

**THE SPRINGS
COMMUNITY ASSOCIATION, INC.**

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

December 31, 2017

THE SPRINGS COMMUNITY ASSOCIATION, INC.

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The Board of Directors
The Springs Community Association, Inc.
Longwood, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of The Springs 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 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 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 Association'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.

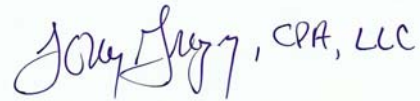
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Springs 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.

Required Supplementary Information

Management has omitted the required supplementary information about future major repairs and replacements of common property 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.

A handwritten signature in blue ink that reads "Tony Gregory, CPA, LLC". The signature is written in a cursive style.

TONY L. GREGORY, CPA, LLC
Orlando, Florida
April 7, 2018

THE SPRINGS COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

December 31, 2017

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents	\$ 872,108	\$ 307,660	\$ 1,179,768
Assessments receivable, net	4,816	—	4,816
Prepaid expenses	42,837	—	42,837
Property and equipment, net	772,970	—	772,970
Deposits	3,070	—	3,070
	<u>1,695,801</u>	<u>307,660</u>	<u>2,003,461</u>
Total assets	<u>\$ 1,695,801</u>	<u>\$ 307,660</u>	<u>\$ 2,003,461</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 50,523	\$ —	\$ 50,523
Income taxes payable	1,967	—	1,967
Prepaid assessments	317,333	—	317,333
Security deposits	15,600	—	15,600
Note payable	672,757	—	672,757
	<u>1,058,180</u>	<u>—</u>	<u>1,058,180</u>
Total liabilities	<u>1,058,180</u>	<u>—</u>	<u>1,058,180</u>
FUND BALANCES	<u>637,621</u>	<u>307,660</u>	<u>945,281</u>
Total liabilities and fund balances	<u>\$ 1,695,801</u>	<u>\$ 307,660</u>	<u>\$ 2,003,461</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

THE SPRINGS COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For The Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 1,373,880	\$ 190,740	\$ 1,564,620
Initiation fees	27,500	—	27,500
Rental income	31,547	—	31,547
Other income	25,145	—	25,145
Late charges	27,397	—	27,397
Interest income	8,620	547	9,167
	<u>1,494,089</u>	<u>191,287</u>	<u>1,685,376</u>
Total revenues			
EXPENSES			
Bad debt	42,000	—	42,000
Clubhouse and recreational	13,790	—	13,790
Common area maintenance	234,711	—	234,711
Depreciation	1,224	—	1,224
General and administrative	31,938	—	31,938
Grounds maintenance	282,060	—	282,060
Income taxes	1,967	—	1,967
Infrastructure maintenance	88,373	—	88,373
Insurance	51,261	—	51,261
Loan interest	27,141	—	27,141
Management fees	34,320	—	34,320
Personnel and benefits	173,396	—	173,396
Pool and spa	27,405	—	27,405
Postage and printing	3,041	—	3,041
Professional fees	17,393	—	17,393
Security services	387,332	—	387,332
Stable and tennis courts	11,076	—	11,076
Major repairs and replacements	—	263,244	263,244
	<u>1,428,428</u>	<u>263,244</u>	<u>1,691,672</u>
Total expenses			
Excess of revenues over (under) expenses	65,661	(71,957)	(6,296)
Fund Balances - Beginning of year	<u>571,960</u>	<u>379,617</u>	<u>951,577</u>
Fund Balances - End of year	<u>\$ 637,621</u>	<u>\$ 307,660</u>	<u>\$ 945,281</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

THE SPRINGS COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from residents	\$ 1,531,614	\$ 190,740	\$ 1,722,354
Cash paid to suppliers and employees	(1,404,214)	(263,244)	(1,667,458)
Other income received	56,692	—	56,692
Interest income received	8,620	547	9,167
	<u>192,712</u>	<u>(71,957)</u>	<u>120,755</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments on note payable	3,949	—	3,949
	<u>3,949</u>	<u>—</u>	<u>3,949</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	196,661	(71,957)	124,704
CASH AND CASH EQUIVALENTS - Beginning of year	<u>675,447</u>	<u>379,617</u>	<u>1,055,064</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 872,108</u>	<u>\$ 307,660</u>	<u>\$ 1,179,768</u>
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENSES TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ 65,661	\$ (71,957)	\$ (6,296)
Adjustments to reconcile excess of revenues over (under) expenses to net cash flows from operating activities:			
Bad debt	42,000	—	42,000
Income taxes	1,967	—	1,967
Depreciation	1,224	—	1,224
Change in assessments receivable	7,681	—	7,681
Change in prepaid expenses	(5,115)	—	(5,115)
Change in deposits	(200)	—	(200)
Change in accounts payable and accrued expenses	26,158	—	26,158
Change in prepaid assessments	53,156	—	53,156
Change in security deposits	180	—	180
	<u>127,051</u>	<u>—</u>	<u>127,051</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 192,712</u>	<u>\$ (71,957)</u>	<u>\$ 120,755</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

