
**HAMMOCKS COMMUNITY
ASSOCIATION INCORPORATED**
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED:

We have audited the accompanying financial statements of Hammocks Community Association Incorporated, which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Hammocks Community Association Incorporated as of December 31, 2018, 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.



Emphasis of Matters

As discussed in Note 4 to the financial statements, approximately \$2.1 million from the replacement and operating funds was spent on hurricane clean-up and repairs. The Association's insurance company denied the claim and the case went to litigation. The case was resolved in 2020. Our opinion is not modified with respect to this matter.

As discussed in Note 3 and Note 8 to the financial statements, the operating fund has borrowed from the replacement fund in order to pay for operating expenses. Our opinion is not modified with respect to this matter.

As discussed in Note 11 to the financial statements, the World Health Organization has declared COVID-19 a global pandemic leading to broader global economic uncertainties. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Statements of Revenues, Expenses, and Changes in Fund Balances – Operating Fund, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Aguirre Calerusa Macco & Co., LLP

Miami Lakes, FL
March 17, 2021

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

BALANCE SHEET DECEMBER 31, 2018

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents	\$ 129,047	\$ 9,579	\$ 138,626
Restricted cash	318,835	-0-	318,835
Assessments receivable, <i>net of an allowance for uncollectible accounts of \$639,836</i>	286,061	-0-	286,061
Property and equipment, <i>net</i>	187,303	-0-	187,303
Prepaid assets	<u>6,169</u>	<u>-0-</u>	<u>6,169</u>
TOTAL ASSETS	<u>\$ 927,415</u>	<u>\$ 9,579</u>	<u>\$ 936,994</u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 685,472	\$ -0-	\$ 685,472
Assessments received in advance	333,277	-0-	333,277
Due to related parties	41,747	-0-	41,747
Due to (from) related funds	2,388,048	(2,388,048)	-0-
Notes payable	1,057,090	-0-	1,057,090
Refundable deposits	<u>15,835</u>	<u>-0-</u>	<u>15,835</u>
TOTAL LIABILITIES	4,521,469	(2,388,048)	2,133,421
FUND (DEFICITS) BALANCES	<u>(3,594,054)</u>	<u>2,397,627</u>	<u>(1,196,427)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 927,415</u>	<u>\$ 9,579</u>	<u>\$ 936,994</u>

See accompanying notes and independent auditor's report.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Operating Fund	Replacement Fund	Total
REVENUES			
Regular assessments	\$ 3,857,106	\$ 478,352	\$ 4,335,458
Interest income	9,870	4	9,874
Estoppel income	99,530	-0-	99,530
Other income	248,174	-0-	248,174
Total revenues	4,214,680	478,356	4,693,036
EXPENSES			
Accounting	32,500	-0-	32,500
Advertising	66,202	-0-	66,202
Auditing	36,025	-0-	36,025
Bad debts	54,942	-0-	54,942
Community events	198,511	-0-	198,511
Depreciation	80,217	-0-	80,217
Electricity	109,481	-0-	109,481
Insurance	633,287	-0-	633,287
Interest	207,100	-0-	207,100
Landscape maintenance	371,191	-0-	371,191
Legal fees	346,782	-0-	346,782
Licenses and permits	8,001	-0-	8,001
Pool maintenance	38,630	-0-	38,630
Printing, postage and office	172,671	-0-	172,671
Public safety	145,200	-0-	145,200
Repairs and replacements	469,949	821,763	1,291,712
Salaries and benefits	1,549,574	-0-	1,549,574
Technical support	124,241	-0-	124,241
Telephone and internet	25,202	-0-	25,202
Trash removal	97,376	-0-	97,376
Vehicles	51,133	-0-	51,133
Water and sewer	49,681	-0-	49,681
State income taxes	-0-	-0-	-0-
Federal income taxes	-0-	-0-	-0-
Total expenses	4,867,896	821,763	5,689,659
EXCESS OF REVENUES (UNDER) EXPENSES	(653,216)	(343,407)	(996,623)
BEGINNING FUND (DEFICITS) BALANCES	(3,034,584)	2,834,780	(199,804)
Interfund transfers – equipment	119,371	(119,371)	-0-
Interfund transfers – managed neighborhoods	(25,625)	25,625	-0-
ENDING FUND (DEFICITS) BALANCES	\$ (3,594,054)	\$ 2,397,627	\$ (1,196,427)

