

**Riverwalk Homeowners  
Association, Inc.**

**December 31, 2016**

**Audited Financial Statements**

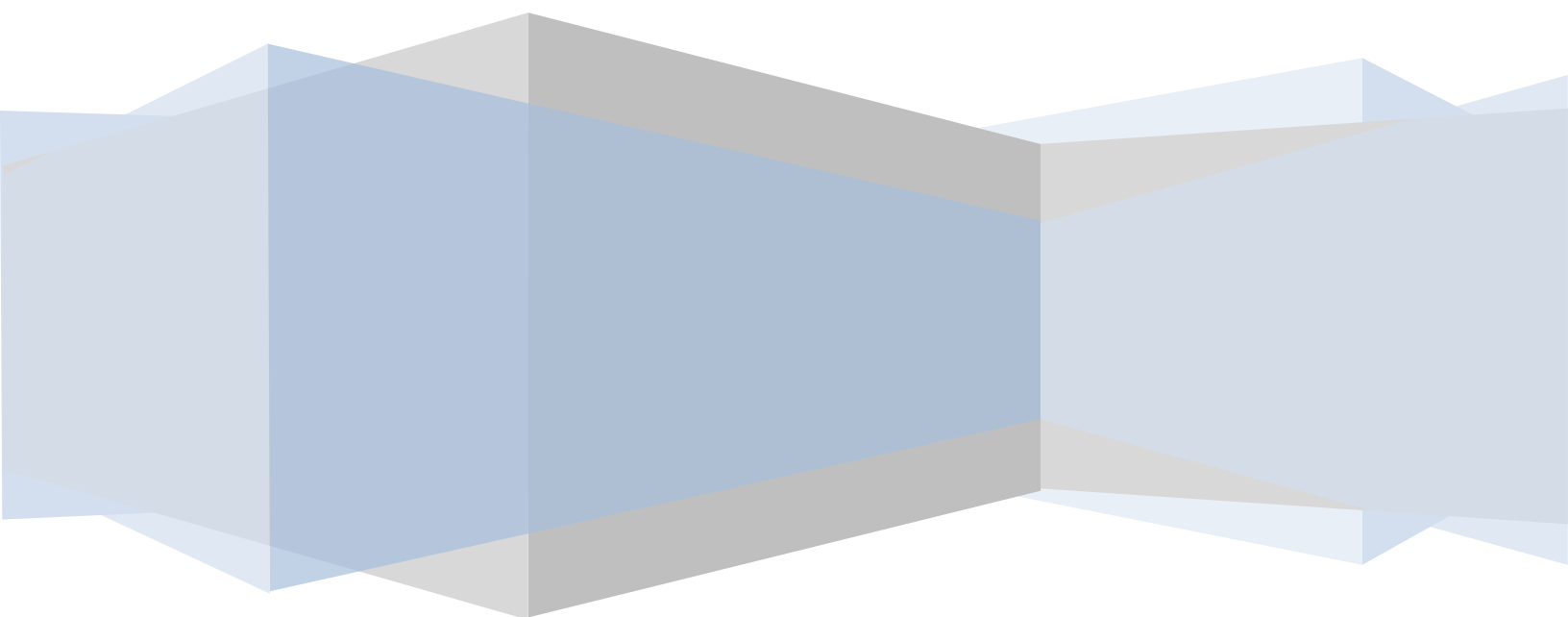


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## INDEPENDENT AUDITOR'S REPORT

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, 2016, 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, 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.

