

Audited Financial Statements

**THE LAKES
PROPERTY OWNERS ASSOCIATION, INC.**

Years Ended December 31, 2018 and 2017

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Lakes Property Owners Association, Inc.
Myrtle Beach, South Carolina

I have audited the accompanying financial statements of The Lakes Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2018 and 2017 and the related statements of revenues and expenses, changes in members' equity and changes in fund balances and cash flows for the years 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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, I 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.

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

(continued on next page)

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lakes Property Owners Association, Inc. as of December 31, 2018 and 2017, and the results of its operations, changes in members' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, 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. My opinion on the basic financial statements is not affected by the missing information.

Wayne E. Fussaro, CPA

Surfside Beach, South Carolina

August 15, 2019

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2018 and 2017

	Operating Fund	Reserve Fund	2018 Totals	2017 Totals
<u>ASSETS</u>				
Cash & cash equivalents	\$ 149,505	\$ 439,340	\$ 588,845	\$ 571,680
Assessments & other amounts receivable, net	12,340	-	12,340	10,349
Prepaid insurance	3,223	-	3,223	3,285
Prepaid income taxes	1,257	-	1,257	3,907
Prepaid expenses	-	-	-	1,332
Total assets	\$ 166,325	\$ 439,340	\$ 605,665	\$ 590,553
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 8,438	\$ -	\$ 8,438	\$ 5,008
Architectural review board deposits	21,600	-	21,600	\$ 3,165
Deferred revenue	97,526	-	97,526	104,585
Total liabilities	127,564	-	127,564	112,758
Fund balances	38,761	439,340	478,101	477,795
Total liabilities & fund balances	\$ 166,325	\$ 439,340	\$ 605,665	\$ 590,553

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

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES

For the years ended December 31, 2018 and 2017

<u>Revenues</u>	2018	2017
Regular assessments	\$ 227,130	\$ 227,130
Cable television revenue share	32,358	31,237
Interest income - operating fund	71	7
Interest income - reserve fund	4,211	4,266
Fines, late fees & other revenues	12,062	6,083
Total revenues	275,832	268,723
<u>Expenses</u>		
Landscape repair & maintenance	40,645	30,770
Pond maintenance	16,439	18,697
General maintenance & supplies	4,998	5,002
Security & law enforcement	5,988	4,768
Signage / flagpole	15,051	14,363
Storage	1,360	1,136
Wildlife services	3,480	968
Roadway concrete & drainage	101,020	23,757
Legal & other professional services	341	1,000
Accounting & tax services	3,000	625
Management services	24,000	15,290
Office, general & administrative expenses	10,545	7,129
Insurance	5,560	5,618
Electric	33,451	31,230
Water irrigation	4,488	-
Telephone	831	785
Website fees	1,300	1,200
Taxes & licenses	1,114	1,164
Bad debt expense, net	1,915	5,431
Total expenses	275,526	168,933
Excess of revenues over expenses	\$ 306	\$ 99,790

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

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended December 31, 2018 and 2017

	<u>Total</u>	<u>Operating Fund</u>	<u>Reserve Fund</u>
Members' Equity - January 1, 2018	\$ 477,795	\$ 7,666	\$ 470,129
Excess of revenues over expenses	306	306	-
Allocated to future repairs & replacements:			
Interest income	-	(4,211)	4,211
Transfers from reserve fund	-	55,000	(55,000)
Transfers from operating fund	-	(20,000)	20,000
Members' Equity - December 31, 2018	<u>\$ 478,101</u>	<u>\$ 38,761</u>	<u>\$ 439,340</u>

	<u>Total</u>	<u>Operating Fund</u>	<u>Reserve Fund</u>
Members' Equity - January 1, 2017	\$ 378,005	\$ (91,733)	\$ 469,738
Excess of revenues over expenses	99,790	99,790	-
Allocated to future repairs & replacements:			
Interest income	-	(4,266)	4,266
Transfers from reserve fund	-	103,000	(103,000)
Transfers from operating fund	-	(99,125)	99,125
Members' Equity - December 31, 2017	<u>\$ 477,795</u>	<u>\$ 7,666</u>	<u>\$ 470,129</u>

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

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 306	\$ 99,790
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments & other amounts receivable, net	(1,991)	1,696
Prepaid insurance	62	15
Prepaid income taxes	2,650	(3,589)
Prepaid expenses	1,332	(1,332)
Increase (decrease) in:		
Accounts payable	3,430	(59,072)
Architectural review board deposits	18,435	(6,055)
Deferred revenue	(7,059)	6,097
Net cash provided by operating activities	17,165	37,550
Cash & cash equivalents, beginning of year	571,680	534,130
Cash & cash equivalents, end of year	\$ 588,845	\$ 571,680
 Summary of cash accounts:		
Operating fund	\$ 149,505	\$ 101,551
Reserve fund	439,340	470,129
	\$ 588,845	\$ 571,680
 Supplementary cash flow information:		
Cash paid during the year for:		
Income taxes paid	\$ -	\$ 4,521

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

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Lakes Property Owners Association, Inc. (the Association) is a statutory association incorporated and existing under the laws of the state of South Carolina. The Association is responsible for maintaining and preserving common property, enforcing rules for mutual benefit, and providing other common services to Association members. Located in Myrtle Beach, South Carolina, the Association consists of five hundred sixty-five (565) residential homes / lots and began its operations in 1989.

