THE SPRINGS
COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

December 31, 2019

THE SPRINGS COMMUNITY ASSOCIATION, INC.

TABLE OF CONTENTS

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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, 2019, 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, 2019, 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.

Tony Gregory, CPA, LLC

TONY L. GREGORY, CPA, LLC
Orlando, Florida
June 25, 2020

THE SPRINGS COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

December 31, 2019

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents	$ 644,903	$ 435,280	$ 1,080,183
Certificates of deposit	251,850	—	251,850
Assessments receivable, net	6,071	—	6,071
Prepaid expenses	46,463	—	46,463
Property and equipment, net	864,575	—	864,575
Utility deposits	3,070	—	3,070
Total assets	$ 1,816,932	$ 435,280	$ 2,252,212
LIABILITIES			
Accounts payable and accrued expenses	$ 151,454	$ 8,584	$ 160,038
Income taxes payable	1,820	—	1,820
Prepaid assessments	224,357	—	224,357
Damage deposits	58,450	—	58,450
Security deposits	15,868	—	15,868
Note payable	399,009	—	399,009
Contract liability (unspent reserve assessments)	—	426,696	426,696
Total liabilities	850,958	435,280	1,286,238
FUND BALANCES	965,974	—	965,974
Total liabilities and fund balances	$ 1,816,932	$ 435,280	$ 2,252,212

THE SPRINGS COMMUNITY ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

For The Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	$ 1,373,880	$ 94,115	$ 1,467,995
Initiation fees	50,750	—	50,750
Rental income	54,097	—	54,097
Other income	15,348	—	15,348
Late charges	23,574	—	23,574
Interest income	8,145	1,017	9,162
Total revenues	1,525,794	95,132	1,620,926
EXPENSES			
Bad debt	17,820	—	17,820
Clubhouse and recreational	14,332	—	14,332
Common area maintenance	244,310	—	244,310
Depreciation	6,512	—	6,512
General and administrative	42,813	—	42,813
Grounds maintenance	192,820	—	192,820
Income taxes	1,820	—	1,820
Infrastructure maintenance	143,725	—	143,725
Insurance	58,497	—	58,497
Loan interest	19,323	—	19,323
Management fees	34,320	—	34,320
Personnel and benefits	176,252	—	176,252
Pool and spa	17,354	—	17,354
Postage and printing	6,245	—	6,245
Professional fees	2,123	—	2,123
Security services	404,020	—	404,020
Stable and tennis courts	18,371	—	18,371
Major repairs and replacements	—	95,132	95,132
Total expenses	1,400,657	95,132	1,495,789
Excess of revenues over (under) expenses	125,137	—	125,137
Fund Balances - Beginning of year	882,837	(40,000)	842,837
Interfund Transfer	(40,000)	40,000	—
Prior Period Adjustment	(2,000)	—	(2,000)
Fund Balances - End of year	$ 965,974	$ —	$ 965,974

THE SPRINGS COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from residents	$ 1,251,958	$ 190,740	$ 1,442,698
Cash paid to suppliers and employees	(1,189,153)	(87,239)	(1,276,392)
Other income received	69,445	—	69,445
Interest income received	8,145	1,017	9,162
Income taxes paid	(1,145)	—	(1,145)
Net cash flows from operating activities	139,250	104,518	243,768
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of certificates of deposit	(251,850)	—	(251,850)
Purchase of property and equipment	(98,117)	—	(98,117)
Net cash flows from investing activities	(349,967)	—	(349,967)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund transfer	(40,000)	40,000	—
Repayments on note payable	(95,869)	—	(95,869)
Net cash flows from financing activities	(135,869)	40,000	(95,869)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(346,586)	144,518	(202,068)
CASH AND CASH EQUIVALENTS - Beginning of year	991,489	290,762	1,282,251
CASH AND CASH EQUIVALENTS - End of year	$ 644,903	$ 435,280	$ 1,080,183
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENSES TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	$ 125,137	$ —	$ 125,137
Adjustments to reconcile excess of revenues over (under) expenses to net cash flows from operating activities:			
Bad debt	17,820	—	17,820
Depreciation	6,512	—	6,512
Change in assessments receivable	(14,243)	—	(14,243)
Change in prepaid expenses	(5,724)	—	(5,724)
Change in accounts payable and accrued expenses	82,388	7,893	90,281
Change in income taxes payable	675	—	675
Change in prepaid assessments	(103,198)	—	(103,198)
Change in damage deposits	29,950	—	29,950
Change in security deposits	(67)	—	(67)
Change in contract liability (unspent reserve assessments)	—	96,625	96,625
Total adjustments	14,113	104,518	118,631
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 139,250	$ 104,518	$ 243,768

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

Basis of presentation

The Association prepares its financial statements on the accrual basis of accounting and in accordance with Section 720.303(7) of the Florida statutes and with the "Real Estate – Common Interest Realty Associations" topic of the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC").