## 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 & DiCrescenzo, LLC*

Certified Public Accountants  
Boca Raton, Florida  
June 1, 2017

**RIVERWALK HOMEOWNERS ASSOCIATION, INC.**

**Balance Sheet  
December 31, 2016**

|   | <b>Operating<br/>Fund</b> | <b>Capital<br/>Improvement<br/>Fund</b> | <b>Total</b>      |
|---|---------------------------|---|-------------------|
| <b>Assets</b>   |                           |   |                   |
| Cash and cash equivalents   | \$ 564,638                | \$ -                                    | \$ 564,638        |
| Assessments receivable, net allowance<br>for bad debt of \$34,089 | 73,590<br>10,315          | -                                       | 73,590            |
| Prepaid insurance and other                                       |                           | -                                       | 10,315            |
| Property and equipment  | 63,563                    | -                                       | 63,563            |
| Due to / (from) funds   | (44,407)                  | 44,407                                  | -                 |
| <b>Total Assets</b>   | <b>\$ 667,699</b>         | <b>\$ 44,407</b>                        | <b>\$ 712,106</b> |
| <b>Liabilities</b>  |                           |   |                   |
| Accounts payable and accrued expenses                             | \$ 28,027                 | \$ -                                    | \$ 28,027         |
| Deferred boatyard revenue   | 3,360                     | -                                       | 3,360             |
| Prepaid maintenance assessments                                   | 36,019                    | -                                       | 36,019            |
| Deposits - keys   | 11,690                    | -                                       | 11,690            |
|   | 79,096                    | -                                       | 79,096            |
| <b>Fund Balances</b>  | <b>588,602</b>            | <b>44,407</b>                           | <b>633,009</b>    |
| <b>Total Liabilities and Fund Balances</b>                        | <b>\$ 667,698</b>         | <b>\$ 44,407</b>                        | <b>\$ 712,105</b> |

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, 2016**

|  | <b>Operating<br/>Fund</b> | <b>Capital<br/>Improvement<br/>Fund</b> | <b>Total</b>      |
|--|---------------------------|---|-------------------|
| <b>Revenues</b>  |                           |   |                   |
| Owner assessments                                      | \$ 666,291                | \$ 149,709                              | \$ 816,000        |
| Interest income  | 79                        | -                                       | 79                |
| Unit owner interest                                    | 9,280                     | -                                       | 9,280             |
| Late fee interest                                      | 10,888                    | -                                       | 10,888            |
| Estoppels fee  | 6,350                     | -                                       | 6,350             |
| Application fee  | 17,600                    | -                                       | 17,600            |
| Boat storage income                                    | 4,585                     | -                                       | 4,585             |
| Kayak storage  | 1,175                     | -                                       | 1,175             |
| Violation  | 16,400                    | -                                       | 16,400            |
| Miscellaneous income                                   | 18,555                    | -                                       | 18,555            |
| Pool tags  | 2,475                     | -                                       | 2,475             |
|  | <u>753,678</u>            | <u>149,709</u>                          | <u>903,387</u>    |
| <b>Expenses</b>  |                           |   |                   |
| Administrative   | 305,647                   | -                                       | 305,647           |
| Contracts  | 119,864                   | -                                       | 119,864           |
| Utilities  | 113,851                   | -                                       | 113,851           |
| Depreciation   | 20,045                    | -                                       | 20,045            |
| Repairs and maintenance                                | 64,246                    | 146,490                                 | 210,736           |
|  | <u>623,653</u>            | <u>146,490</u>                          | <u>770,143</u>    |
| <b>Excess (Deficits) of Revenues<br/>over Expenses</b> | 130,025                   | 3,219                                   | 133,244           |
| <b>Prior Period Adjustments</b>                        | 91,877                    | -                                       | 91,877            |
| <b>Interfund Transfer</b>                              | 684,767                   | (684,767)                               | -                 |
| <b>Beginning - Fund Balances (Deficits)</b>            | (318,067)                 | 725,955                                 | 407,888           |
| <b>Ending - Fund Balances</b>                          | <u>\$ 588,602</u>         | <u>\$ 44,407</u>                        | <u>\$ 633,009</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, 2016**

