

**COCO WOOD LAKES
ASSOCIATION, INC.**

Financial Statements

***For the year ended
December 31, 2018***

HAFER

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, 2018, 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, 2018, 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
June 18, 2019

COCO WOOD LAKES ASSOCIATION, INC.
BALANCE SHEET
December 31, 2018

	Operating Fund	Replacement Fund	Total Funds
Assets			
Cash and cash equivalents	\$ 99,403	\$ 104,770	\$ 204,173
Assessments receivable, net (Note 4)	10,586	-	10,586
Prepaid expenses	7,384	-	7,384
Due (to) from funds (Note 9)	(1,248)	1,248	-
Total assets	\$ 116,125	\$ 106,018	\$ 222,143
Liabilities and fund balances			
Accounts payable and accrued expenses	\$ 17,144	\$ -	\$ 17,144
Prepaid maintenance fees	57,139	-	57,139
Total liabilities	74,283	-	74,283
Fund balances	41,842	106,018	147,860
Total liabilities and fund balances	\$ 116,125	\$ 106,018	\$ 222,143

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, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Revenues			
Maintenance assessments	\$ 576,412	\$ 15,000	\$ 591,412
Interest income	574	52	626
Other income	17,337	-	17,337
	<u>594,323</u>	<u>15,052</u>	<u>609,375</u>
Expenses			
Building operations and maintenance	262,269	-	262,269
Utilities	48,375	-	48,375
Administration	221,324	-	221,324
Common area improvements	20,522	-	20,522
Major repairs and replacements	-	16,800	16,800
	<u>552,490</u>	<u>16,800</u>	<u>569,290</u>
Excess (deficiency) of revenues over expenses	41,833	(1,748)	40,085
Fund balances, beginning of year	60,009	47,766	107,775
Interfund transfers (Note 10)	(60,000)	60,000	-
Fund balances, end of year	<u>\$ 41,842</u>	<u>\$ 106,018</u>	<u>\$ 147,860</u>

See notes to financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

	Operating Fund	Replacement Fund	Total Funds
Cash flows from operating activities			
Excess (deficiency) of revenues over expenses	\$ 41,833	\$ (1,748)	\$ 40,085
<u>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:</u>			
Provision for bad debts	(7,090)	-	(7,090)
<u>Changes in assets and liabilities:</u>			
Assessment receivable	14,196	-	14,196
Prepaid expense	12,746	-	12,746
Accounts and accrued expenses	(8,794)	-	(8,794)
Prepaid maintenance fees	8,631	-	8,631
Net cash provided (used) by operating activities	<u>61,522</u>	<u>(1,748)</u>	<u>59,774</u>
Cash flows from financing activities			
Payments on insurance payable	(19,875)	-	(19,875)
Interfund transfers	(60,000)	60,000	-
Interfund borrowings	34,661	(34,661)	-
Net cash (used) provided by financing activities	<u>(45,214)</u>	<u>25,339</u>	<u>(19,875)</u>
Net increase in cash and cash equivalents	16,308	23,591	39,899
Cash and cash equivalents, beginning of year	<u>83,095</u>	<u>81,179</u>	<u>164,274</u>
Cash and cash equivalents, end of year	<u>\$ 99,403</u>	<u>\$ 104,770</u>	<u>\$ 204,173</u>

See notes to financial statements.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 real property and certain personal property which it purchases. Real property and common area acquired from the developer and related improvements to such property are not reflected on the Association financial statements because those properties are owned by the individual unit owners in common, and not by the Association. Capitalized property and equipment are depreciated over the estimated useful lives of the assets using the straight-line and accelerated methods of depreciation.

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 receivable, prepaid expenses, accounts payable and accrued expenses, prepaid maintenance fees, 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.

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, management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

NOTE 2: Summary of significant accounting policies (continued)

Subsequent events

Subsequent events have been evaluated through June 18, 2019, 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 issued 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. Effective January 1, 2019, the Association has adopted the new revenue recognition requirements as required; the Association does not believe the effects will have a material effect on its financial statements.

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, 2018, the Association does not have any uninsured deposits.

NOTE 4: Owners' assessments and allowance for uncollectible accounts

Quarterly assessments to 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 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. The Association's estimate of the allowance for uncollectible accounts is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of reported amounts.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

NOTE 4: Owners' assessments and allowance for uncollectible accounts (continued)

The Association's assessments receivable at December 31, 2018 were as follows:

Assessments receivable	\$ 24,085
Less: allowance for doubtful accounts	<u>(13,499)</u>
	<u>\$ 10,586</u>

NOTE 5: Income taxes

The Association makes a yearly election to be taxed either under Internal Revenue Code ("IRC") §528 as a homeowners' association or under IRC §277 as a regular corporation. For 2018, the Association elected to be taxed under §528. Under this election, the Association is generally taxed only on non-exempt function 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, 2018. 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 2016 - 2018 remain subject to possible examination by the Internal Revenue Service.

NOTE 6: Litigation

The Association, from time-to-time, may become 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 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, common area improvements, and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE 9: Due (to) from funds / interfund borrowings

At December 31, 2018, the Association's operating fund owes its replacement fund \$1,248. This interfund borrowing from the Association's voluntary reserves is permitted under Florida Statutes.