Financial Statement Presentation

The Association has elected to report its revenues and expenses on the accrual basis. Consequently, revenues and expenses are recognized when the revenues are earned rather than when received and when the expenses are incurred rather than when paid.

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 specific funds established according to their nature and purpose. The Association's funds are separated between operating funds and funds for future major repairs and replacements. Operating disbursements are made generally at the discretion of the Board of Directors and the Association's property management company. Replacement funds have been set aside for a specific purpose and are to be disbursed accordingly.

Cash & Cash Equivalents

Cash and cash equivalents consist primarily of demand deposits and temporary, highly liquid investment accounts. The Association considers all certificates of deposit with original maturities of less than ninety (90) days to be cash equivalents.

Property & Equipment

The Association has adopted the accounting principles prescribed by generally accepted accounting principles in FASB Accounting Standards Codification (ASC) 972, Real Estate – Common Interest Realty Associations. Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and dedicated for the use of the entire community. These common areas cannot be sold separately and thus have no fair market value other than that related to their intended use. All expenditures for real property common elements and improvements are reflected as an expense in the period incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenue

Deferred revenue at December 31, 2018 and 2017 represents payments received in advance for homeowners' assessments. These advance payments will be recognized as revenue in the months in which they are earned.

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Regular 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. Assessment revenues remaining at year end are retained by the Association for use in future years.

Assessments and other amounts receivable at the balance sheet date primarily represent fees due from unit owners, net of an allowance for doubtful accounts. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent.

2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 15, 2019, the date that the financial statements were available to be issued.

3 - INCOME TAXES

Under the provisions of the Internal Revenue Code, the Association is allowed to elect each year to file as an eligible Section 528 homeowners' association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. For the years ended December 31, 2018 and 2017, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its net nonexempt function income, which consists primarily of interest, rental and vending income, at a flat rate of 30% by the federal government and at 5% by the State of South Carolina. Income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property, is not taxable.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns generally remain open to examination by the Internal Revenue Service and the South Carolina Department of Revenue for three (3) years after they were filed. In evaluating the Association's tax calculations, the Association believes that its estimates are appropriate based on current facts and circumstances.

4 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalent balances on deposit at financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2018, all funds maintained by the Association were insured under the FDIC. At December 31, 2017, balances of cash in some of the Association's bank accounts exceeded the federally insured limit. These balances fluctuate during the year and could exceed the \$250,000 limit. Management regularly monitors the financial condition of the banking institutions to minimize the risk of loss due to uninsured balances.

5 - RECLASSIFICATIONS

Certain reclassifications may have been made to the prior year financial statements in order for them to be in conformity with current year presentation. Any reclassifications made would have had no effect on previously reported operations and cash flows.

THE LAKES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

6 - MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated fund balances, which total \$439,340 and \$470,129 at December 31, 2018 and 2017, respectively, are held in separate accounts and are generally not available for operating purposes. However, these funds may be used, as needed, for any Association purpose at the discretion of the Board of Directors.

At December 31, 2018, the Association had not conducted a study to determine the estimated remaining useful lives of the components of common property and current estimates of cost of major repairs and replacements that may be required in the future. The Association's Board of Directors' plans to discuss the hiring of an outside engineering firm to perform a reserve study in the future.

The Association's governing documents require funds to be accumulated for future major repairs and replacements, however, nothing prohibits the Board of Directors from applying these funds to meet other requirements of the Association in operating and managing the project. The Association intends to fund major repairs and replacements over the estimated useful lives of the components. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to board approval, to increase regular assessments or to levy a special assessment to supplement previously budgeted funds.

7 - ASSESSMENTS & ALLOWANCE FOR DOUBTFUL ACCOUNTS

Regular annual assessments charged to home owners were \$402 in 2018 and 2017.

Assessments and other amounts receivable is presented on the balance sheet, net of an allowance for doubtful accounts. At December 31, 2018 and 2017, the Association recognizes an allowance for doubtful accounts of \$6,743 and \$4,828, respectively. For the years ended December 31, 2018 and 2017, the Association recognizes net bad debt expense of \$1,915 and \$5,431, respectively, which is presented on the statement of revenues and expenses. Management plans to aggressively pursue collection of all amounts due to the Association and any subsequent collections of amounts considered to be bad debts will be recognized as bad debt recoveries in the year the recovery occurs.

8 - CONTINGENCIES

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

9 - MANAGEMENT COMPANY

In addition to the management contract, the Association reimburses their management company for items such as postage, office supplies, printing, website fees and other items. Reimbursements to the management company totaled \$8,502 and \$7,621 for the years ended December 31, 2018 and 2017, respectively.