

**LEXINGTON LAKES  
CONDOMINIUM ASSOCIATION, INC.**

***Financial Statements***

***For the year ended  
December 31, 2014***

**Hafer & Company**

***Certified Public Accountants and Consultants***

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**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**BALANCE SHEET**  
*December 31, 2014*

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 367,533	\$ 47,304	\$ 695,312	\$ 1,110,149
Certificates of deposit (Note 2)	100,168	-	-	100,168
Assessments receivable, net (Note 4)	13,412	-	-	13,412
Prepaid expenses	116,925	-	-	116,925
Investment in foreclosed units (Note 2)	7,200	-	-	7,200
Utility deposits	15,727	-	-	15,727
Due (to) from funds	<u>(13,680)</u>	<u>-</u>	<u>13,680</u>	<u>-</u>
Total assets	<u>\$ 607,285</u>	<u>\$ 47,304</u>	<u>\$ 708,992</u>	<u>\$ 1,363,581</u>
<b>Liabilities and fund balances</b>				
Accounts payable and accrued expenses	\$ 31,409	\$ -	\$ -	\$ 31,409
Insurance payable (Note 10)	75,120	-	-	75,120
Prepaid assessments	23,751	-	-	23,751
Refundable deposits	10,635	-	-	10,635
Deferred paver income	525	-	-	525
Deferred settlement proceeds (Note 12)	144,670	-	-	144,670
Other liabilities	<u>123</u>	<u>-</u>	<u>-</u>	<u>123</u>
Total liabilities	286,233	-	-	286,233
Fund balances	<u>321,052</u>	<u>47,304</u>	<u>708,992</u>	<u>1,077,348</u>
Total liabilities and fund balances	<u>\$ 607,285</u>	<u>\$ 47,304</u>	<u>\$ 708,992</u>	<u>\$ 1,363,581</u>

See notes to financial statements.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES**  
*For the year ended December 31, 2014*

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>Revenues</b>				
Maintenance assessments	\$ 762,661	\$ -	\$ 182,063	\$ 944,724
Rental income	14,050	-	-	14,050
Interest income	664	75	515	1,254
Other income	23,447	-	-	23,447
	<u>800,822</u>	<u>75</u>	<u>182,578</u>	<u>983,475</u>
<b>Expenses</b>				
Building maintenance and repairs	267,124	-	-	267,124
Utilities	298,076	-	-	298,076
Administration	225,227	-	-	225,227
Major repairs and replacements	-	1,185	312,132	313,317
	<u>790,427</u>	<u>1,185</u>	<u>312,132</u>	<u>1,103,744</u>
<b>Excess (deficit) of revenues over expenses</b>	10,395	(1,110)	(129,554)	(120,269)
Fund balances, beginning of year	329,827	48,414	819,376	1,197,617
Interfund transfers	(19,170)	-	19,170	-
<b>Fund balances, end of year</b>	<u>\$ 321,052</u>	<u>\$ 47,304</u>	<u>\$ 708,992</u>	<u>\$ 1,077,348</u>

See notes to financial statements.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
*For the year ended December 31, 2014*

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>Cash flows from operating activities</b>				
Excess (deficit) of revenues over expenses	\$ 10,395	\$ (1,110)	\$ (129,554)	\$ (120,269)
<b><u>Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided (used) by operating activities</u></b>				
Provision for bad debts	(13,560)	-	-	(13,560)
<b><u>Changes in assets and liabilities:</u></b>				
Assessments receivable	26,549	-	-	26,549
Prepaid expenses	1,770	-	-	1,770
Accounts payable and accrued expenses	(7,394)	-	-	(7,394)
Prepaid assessments	(5,542)	-	-	(5,542)
Refundable deposits	2,800	-	-	2,800
Deferred paver income	525	-	-	525
Other liabilities	48	-	-	48
Total changes in account balances	<u>18,756</u>	<u>-</u>	<u>-</u>	<u>18,756</u>
Net cash provided (used) by operating activities	<u>15,591</u>	<u>(1,110)</u>	<u>(129,554)</u>	<u>(115,073)</u>
<b>Cash flows from investing activities</b>				
Sale of certificates of deposit	<u>99,924</u>	<u>-</u>	<u>-</u>	<u>99,924</u>
<b>Cash flows from financing activities</b>				
Payments on insurance payable, net	(15,255)	-	-	(15,255)
Interfund transfers	(19,170)	-	19,170	-
Interfund borrowings	<u>46,954</u>	<u>(33,518)</u>	<u>(13,436)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>12,529</u>	<u>(33,518)</u>	<u>5,734</u>	<u>(15,255)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	128,044	(34,628)	(123,820)	(30,404)
Cash and cash equivalents, beginning of year	<u>239,489</u>	<u>81,932</u>	<u>819,132</u>	<u>1,140,553</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 367,533</u>	<u>\$ 47,304</u>	<u>\$ 695,312</u>	<u>\$1,110,149</u>

