	-	(254)
Signage	950	200	(750)
Sprinklers	4,825	3,200	(1,625)
Tree trimming	5,865	6,600	735
	<u>236,472</u>	<u>244,520</u>	<u>8,048</u>
Utilities			
Electric - association owned units	89	-	(89)
Electric - clubhouse	13,046	20,000	6,954
Electric - street lights	20,297	22,500	2,203
Telephone	3,351	3,231	(120)
Trash removal	860	1,000	140
Water and sewer	4,694	8,000	3,306
	<u>\$ 42,337</u>	<u>\$ 54,731</u>	<u>\$ 12,394</u>

See auditors' report on supplementary information.

COCO WOOD LAKES ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET (CONT'D)
For the year ended December 31, 2016

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Administrative and general	\$ 1,157	\$ 2,000	\$ 843
Annual corporate report	61	184	123
Audit fee	4,500	4,000	(500)
Bad debt expense	-	11,200	11,200
Bank fees	10	100	90
Community events	180	500	320
Computer equipment and rental	652	500	(152)
Gasoline and mileage expense	645	1,200	555
Gate and key cards	201	200	(1)
Insurance	28,017	26,737	(1,280)
Legal document expense	10,000	10,000	-
Legal fees	53,178	17,500	(35,678)
Licenses, taxes and permits	2,350	2,485	135
Management fee	97,062	96,900	(162)
Newsletters	3,901	4,200	299
Office and equipment rental	2,486	2,025	(461)
Office supplies	2,940	1,500	(1,440)
Other professional fees	-	1,000	1,000
Postage	1,541	3,000	1,459
Salary expenses	1,873	3,000	1,127
Subscriptions and memberships	150	150	-
	<u>210,904</u>	<u>188,381</u>	<u>(22,523)</u>
 Total budgeted expenses	 489,713	 <u>\$ 487,632</u>	 <u>\$ (2,081)</u>
 Depreciation expense	 <u>3,124</u>		
 Total expenses	 <u>\$ 492,837</u>		

See auditors' report on supplementary information.