

Riverwalk Homeowners Association, Inc.

December 31, 2015

Audited Financial Statements



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Riverwalk Homeowners Association, Inc.
Jupiter, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Riverwalk Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and 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 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 Riverwalk Homeowners Association, Inc. as of December 31, 2015, 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

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 Expenses – Operating Fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and 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.

Future Major Repairs and Replacements

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 5 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.

Lanter, Leonardo & Levy, LLC

Certified Public Accountants
Boca Raton, Florida
February 16, 2016

RIVERWALK HOMEOWNERS ASSOCIATION, INC.

**Balance Sheet
December 31, 2015**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 95,838	\$ 237,745	\$ 333,583
Assessments receivable, net allowance for bad debt of \$50,000	42,447	-	42,447
Prepaid insurance and other	9,545	-	9,545
Property and equipment	90,778	-	90,778
Due to reserve from operating fund	-	488,210	488,210
Total Assets	<u>\$ 238,608</u>	<u>\$ 725,955</u>	<u>\$ 964,563</u>
Liabilities			
Accounts payable and accrued expenses	\$ 32,128	\$ -	\$ 32,128
Deferred boatyard revenue	3,360	-	3,360
Prepaid maintenance assessments	21,287	-	21,287
Due from operating to reserve fund	488,210	-	488,210
Deposits - keys	11,690	-	11,690
	<u>556,675</u>	<u>-</u>	<u>556,675</u>
Fund Balances (Deficit)	<u>(318,067)</u>	<u>725,955</u>	<u>407,888</u>
Total Liabilities and Fund Balances	<u>\$ 238,608</u>	<u>\$ 725,955</u>	<u>\$ 964,563</u>

The accompanying notes are an integral part of these financial statements.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total
Revenues			
Owner assessments	\$ 667,761	\$ 148,239	\$ 816,000
Interest income	60	223	283
Unit owner interest	1,565	-	1,565
Late fee interest	3,721	-	3,721
Estoppels fee	5,900	-	5,900
Application fee	10,350	-	10,350
Application fee other	7,025	-	7,025
Boat storage income	4,480	-	4,480
Kayak storage	75	-	75
Town grants	4,625	-	4,625
Miscellaneous income	4,807	-	4,807
Pool tags	750	-	750
Bad debt recovery	3,624	-	3,624
	<u>714,743</u>	<u>148,462</u>	<u>863,205</u>
Expenses			
Administrative	296,911	-	296,911
Contracts	243,711	-	243,711
Utilities	65,314	-	65,314
Depreciation and disposal	28,441	-	28,441
Repairs and maintenance	67,925	130,746	198,671
	<u>702,302</u>	<u>130,746</u>	<u>833,048</u>
Excess (Deficits) of Revenues over Expenses	12,441	17,716	30,157
Prior Period Adjustment (Depr. Adj.)	(4,570)	-	(4,570)
Beginning - Fund Balances	<u>(325,938)</u>	<u>708,239</u>	<u>382,301</u>
Ending - Fund Balances	<u>\$ (318,067)</u>	<u>\$ 725,955</u>	<u>\$ 407,888</u>

The accompanying notes are an integral part of these financial statements.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Excess / (Deficit) of Revenues over Expenses	\$ 12,441	\$ 17,716	\$ 30,157
Adjustments to Reconcile Excess / (Deficit) of Revenues over Expenses to Net Cash			
Provided by Operating Activities:			
Disposal of asset	9,000	-	9,000
Depreciation	19,441	-	19,441
(Increase) Decrease in:			
Assessment receivables, net of allowance	18,898	-	18,898
Prepaid insurance and other	(463)	-	(463)
Utility deposit	2,999	-	2,999
Due to / from funds	(27,505)	27,505	-
Increase (Decrease) in:			
Accounts payable and accrued expense	7,631	-	7,631
Deferred boatyard revenue	960	-	960
Prepaid maintenance assessments	(1,760)	-	(1,760)
Deposits - keys	700	-	700
Net Cash Provided by (Used in) Operating Activities	<u>42,342</u>	<u>45,221</u>	<u>87,563</u>
Investing Activities			
Fixed asset additions	(46,867)	-	(46,867)
Net Cash Provided by (Used in) Investing	<u>(46,867)</u>	<u>-</u>	<u>(46,867)</u>
Net Increase (Decrease) in Cash	(4,524)	45,221	40,697
Cash - Beginning of Period	<u>100,362</u>	<u>192,524</u>	<u>292,886</u>
Cash - End of Period	<u>\$ 95,838</u>	<u>\$ 237,745</u>	<u>\$ 333,583</u>

The accompanying notes are an integral part of these financial statements.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements

For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies and General Matters

Organization

Riverwalk Homeowners Association, Inc. (the "Association"), is a statutory homeowners association incorporated as a not-for-profit corporation, under Chapter 720 Florida Statute. In October 1984 for the purpose of operating as a homeowners association in Jupiter, Florida, and serving as an instrumentality of the various 340 owners in controlling, regulating, managing, maintaining and conserving the common elements and common areas of the community as described in the Declaration of Covenants, Conditions and Restrictions and as recorded in the Articles of Incorporation and By-Laws. All policy decisions are formulated by the Board of Directors.