Supplemental disclosures of cash flow information (Note 11)

See notes to financial statements.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
*December 31, 2014*

**NOTE 1: Organization**

Lexington Lakes Condominium Association, Inc. was incorporated under the condominium statutes of the State of Florida on January 24, 2005. The Association is responsible for maintaining and preserving the common property of the Association. Lexington Lakes Condominium Association, Inc. consists of 264 residential units and is located in Stuart, Florida.

**NOTE 2: Summary of significant accounting policies**

Fund accounting

The Association prepares its financial statements on the accrual basis of accounting and presents them using fund accounting, using separate funds for operations, working capital, and future major repairs and replacements. Disbursements from the operating fund are generally for the day-to-day operations and non-recurring unanticipated expenditures of the Association and are made at the discretion of the Board of Directors. Disbursements from the working capital fund are made at the discretion of the Board of Directors. Disbursements from the replacement fund generally are made only for designated purposes.

Interest earned

Interest earned by each fund is allocated to the appropriate fund. Income taxes on the interest earned are paid from the operating fund.

Property and depreciation

The Association capitalizes all personal and real property which it purchases. Real property and common area acquired from the developer and related improvements to such property are not reflected on the Association 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 of depreciation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including certificates of deposits and money market funds. Cash equivalents include highly liquid securities with maturity of 90 days or less.

Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash and cash equivalents, assessments receivable, accounts payable, accrued expenses and other assets and liabilities, approximate their fair values due to their short-term maturities.

Certificates of deposit

Certificates of deposit consist of those certificates with original maturities of more than 90 days. The certificates are carried at cost plus any interest earned and reinvested. The Association, at least annually, assesses for any other-than-temporary impairment, and as of the date of these financial statements, the Association does not believe any impairment exists. The certificates have varying maturity dates and varying interest rates. At December 31, 2014, certificates of deposit totaled \$100,168.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*December 31, 2014*

**NOTE 2: Summary of significant accounting policies (continued)**

Investments in foreclosed units

The Association records as its cost basis in foreclosed units the amounts due from former owners for maintenance assessments, interest, legal fees and other costs, net of the associated bad debt allowance. At December 31, 2014, investment in foreclosure units totaled \$7,200, which consists of three units.

Compensated absences

Employees of the Association are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when paid to employees.

Utility pass-through

In accordance with FASB ASC 605-45, the Association recognizes utility pass-through assessments using principal agent considerations. The Association is primarily involved in the determination of a specific service, it has the discretion in selecting the suppliers of such services, and it bears the credit risk for the amounts billed for the service; accordingly the management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

Subsequent events

Subsequent events have been evaluated through July 23, 2015, the date the financial statements were available to be issued in accordance with FASB ASC 855.

**NOTE 3: Concentration of credit risk**

The Association maintains its cash in bank at various financial institutions whereby deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2014, the Association has uninsured deposits in the amount of \$398,065.

**NOTE 4: Owners assessments**

Monthly assessments to unit owners are based upon a share of the budgeted operating expenses and future major repairs and replacements. The Association retains excess operating funds at the end of the year for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments paid in advance are included on the balance sheet as prepaid maintenance fees. The Association's policy is to retain legal counsel and place liens or foreclose on units of members whose assessments are delinquent. At December 31, 2014, assessments receivable totaled \$17,278, less an allowance for uncollectible accounts in the amount of \$3,866, for a net receivable of \$13,412.