See accompanying notes and independent auditor's report.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues (under) expenses	\$ (653,216)	\$ (343,407)	\$ (996,623)
Adjustments to reconcile excess revenues (under) expenses to net cash (used in) operating activities:			
Bad debts	54,942	-0-	54,942
Depreciation	80,217	-0-	80,217
Changes in:			
Assessments receivable	143,941	-0-	143,941
Prepaid assets	18,365	-0-	18,365
Refundable deposits	6,385	-0-	6,385
Due to related parties	2,772	-0-	2,772
Accounts payable and accrued expenses	20,325	-0-	20,325
Assessments received in advance	50,967	-0-	50,967
<i>Net cash(used in) operating activities</i>	<u>(275,302)</u>	<u>(343,407)</u>	<u>(618,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of equipment	<u>(119,371)</u>	<u>-0-</u>	<u>(119,371)</u>
<i>Net cash (used in) investing activities</i>	<u>(119,371)</u>	<u>-0-</u>	<u>(119,371)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund transfers-equipment	119,371	(119,371)	-0-
Interfund transfers-managed neighborhoods	(25,625)	25,625	-0-
Notes payable	257,090	-0-	257,090
Due to(from) related funds	<u>(158,492)</u>	<u>158,492</u>	<u>-0-</u>
<i>Net cash provided by financing activities</i>	<u>192,344</u>	<u>64,746</u>	<u>257,090</u>
NET (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(202,329)	(278,661)	(480,990)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	<u>650,211</u>	<u>288,240</u>	<u>938,451</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 447,882</u>	<u>\$ 9,579</u>	<u>\$ 457,461</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	\$ 210,055	\$ -0-	\$ 210,055
Income taxes paid	\$ -0-	\$ -0-	\$ -0-

See accompanying notes and independent auditor's report.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION- Hammocks Community Association Incorporated, (the "Association") is a statutory homeowners' association incorporated in the State of Florida as a Florida Non-Profit Corporation in November 1979 and restated on July 31, 1991. The Association is responsible for the operation and maintenance of the common property within the Hammocks Community (the "Community"), as well as the common property of eighteen individual neighborhoods within the Community. The Community consists of 6,527 residential units on approximately 1,096 acres of land in Miami, Florida.

FUND ACCOUNTING – These financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. 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.

MEMBER ASSESSMENTS - Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. Any excess assessments at year end are retained by the Association for use in the succeeding year.

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 365 days or more delinquent. Assessments deemed uncollectible are written off against the established allowance for doubtful accounts. At December 31, 2018, the Association had delinquent assessments of \$928,895. An allowance for uncollectible accounts is deemed necessary and has been established at \$639,836. The allowance for doubtful accounts is based on an analysis of delinquent assessments.

PROPERTY AND EQUIPMENT – The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2018, property not capitalized consists of sidewalks, access roads, greenbelts, fountains, and the clubhouse. Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution. It is the Association's responsibility to maintain the common property.

DEPRECIATION – Capitalized common property is depreciated over its estimated useful life, which is generally five years, using the straight-line method of depreciation.

USE OF ESTIMATES- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

INCOME TAXES – The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2018. Under that Section, the Association is not taxed on all income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 5.5% by the State of Florida.

The Association's tax filings are subject to audit by various taxing authorities. In evaluating the Association's tax provisions and accruals, the Association believes that its tax positions are appropriate based on current facts and circumstances.

CASH AND CASH EQUIVALENTS – For purposes of the statement of cash flows, the Association considers cash, bank demand deposits, money market funds, and highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. The following is a reconciliation of cash, cash equivalents and restricted cash for cash flow purposes:

	<u>2017</u>	<u>2018</u>
Cash and cash equivalents	\$ 629,001	\$ 138,626
Restricted cash	<u>309,450</u>	<u>318,835</u>
Cash, cash equivalents, and restricted cash	<u>\$ 938,451</u>	<u>\$ 457,461</u>

RESTRICTED CASH - The Association is required to maintain a separate account for refundable deposits held and for debt service required by the lending institutions.

INTEREST INCOME – Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

ALLOCATION OF EXPENSES – The Association allocates certain personnel and administrative expenses between the master association and the managed neighborhoods based on the number of units in each neighborhood.

MANAGED NEIGHBORHOODS OPERATING SURPLUS OR DEFICIT – The excess or deficit of revenues over expenses in the operating funds at year end of the managed neighborhoods are transferred to or deducted from the replacement funds of the respective managed neighborhoods. Monies pertaining to the managed neighborhoods are commingled with those of the master in order for the Association to yield higher interest income on cash and cash equivalents.