NOTE 10: Future major repairs and replacements

The Association has not established statutory reserves under FS §720. The Association is voluntarily accumulating funds for future major repairs and replacements (non-statutory reserves). Accumulated funds are held in separate interest-bearing accounts and are used at the discretion of the Board of Directors, generally not for operating purposes.

COCO WOOD LAKES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

NOTE 10: Future major repairs and replacements (continued)

Reserve funds are accumulated based on estimated current costs of the components of common property. Actual expenditures 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 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.

The Board of Directors has not contracted with a reserve specialist to conduct an independent study to estimate the useful lives, the remaining useful lives, and replacement costs of the common property components. The schedule included in the required supplementary information on future major repairs and replacements is based upon estimates by the Board.

For the year ended December 31, 2018, the Association voluntarily funded reserves in the amount of \$15,000. For the year ending December 31, 2019, the Association is voluntarily funding reserves in the amount of \$24,000.

Components of the replacement fund are as follows:

	Balance 01/01/18	Additions	Interest Income	Expenses	Transfers	Balance 12/31/18
Clubhouse	\$ 35,553	\$ -	\$ -	\$ 16,800	\$ -	\$ 18,753
Grounds	2,928	-	-	-	-	2,928
Pool and spa	(1,194)	-	-	-	-	(1,194)
General	10,504	15,000	-	-	60,000 ¹	85,504
Interest	(25)	-	52	-	-	27
	<u>\$ 47,766</u>	<u>\$ 15,000</u>	<u>\$ 52</u>	<u>\$ 16,800</u>	<u>\$ 60,000</u>	<u>\$ 106,018</u>

THE BUDGET OF THE ASSOCIATION DOES NOT PROVIDE FOR RESERVE ACCOUNTS FOR CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE THAT MAY RESULT IN SPECIAL ASSESSMENTS. OWNERS MAY ELECT TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO THE PROVISIONS OF FLORIDA STATUTES 720.303(6), UPON APPROVAL OF NOT LESS THAN A MAJORITY OF THE TOTAL VOTING INTEREST IN THE ASSOCIATION.

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.

¹ During 2018, the Association approved the transfer of \$60,000 from the operating fund to the reserve fund.

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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, 2018, and our report thereon dated June 18, 2019, 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 financial statements as a whole. The schedule of operating expenses compared to budget on Pages 10 and 11, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, the 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 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, which 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
June 18, 2019

COCO WOOD LAKES ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2018

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Building operations and maintenance			
Building maintenance and repairs	\$ 4,082	\$ 4,500	\$ 418
Cable TV	198,280	195,000	(3,280)
Cleaning supplies	869	400	(469)
Common area supplies	874	2,500	1,626
Fire safety maintenance	110	125	15
Fitness machine maintenance	856	1,200	344
General	3,290	2,000	(1,290)
HVAC	1,527	1,550	23
HVAC supplies	-	1,000	1,000
Hardware supplies	45	250	205
Lakes, canals and preserves	4,860	4,900	40
Landscape extras	6,886	2,500	(4,386)
Landscaping	20,879	23,000	2,121
Lighting	137	1,000	863
Lock and key supplies	1,290	150	(1,140)
Pest control	1,243	1,430	187
Plumbing	896	200	(696)
Pool	885	1,300	415
Pool and spa maintenance	6,055	5,700	(355)
Pool and spa supplies	548	1,000	452
Security alarm monitoring	214	260	46
Signage	136	200	64
Sprinklers	967	1,700	733
Tree trimming	7,340	7,000	(340)
	<u>262,269</u>	<u>258,865</u>	<u>(3,404)</u>
Utilities			
Electric - clubhouse	16,997	15,000	(1,997)
Electric - street lights	20,643	20,000	(643)
Telephone	5,063	3,300	(1,763)
Trash removal	881	900	19
Water and sewer	4,791	5,000	209
	<u>\$ 48,375</u>	<u>\$ 44,200</u>	<u>\$ (4,175)</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, 2018

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Administrative and general	\$ 1,161	\$ 1,200	\$ 39
Annual condo fees	61	-	(61)
Annual corporate report	-	61	61
Audit fee	4,500	4,500	-
Bad debt expense	-	11,200	11,200
Bank fees	308	-	(308)
Community events	51	500	449
Computer equipment and rental	530	625	95
Fire extinguisher inspection	76	150	74
Gate and key cards	605	400	(205)
Insurance	25,766	28,000	2,234
Interest - insurance	361	500	139
Legal document expense	500	10,000	9,500
Legal fees	57,191	35,000	(22,191)
Licenses, taxes and permits	2,389	2,500	111
Management fee	116,942	115,142	(1,800)
Newsletters	2,592	3,500	908
Office and equipment rental	3,774	2,850	(924)
Office supplies	657	1,500	843
Other professional fees	925	2,500	1,575
Postage	400	2,500	2,100
Salary expenses	2,410	3,000	590
Subscriptions and memberships	125	150	25
	<u>221,324</u>	<u>225,778</u>	<u>4,454</u>
Total budgeted expenses	531,968	<u>\$ 528,843</u>	<u>\$ (3,125)</u>
Common area improvements	<u>20,522</u>		
Total expenses	<u>\$ 552,490</u>		

See auditors' report on supplementary information.