**NOTE 5: Income taxes**

The Association may elect to be taxed as a regular corporation or as a homeowners' association under Internal Revenue Code Section 528. The Association elected to be taxed under Section 528 for 2014. Under that election, the Association is generally taxed only on non-membership income, such as interest earnings, at the appropriate rates. Additionally, from time to time, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as whole. As such, the Association has not recorded deferred income taxes at December 31, 2014.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*December 31, 2014*

**NOTE 5: Income taxes (continued)**

The Association has adopted FASB ASC 740 which clarifies the accounting for uncertainty in income taxes by defining the attributes a tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with generally accepted accounting principles. In accordance with the disclosure requirements, the Association's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense. At December 31, 2014, the Association did not have any uncertain tax positions. The Association's federal income tax returns for 2012 – 2014 remain subject to possible examination by the Internal Revenue Service.

**NOTE 6: Litigation**

The Association is a party to various legal actions normally associated with condominium 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.

**NOTE 7: Insurance contingencies**

In the event of a loss due to a hurricane the Association would be responsible for a deductible of approximately 3% of the total insured value of the property under the provisions of the hurricane loss insurance contract.

**NOTE 8: Other commitments and contingencies**

The Association has contracted with various vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

**NOTE 9: Related party transaction**

The Association receives cleaning services from a company whose principal is a unit owner in the condominium association. For the year ended December 31, 2014, amounts paid for these services were \$5,400. At December 31, 2014, the Association is not indebted to this party. All transactions appear to have been made in the ordinary course of business on commercially reasonable terms.

**NOTE 10: Insurance payable**

During 2014, the Association financed its insurance premiums with Premium Assignment Corporation. The total amount financed was \$82,434 and is payable in monthly installments of approximately \$8,347 including interest through September 2015. The loan is secured by any unearned premiums or other sums which may become collectible under the terms of the agreement. At December 31, 2014, the outstanding balance was \$75,120.

**NOTE 11: Supplemental disclosures of cash flow information**

Non-cash financing activities during 2014 were as follows:

Cost of insurance coverage acquired via financing agreements	\$ 109,816
Cash paid related to financing agreements (down payments)	<u>(27,382)</u>
Liabilities assumed (Note 10)	<u>\$ 82,434</u>



**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
*December 31, 2014*

**NOTE 12: Deferred settlement proceeds**

During 2012, the Association settled an on-going lawsuit with Centex Homes related to alleged construction defects. The Association received \$195,000 in exchange for a release of all past, present, and future claims against Centex. As of December 31, 2014, the Association has expended \$50,330 towards its designated purpose. At December 31, 2014 the remaining balance of \$144,670 has been recorded as deferred settlement proceeds until expended for its designated purpose. During 2014, the Association did not utilize any additional proceeds; therefore the above deferred settlement proceeds remained unchanged.

**NOTE 13: Future major repairs and replacements**

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and are generally not available for operating purposes. During 2014 the Board of Directors contracted with an independent contractor to conduct an independent study to estimate the remaining useful lives and replacement costs of the common property components. The schedule included in the supplementary information on future repairs and replacements is based upon this study. During 2014, the Association voted to begin funding the reserves on the pooling method in 2015. The Association is funding \$193,700 for 2015.

Actual expenditures may vary from the estimated amounts and the variation 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 may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Components of the replacement fund are as follows:

	Balance 01/01/14	Additions	Interest Income	Expenses	Transfers	Balance 12/31/14
Roof	\$ 436,888	\$ 92,308	\$ 276	\$ 5,835	\$ 1,004	\$ 524,641
Painting	197,976	22,089	138	224,959	19,456	14,700
Pressure washing	18,021	113	19	18,156	26	23
Paving	56,094	9,551	36	10,000	122	55,803
Pool and equipment	20,735	5,610	13	5,895	52	20,515
Comm. area interior	18,097	6,625	10	-	48	24,780
Site improvements	40,881	17,132	23	9,102	150	49,084
Defects / upgrades	28,996	28,635	-	38,185	-	19,446
Unallocated interest	1,688	-	-	-	(1,688)	-
	<u>\$ 819,376</u>	<u>\$ 182,063</u>	<u>\$ 515</u>	<u>\$ 312,132</u>	<u>\$ 19,170</u>	<u>\$ 708,992</u>

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET**  
*For the year ended December 31, 2014*