Basis of Presentation

The Association uses the accrual method of accounting, i.e., revenues are recognized as earned and expenses are recorded in the period in which they are incurred.

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.

The Association prepares its financial statements on the accrual basis of accounting in accordance with the "Real Estate – Common Interest Realty Association's topic of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC").

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Member Assessments

Member assessments are billed quarterly based upon their proportionate share of ownership and are recognized as revenue on a pro rata basis over the period covered by the billing. Member assessments are based upon estimates of amounts necessary to provide funds for the Association's operating expenses and future major repairs and replacements. Assessments receivable from members are reported at the outstanding balance due from the members. It is the Association's policy to retain legal counsel and place liens on the units of members whose assessments are delinquent. Any excess assessments at year end are retained by the Association for reduction of member assessments in future years.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements

For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies and General Matters (continued)

Income Taxes

The Association is subject to federal and state taxation and has essentially two methods to determine the amount of tax, if any, it must pay. Under one method, the excess of revenues from members over related expenditures is subject to taxation unless such excess is returned to the unit owners or applied to the following year's assessments. The other method enables the Association to elect to exclude from taxation exempt function income, which generally consists of revenue from unit owner assessments. Under either method, the Association may be subject to tax on investment income and other non- exempt income, but at different tax rates. The Association filed its 2015 income tax return on Form 1120-H, under Section 528 of the Internal Revenue Code.

The Association could be subject to federal and state income tax examinations for its open tax years (2013, 2014 and 2015).

Cash and Cash Equivalents

For purposes of the December 31, 2015 balance sheet and statement of cash flows for the year then ended, the Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Property and Equipment

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method.

Fair Value Measurement

Under FASB ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157), fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Association has determined that there was no material difference between the carrying value and the fair value of its financial assets and liabilities at December 31, 2015 and therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2015.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 16, 2016, the date the financial statements were available to be issued.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 2 - Concentration of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk are primarily cash and cash equivalents and assessments receivable. The Association deposits its excess cash and cash equivalents with one major financial institution and the carrying value approximates market value. As of December 31, 2015, the Association did not have cash in excess of the \$250,000 FDIC coverage limit. The Association has not experienced losses related to these deposits. The Association believes it is not exposed to any significant credit risk on cash and cash equivalents and member assessments receivable.

Note 3 - Assessments Receivable

The Association Declaration provides that each owner is chargeable for their proportionate share of common expenses based upon the budget adopted. The Association has lien rights in the event of delinquent assessments, which can be exercised through foreclosure proceedings. In determining the collectability of specific unit owner balances, management considers the age of the balance (measured in number of days delinquent), the owner's payment history and current economic trends. Accordingly, based on management's judgment, the Association provides for estimated uncollectible amounts through a charge to expense and a credit to a valuation allowance. Balances that remain outstanding after the Association has made reasonable collection efforts are written off via a charge to the valuation allowance and a credit to assessments receivable. As of December 31, 2015, maintenance assessments receivable aggregated to \$92,447, and allowances for doubtful accounts totaled \$50,000 in the accompanying financial statements.

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31, 2015:

		Life
Cable and internet equipment	\$ 160,455	7 to 10
Furniture and fixtures	26,413	5
Office equipment	16,330	3 to 5
Vehicles	12,171	3
Other	22,678	3
	238,047	
Less: accumulated depreciation	(147,269)	
	\$ 90,778	

Depreciation expense for the year ended December 31, 2015 totaled \$19,441 and disposal of asset net \$9,000.

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 5 - Future Major Repairs and Replacements

The Association's governing documents and Florida statute do not require that funds be accumulated for future major repairs and replacements and the Association has not established statutory reserves from the developer or through a vote of the membership. However, the Board of Directors adopted a budget to fund several replacement fund components in the annual budget as deemed necessary. The Board of Directors approved \$148,240 in funding for the Replacement Fund in the 2015 budget.

Actual expenditures may vary from estimated future expenditures and the variations may be material. When funds are needed for those purposes.

The funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Information about the estimates of future costs of major repairs and replacements, as required by the American Institute of Certified Public Accountants, has not been presented. Actual expenditures may vary from the estimated future expenditures, 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 has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The activity in the replacement fund was as follows:

Components	Balance 1/1/2015	Interest/ Assessments	Expenditures	Balance 12/31/2015
Roofs	\$ 509,391	\$ 74,120	\$ (72,651)	\$ 510,860
Paving	70,992	74,120	-	145,112
Paving	15	-	-	15
Boat yard	44,160	-	(424)	43,736
Capital improvements and other	83,681	223	(57,671)	26,233
	<u>\$ 708,239</u>	<u>\$ 148,462</u>	<u>\$ (130,746)</u>	<u>\$ 725,955</u>

The 2016 approved budget includes a Replacement Fund provision aggregating to \$148,239.

The Association does not allocate interest earned on the replacements fund to specific replacement components as earned, but does so periodically depending on projected requirements.

Note 6 - Accounts Payable and Accrued Expense

The Association maintains two credit cards accounts active for repair & maintenance projects. See below:

Provider	Credit Limit	Balance as of 12/31/15
Home Depot	10,500	\$ 485
Bank of America	4,000	457
		<u>\$ 942</u>

RIVERWALK HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements

For the Year Ended December 31, 2015

Note 7 - Commitments

The Association is also contracted with an independent third party property management company to provide complete management, janitorial, trash removal and an obligation to the Master Association as a result of mandatory membership. These contracts have different expiration dates and renewal terms.

In June 2012, the Association entered into an agreement with a painting company for the preparation and repainting of 27 buildings for a total cost of \$303,106 plus extras. The work and payments are being completed over a four (4) year period (2012, 2013, 2015 and 2016). In 2012 the work completed and paid was \$75,650 plus \$10,770 in extras. In 2013 the amount paid was \$85,085 plus \$11,865. The remaining work will be completed and paid in 2016.

In June 19, 2015, the Association entered into a copier lease for 60 months at \$110 plus tax per month.

SUPPLEMENTARY INFORMATION

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Schedule of Expenses – Operating Fund
For the Year Ended December 31, 2015

	<u>2015 Actual</u>	<u>2015 Budget</u>	<u>Over / (Under) Variance</u>
Administrative Expenses			
Bank Service Charges	\$ 25	\$ -	\$ 25
Casual Labor	580	-	580
Property Management	169,348	151,000	18,348
Audit Fees/Review Fees	6,065	4,950	1,115
Accounting Contract	8,580	10,000	(1,420)
Legal Fees	29,356	15,000	14,356
Permits/Fees/Taxes	1,410	1,975	(565)
Postage	2,173	3,100	(927)
Printing	8,789	2,200	6,589
Insurance Expense	34,999	22,000	12,999
Office Expense	15,877	15,000	877
Bad Debts	19,676	36,779	(17,103)
Interest Expense	32	-	32
	<u>296,911</u>	<u>262,004</u>	<u>34,907</u>
Contracts			
Landscape/Irrigation Contract	82,904	81,000	1,904
Pool Maint. Contract	99	-	99
Pool Parts & Supplies	18,676	25,000	(6,324)
Cable TV	99,037	109,752	(10,715)
Security Guards	42,995	46,625	(3,630)
	<u>243,711</u>	<u>262,377</u>	<u>(18,666)</u>
Repairs & Maintenance			
General Repair & Maintenance	20,879	21,000	(121)
Concrete Repair	-	20,000	(20,000)
Maint. & Janitorial Supplies	5,600	6,900	(1,300)
Plumbing R&M	2,645	5,000	(2,355)
Gas Expense	1,582	3,200	(1,618)
Key/Door Repairs	-	1,000	(1,000)
Lake Maintenance	1,629	1,300	329
Irrigation Maintenance & Repair	3,211	5,000	(1,789)
Beautification Landscape & Plan	1,780	5,000	(3,220)
Rain Gutter Cleaning	4,834	5,000	(166)
Tree Trimming	25,765	25,000	765
Mangrove Trimming	-	3,552	(3,552)
	<u>67,925</u>	<u>101,952</u>	<u>(34,027)</u>

Continued...

See Independent Auditor's Report

RIVERWALK HOMEOWNERS ASSOCIATION, INC.
Schedule of Expenses – Operating Fund
For the Year Ended December 31, 2015

	<u>2015 Actual</u>	<u>2015 Budget</u>	<u>Over / (Under)</u> <u>Variance</u>
Utilities			
Electric	34,457	31,000	3,457
Water & Sewer	5,444	7,159	(1,715)
Telephone & Internet	22,213	22,000	213
Trash Removal/Recycle	3,201	3,100	101
Utility Expense - Other	-	3,552	(3,552)
	<u>65,314</u>	<u>66,811</u>	<u>(1,497)</u>
Depreciation	19,441	-	19,441
Disposal of asset	9,000	-	9,000
Total Operating Expenses	<u>\$ 702,302</u>	<u>\$ 693,144</u>	<u>\$ 9,158</u>

See Independent Auditor's Report