|  | <b>Operating<br/>Fund</b> | <b>Capital<br/>Improvement<br/>Fund</b> | <b>Total</b> |
|--|---------------------------|---|--------------|
| <b>Cash Flows from Operating Activities</b>  |                           |   |              |
| Excess / (Deficit) of Revenues over Expenses   | \$ 130,025                | \$ 3,219                                | \$ 133,244   |
| <b>Adjustments to Reconcile Excess / (Deficit) of<br/>Revenues over Expenses to Net Cash</b> |                           |   |              |
| <b>Provided by Operating Activities:</b>   |                           |   |              |
| Prior period adjustments   | 91,877                    | -                                       | 91,877       |
| Interfund transfers  | 684,767                   | (684,767)                               | -            |
| Depreciation   | 20,045                    | -                                       | 20,045       |
| (Increase) Decrease in:  |                           |   |              |
| Assessment receivables, net of allowance   | (31,143)                  | -                                       | (31,143)     |
| Prepaid insurance and other  | (770)                     | -                                       | (770)        |
| Due to / from funds  | (443,803)                 | 443,803                                 | -            |
| Increase (Decrease) in:  |                           |   |              |
| Accounts payable and accrued expense   | (4,101)                   | -                                       | (4,101)      |
| Prepaid maintenance assessments  | 14,732                    | -                                       | 14,732       |
| <b>Net Cash Provided by (Used in) Operating<br/>Activities</b>                               | 461,629                   | (237,745)                               | 223,884      |
| <b>Investing Activities</b>  |                           |   |              |
| Fixed asset disposal, net additions  | 7,170                     | -                                       | 7,170        |
| <b>Net Cash Provided by (Used in) Investing</b>  | 7,170                     | -                                       | 7,170        |
| <b>Net Increase (Decrease) in Cash</b>   | 468,799                   | (237,745)                               | 231,054      |
| <b>Cash - Beginning of Period</b>  | 95,838                    | 237,745                                 | 333,583      |
| <b>Cash - End of Period</b>  | \$ 564,637                | \$ -                                    | \$ 564,637   |

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, 2016**

**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.

Capital Improvement 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, 2016**

**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 2016 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 (2014, 2015 and 2016).

Cash and Cash Equivalents

For purposes of the December 31, 2016 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, 2016 and therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2016.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 1, 2017, the date the financial statements were available to be issued.

**RIVERWALK HOMEOWNERS ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2016**

**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, 2016, the Association had \$314,638 in excess cash over 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, 2016, maintenance assessments receivable aggregated to \$107,679, and allowances for doubtful accounts totaled \$34,089 in the accompanying financial statements.

**Note 4 – Property and equipment**

Property and equipment consisted of the following at December 31, 2016:

|                                |            | Life    |
|--------------------------------|------------|---------|
| Cable and internet equipment   | \$ 160,455 | 7 to 10 |
| Furniture and fixtures         | 26,413     | 5       |
| Office equipment               | 16,330     | 3 to 5  |
| Vehicles                       | 5,000      | 3       |
| Computer software              | 12,001     | 3       |
| Other                          | 10,678     | 3       |
|                                | 230,877    |         |
| Less: accumulated depreciation | (167,314)  |         |
|                                | \$ 63,563  |         |

Depreciation expense for the year ended December 31, 2016 totaled \$20,045.

**RIVERWALK HOMEOWNERS ASSOCIATION, INC.**

**Notes to Financial Statements**

**For the Year Ended December 31, 2016**

**Note 5 – Capital Improvement Fund**

The Association's governing documents and Florida statutes do not require that funds be accumulated for future major repairs and replacements, except for the boat dock, and the Association has not established statutory reserves from the developer or through a vote of the membership 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.

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 \$149,706 in funding for the Replacement Fund in the 2016 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 in this audit report. 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<br>1/1/2016 | Interest/<br>Assessments | Interfund<br>Transfer | Expenditures        | Balance<br>12/31/2016 |
|------------------------|---------------------|--------------------------|-----------------------|---------------------|-----------------------|
| Capital improvements   | \$ 681,795          | \$ 149,709               | \$ (684,767)          | \$ (146,737)        | \$ -                  |
| Boat yard storage area | 44,160              | -                        |                       | 247                 | 44,407                |
|                        | <u>\$ 725,955</u>   | <u>\$ 149,709</u>        | <u>\$ (684,767)</u>   | <u>\$ (146,490)</u> | <u>\$ 44,407</u>      |

During 2016, the board transfer the funds in the capital improvement bank into the operating bank account because the funds are not restricted based on reasons mentioned above, except for, the boat yard which is required per the the Association's governing documents. The board is planning on transferring the boat yard balance of \$44,407 into a separate boat yard bank account.

**RIVERWALK HOMEOWNERS ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2016**

**Note 6 - Accounts Payable and Accrued Expense**

The Association maintains three credit cards accounts active for repair & maintenance projects. All cash back earned is deposited into the operating bank account or used for Association purchases. See below:

| <u>Provider</u> | <u>Credit<br/>Limit</u> | <u>Balance as of<br/>12/31/16</u> |
|-----------------|-------------------------|-----------------------------------|
| Capital One     | 19,000                  | \$ 4,356                          |
| Bank of America | 4,000                   | 66                                |
| Home Depot      | 10,500                  | \$ 4,422                          |
|                 |                         | \$ 4,422                          |

**Note 7 - Commitments**

The Association has a contract for landscaping services to maintain the property.