THE SPRINGS COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A – NATURE OF OPERATIONS

The Springs Community Association, Inc. (the “Association”), located in Longwood, Florida, was incorporated in March 1971, under the laws of Florida as a not-for-profit corporation. The Association is responsible for the operation and maintenance of the common areas of the Association. The Association’s operations are conducted pursuant to Chapter 720 of the Florida Statutes and the provisions of the Declaration of Covenants which was filed in Seminole County, Florida in March 1971. The community consists of 879 single family and multi-family homes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of management’s review

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through April 7, 2018, the date that the financial statements were available to be issued.

Basis of presentation

The Association prepares its financial statements on the accrual basis of accounting and in accordance with Section 720.303 of the Florida Statutes.

Fund accounting

The Association’s governing 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 fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those used in computing the allowance for uncollectible accounts and the estimated useful lives of property and equipment. Actual results could differ from those estimates.

Cash and cash equivalents

The Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of bank deposits.

Security deposits

Security deposits consist of amounts held by the Association from members for various rental amenities such as recreational vehicle storage, stables, and clubhouse.

Fair value of financial instruments

The carrying value of cash, receivables, prepaids, deposits, accounts payable, and prepaid assessments approximates fair value due to the short maturity of these financial instruments.

THE SPRINGS COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Real and common area property acquired by the Association from the developer at turnover is not recorded in the Association's financial statements as it was acquired in a nonmonetary transaction from the developer. As a result, improvements to the real property and common areas are not capitalized. Other property and equipment acquired by the Association to which it has title or other evidence of ownership is capitalized and is stated at cost. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. As of December 31, 2017, all assets are fully depreciated.

Income taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. The Association has elected to be taxed as a homeowners' association under Section 528 of the Internal Revenue Code. This section provides that the Association will be taxed only on nonexempt income as defined under Section 528. Net nonexempt income, which includes interest earned and revenues received from nonmembers, is taxed at 30% by the federal government. The Association incurred income tax expense of \$1,967 for the year ended December 31, 2017.

Financial Accounting Standards Board ASC 740, "Income Taxes" ("FASB ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FASB ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's financial statements to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions with respect to tax at the Association level not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year.

As of December 31, 2017, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Association had no interest and penalties related to income taxes.

Member assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Excess assessments are retained by the Association for use in future years.

Assessments receivable at the balance sheet date represent assessments due from homeowners and prepaid assessments represent future assessments paid in advance by homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. As of December 31, 2017, the Association had assessments receivable of \$140,456. The Association's management has made an assessment of uncollectible receivables and established an allowance for uncollectible accounts of \$135,640 as of December 31, 2017.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<u>Category</u>	
Furniture, fixtures and equipment	\$ 70,210
Leasehold improvements	94,524
Land improvements – Spring Run	17,570
Buildings	134,300
Security vehicle	19,421
Maintenance vehicle	18,722
Recreational area improvements	55,300
Stables	65,512
Recreational land	<u>772,970</u>
Property and equipment	<u>\$ 1,248,529</u>

THE SPRINGS COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE C – PROPERTY AND EQUIPMENT (Continued)

Property and equipment	\$ 1,248,529
Less: accumulated depreciation	<u>(475,559)</u>
Net property and equipment	<u>\$ 772,970</u>

Depreciation expense for the year ended December 31, 2017, amounted to \$1,224.

NOTE D – NOTE PAYABLE

Note payable consists of the following:

Note payable to a bank, monthly payments of \$9,435 including interest at 4.5%, collateralized by the clubhouse property, matures October 2023	\$ 582,757
Less: current maturities	<u>(89,839)</u>
Net noncurrent portion	<u>\$ 492,918</u>

Future maturities of the note payable are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 89,839
2019	93,787
2020	97,862
2021	102,210
2022	106,703
Thereafter	<u>92,356</u>
Total	<u>\$ 582,757</u>

NOTE E – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and applicable Florida Statutes provide certain guidelines for funds to be accumulated for future major repairs and replacements. The budget of the Association provides for limited voluntary deferred maintenance accounts, subject to limits on funding contained in its governing documents.

The board has not conducted a reserve study to determine the remaining useful life of the components of common property and estimates of costs of major repairs and replacements that may be required in the future. The reserves which the Association collects were authorized and approved by a membership vote to be used for any purpose necessary, including as a contingency for covering operating deficits. Therefore, amounts accumulated in the replacement 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 SPRINGS COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE E – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The following table presents changes in the replacement fund:

	Balance				Balance
	12/31/2016	Assessments	Interest	Expenses	12/31/2017
Deferred maintenance	\$ 379,617	\$ 190,740	\$ 547	\$ (263,244)	\$ 307,660