Date of management's review

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through June 25, 2020, the date that the financial statements were available to be issued.

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 (i.e. reserves).

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.

Certificates of deposit

The Association invests excess cash in certificates of deposit. The certificates bear interest ranging from 1.94% to 2.13% and have maturities ranging from three to twelve months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material impact on the financial statements.

Assessments receivable / prepaid assessments

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, 2019, the Association had assessments receivable of $75,017. The Association's management has made an assessment of uncollectible receivables and established an allowance for uncollectible accounts of $68,946 as of December 31, 2019.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate variable consideration include consideration of past experience and susceptibility to factors outside the Association's control.

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.

Contract liability (unspent reserve assessments)
The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (unspent reserve assessments) is recorded when the Association has received but not yet spent reserve assessments for their intended purpose.

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.

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 $1,820 for the year ended December 31, 2019.

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, 2019, 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.

Revenue recognition - member assessments
Association members are subject to monthly 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. Any excess assessments at year-end are retained by the Association for use in future years. The income and expenses of the Association are allocated pro-rata based on the total number of units.

NOTE C – FASB ASC 606 NEW ACCOUNTING STANDARD IMPLEMENTATION

The Financial Accounting Standards Board ("FASB") has issued and amended Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers in the Accounting Standards Codification Topic 606 (collectively, "ASC 606"). ASC 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate-Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition applied to contracts that were not complete as of January 1, 2019. Adoption of the new standard resulted in changes to our accounting policies for assessment revenue and contract liabilities (unspent reserve assessments), as previously described. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new standard on each item included in our 2019 financial statements. Following are the line items from our financial statement that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new standard, and the balances reported under the new standard:

	Under Previous GAAP	Impact of ASC 606	As Reported
Liabilities:			
Contract liabilities	—	426,696	426,696
Total liabilities	859,542	426,696	1,286,238
Fund balance:			
Beginning fund balance	290,071	(290,071)	—
Ending fund balance	1,392,670	(426,696)	965,974
Revenues:			
Member assessments	1,564,620	(96,625)	1,467,995
Excess of revenues over expenses	221,762	(96,625)	125,137
Cash flows:			
Excess of revenues over expenses	221,762	(96,625)	125,137
Increase in contract liabilities	—	96,625	96,625

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Category	
Furniture, fixtures and equipment	$ 70,210
Leasehold improvements	94,524
Land improvements – Spring Run	17,570
Buildings	134,300
Security vehicles	30,492
Maintenance vehicles	39,770
Fence	65,998
Recreational area improvements	55,300
Stables	65,512
Recreational land	772,970
Property and equipment	$ 1,346,646

NOTE D – PROPERTY AND EQUIPMENT (Continued)

Property and equipment	$ 1,346,646
less: accumulated depreciation	(482,071)
Net property and equipment	$ 864,575

The Association incurred depreciation expense of $6,512 for the year ended December 31, 2019.

NOTE E – 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	$ 399,009
Less: current maturities	(97,862)
Net noncurrent portion	$ 301,147

Future maturities of the note payable are as follows:

Year Ending December 31,	
2020	$ 97,862
2021	102,210
2022	106,703
2023	92,234
Total	$ 399,009

NOTE F – 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 within the budget by the board 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.

NOTE F – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The following table presents changes in the replacement fund:

	Balance 12/31/2018	Assessments	Interest	Expenses	Transfers/ Reclass	Balance 12/31/2019
Contract liability:						
Deferred maintenance	$ 290,071	$ 190,740	$ —	$ (95,132)	$ 41,017	$ 426,696
Fund balance:						
Unallocated interest	—	—	1,017	—	(1,017)	—
Totals	$ 290,071	$ 190,740	$ 1,017	$ (95,132)	$ 40,000	$ 426,696

THE BUDGET OF THE ASSOCIATION PROVIDES FOR 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.

NOTE G – COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2019, the Association entered into contracts for improvements to its clubhouse and perimeter wall. The remaining balance on these contracts is approximately $118,000 as of December 31, 2019.