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). The painting project was completed 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, 2016**

|                                | <u>2016 Actual</u> | <u>2016 Budget</u> | <u>Over / (Under)<br/>Variance</u> |
|--------------------------------|--------------------|--------------------|------------------------------------|
| <b>Administrative Expenses</b> |                    |                    |                                    |
| Property management services   | \$ 163,507         | \$ 153,780         | \$ 9,727                           |
| Audit fees                     | 5,000              | 5,500              | (500)                              |
| Accounting fees                | 7,150              | 8,580              | (1,430)                            |
| Legal fees                     | 46,648             | 24,000             | 22,648                             |
| Permits, fees, taxes           | 1,650              | 2,000              | (350)                              |
| Postage                        | 4,195              | 4,200              | (5)                                |
| Printing                       | 1,371              | 2,400              | (1,029)                            |
| Insurance                      | 31,629             | 30,000             | 1,629                              |
| Office expense                 | 24,691             | 18,000             | 6,691                              |
| Bank services                  | 3                  | -                  | 3                                  |
| Bad debt expenses              | 13,547             | 12,000             | 1,547                              |
| Payroll taxes                  | 6,256              | -                  | 6,256                              |
|                                | <u>305,647</u>     | <u>260,460</u>     | <u>45,187</u>                      |
| <b>Contracts</b>               |                    |                    |                                    |
| Landscaping                    | 67,235             | 82,500             | (15,265)                           |
| Pool maintenance               | -                  | 9,564              | (9,564)                            |
| Pool parts and supplies        | 13,990             | 30,000             | (16,010)                           |
| Sinkhole                       | -                  | 27,200             | (27,200)                           |
| Cable                          | 1,338              | -                  | 1,338                              |
| Code/parking                   | 37,301             | 46,625             | (9,324)                            |
|                                | <u>119,864</u>     | <u>195,889</u>     | <u>(76,025)</u>                    |
| <b>Utilities</b>               |                    |                    |                                    |
| Electricity                    | 41,623             | 32,000             | 9,623                              |
| Water                          | 7,440              | 5,000              | 2,440                              |
| Telephone                      | 58,923             | 45,300             | 13,623                             |
| Trash                          | 2,668              | 3,100              | (432)                              |
| Painting                       | -                  | 72,720             | (72,720)                           |
| Internet                       | 3,197              | -                  | 3,197                              |
|                                | <u>113,851</u>     | <u>158,120</u>     | <u>(44,269)</u>                    |

Continued...

See Independent Auditor's Report

**RIVERWALK HOMEOWNERS ASSOCIATION, INC.**  
**Schedule of Expenses – Operating Fund**  
**For the Year Ended December 31, 2016**

|                                  | <u>2016 Actual</u>       | <u>2016 Budget</u>       | <u>Over / (Under)<br/>Variance</u> |
|----------------------------------|--------------------------|--------------------------|------------------------------------|
| <b>Repairs &amp; Maintenance</b> |                          |                          |                                    |
| Vendors                          | 1,386                    | -                        | 1,386                              |
| General repairs and maintenance  | 49,632                   | 21,000                   | 28,632                             |
| Maintenance and janitorial       | 904                      | -                        | 904                                |
| Plumbing                         | 85                       | 3,600                    | (3,515)                            |
| Fuel                             | 208                      | 1,800                    | (1,592)                            |
| Concrete                         | -                        | 15,000                   | (15,000)                           |
| Lake                             | 9,860                    | 1,500                    | 8,360                              |
| Landscaping revitalization       | 2,171                    | 3,000                    | (829)                              |
| Irrigation                       | -                        | 5,000                    | (5,000)                            |
| Rain gutter                      | -                        | 5,000                    | (5,000)                            |
| Tree trimming                    | -                        | 80,000                   | (80,000)                           |
|                                  | <u>64,246</u>            | <u>135,900</u>           | <u>(71,654)</u>                    |
| <b>Depreciation</b>              | 20,045                   | -                        | 20,045                             |
| <b>Total Operating Expenses</b>  | <u><u>\$ 623,653</u></u> | <u><u>\$ 750,369</u></u> | <u><u>\$ (126,716)</u></u>         |

See Independent Auditor's Report