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Building operations and maintenance</b>			
Backflow inspections	\$ 300	\$ 400	\$ 100
Building maintenance and supply	8,708	5,000	(3,708)
Christmas lights and decorations	1,819	3,783	1,964
Construction defect expenses	-	50,000	50,000
Contingency	489	1,000	511
Extinguishers and hydrants	746	650	(96)
Fido baggies	676	500	(176)
Fountain	602	200	(402)
Gate damage repairs	1,489	300	(1,189)
Gate maintenance and repairs	6,768	3,000	(3,768)
Golf cart maintenance	433	400	(33)
Irrigation contract	9,859	9,600	(259)
Irrigation supplies and repairs	7,109	3,897	(3,212)
Irrigation water	1,267	9,000	7,733
Janitorial service	14,053	15,000	947
Janitorial supplies	1,241	500	(741)
Lake maintenance and littoral zone	1,633	3,000	1,367
Landscape maintenance	60,530	61,200	670
Landscape replacement	9,649	15,000	5,351
Lighting and electrical	4,171	2,876	(1,295)
Maintenance supplies	666	200	(466)
Mulch	11,013	16,000	4,987
Pest control	12,010	13,824	1,814
Pest control - clubhouse	514	450	(64)
Pool maintenance and repairs	5,943	5,000	(943)
Preserve and perimeter maintenance	6,233	5,000	(1,233)
Recreation area maintenance and repairs	90	300	210
Rental expense	8,361	2,000	(6,361)
Road and sign maintenance	1,017	1,000	(17)
Security guards	84,798	68,200	(16,598)
Tree trimming	4,937	3,000	(1,937)
	<u>267,124</u>	<u>300,280</u>	<u>33,156</u>
<b>Utilities</b>			
Cable TV	119,459	130,390	10,931
Electric	23,617	24,500	883
Telephone	4,953	3,400	(1,553)
Trash collection	32,678	33,000	322
Water and sewer	117,369	115,000	(2,369)
	<u>\$ 298,076</u>	<u>\$ 306,290</u>	<u>\$ 8,214</u>

See auditors' report on supplementary information.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET (CONT'D)**  
*For the year ended December 31, 2014*

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Administration</b>			
Accounting services	\$ 13,148	\$ 16,500	\$ 3,352
Background check expense	5,667	-	(5,667)
Bad debt	343	20,000	19,657
Computer repairs	110	300	190
Copier service	336	400	64
Corporate annual fee	61	62	1
Domain name	95	100	5
Fees to division	1,162	1,100	(62)
Insurance	117,579	114,903	(2,676)
Legal and professional	14,036	5,000	(9,036)
Management - other	224	5,000	4,776
Management fees	64,159	56,500	(7,659)
Office personnel	-	500	500
Office supplies	1,720	2,800	1,080
Other expenses	1,747	1,000	(747)
Postage	1,652	1,400	(252)
Printing services	128	303	175
Recreational activities	60	100	40
Reserve study	3,000	3,000	-
	<u>225,227</u>	<u>228,968</u>	<u>3,741</u>
<b>Total budgeted expenses</b>	<u>\$ 790,427</u>	<u>\$ 835,538</u>	<u>\$ 45,111</u>

See auditors' report on supplementary information.

**LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.**  
**SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**  
*December 31, 2014*

The following schedule is based upon a study conducted by an independent consultant in 2014 to estimate the remaining useful lives and replacement costs of the components of common property. The schedule provides information about components of common property.

<u>Component</u>	<u>Estimated Useful Life (years)</u>	<u>Estimated Remaining Life (years)</u>	<u>Estimated Replacement Cost</u>	<u>Fund Balances 12/31/14</u>	<u>Approved Budgeted Funding 12/31/15</u>
Roof	25	16	\$ 2,588,614	\$ 524,641	\$ -
Painting	5-7	7	1,853,424	14,700	-
Pressure washing	3-5	1	189,348	23	-
Paving	15-25	11	484,129	55,803	-
Pool and equipment	8-30	3-18	69,627	20,515	-
Common area interiors	5-20	3-13	121,448	24,780	-
Site improvements	1-25	5-28	726,638	49,084	-
Exterior building	1-25	7-26	433,455	-	-
Defects / upgrades	-	-	-	19,446	-
Pooled reserves	-	-	-	-	193,700
			<u>\$ 6,466,683</u>	<u>\$ 708,992</u>	<u>\$ 193,700</u>

See auditors' report on supplementary information.