NOTE 2 – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 17, 2021, which is the date that the financial statements were available to be issued.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

Management and the board of directors has determined based on a review of the Association's records that the owners have not elected to provide for reserve accounts pursuant to section 720.303(6), Florida statutes. Accordingly, management and the board of directors have determined that the reserve accounts are voluntary.

The budget of the Association provides for limited voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance, subject to limits on funding contained in the governing documents. Because the owners have not elected to provide for reserve accounts pursuant to section 720.303(6), Florida statutes, these funds are not subject to the restrictions on use of such funds set forth in that statute, nor are reserves calculated in accordance with that statute. At December 31, 2018, the Association held \$9,579 in funds available for deferred maintenance and replacements. The operating fund owed the replacement fund \$2,388,048 at December 31, 2018. These funds are held in separate accounts.

The Association is calculating its reserve requirements for these major repairs and replacements using the estimated remaining useful lives of the components and the estimated current replacement costs of the repair or replacement, after taking into consideration the amounts previously accumulated in the replacement fund for the repair or replacement. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or borrow the funds, or it may delay major repairs and replacements until funds are available.

Replacement costs are based on the estimated cost determined by a formal study to repair or replace common property components performed in November 2011. The formal study was conducted by an independent engineer to estimate the remaining useful life of common property components and the cost of future major repairs and replacements.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

The following is a schedule of the activity of the replacement fund as determined by the Board of Directors and Management during the year ended December 31, 2018:

<u>Components</u>	<u>Balance 1/1/18</u>	<u>Assessments</u>	<u>Interest</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Balance 12/31/18</u>
MASTER ASSOCIATION						
Disaster fund	\$ -0-	-0-	-0-	-0-	-0-	\$ -0-
Vehicles	36,646	11,000	-0-	-0-	-0-	47,646
Def. Maint.	1,057,568	120,000	4	(117,705)	(119,371)	940,496
	<u>1,094,214</u>	<u>131,000</u>	<u>4</u>	<u>(117,705)</u>	<u>(119,371)</u>	<u>988,142</u>
MANAGED NEIGHBORHOODS						
Belmont	71,990	11,232	-0-	(10,000)	(12,548)	60,674
Cedar Landing	133,443	24,480	-0-	(104,560)	19,921	73,284
Chantarelle/Ravena	141,988	31,328	-0-	(91,865)	30,853	112,304
Corella	99,562	14,396	-0-	(45,850)	(12,675)	55,433
Ensenada I	95,537	18,020	-0-	(15,658)	10,152	108,051
Ensenada II	153,071	18,252	-0-	(62,253)	4,877	113,947
Haciendas	140,142	18,760	-0-	(100,800)	(24,069)	34,033
Juniper	55,739	30,600	-0-	(38,967)	10,315	57,687
Lakeside	46,031	20,868	-0-	-0-	776	67,675
Live Oak	114,001	17,100	-0-	(47,268)	10,545	94,378
Oak Lake	25,023	29,040	-0-	(45,120)	12,379	21,322
Oakwood Estates	95,411	21,760	-0-	(40,271)	(15,122)	61,778
Paseos I	87,648	12,064	-0-	(25,544)	239	74,407
Paseos II/Oakwood III	129,728	25,920	-0-	(17,652)	(2,925)	135,071
Pelican Point	74,889	15,180	-0-	(18,800)	8,080	79,349
Skylark	85,913	12,544	-0-	(8,356)	(1,461)	88,640
Spicewood	84,768	9,984	-0-	(8,861)	(21,270)	64,621
Sunflower	105,682	15,824	-0-	(22,233)	7,558	106,831
	<u>1,740,566</u>	<u>347,352</u>	<u>-0-</u>	<u>(704,058)</u>	<u>25,625</u>	<u>1,409,485</u>
	<u>\$ 2,834,780</u>	<u>478,352</u>	<u>4</u>	<u>(821,763)</u>	<u>(93,746)</u>	<u>\$ 2,397,627</u>

The fund balances above include cash and cash equivalents and amounts due from the operating fund.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Litigation

During August 2017, a unit owner filed a motion against the Association alleging a violation of a bankruptcy order. The motion is pending and is expected to be resolved in the first quarter of 2021. The Association is expected to have a liability of approximately \$18,500 which is included in accrued expenses.

During September and October 2017, the Association used approximately \$2.1 million of replacement and operating funds for clean-up and repairs related to the effects of Hurricane Irma. The Association's insurance company investigated the loss and determined the damages to be approximately \$268,000. The Association filed a lawsuit against the insurance company for insufficient insurance proceeds. The lawsuit was settled in the first quarter of 2020. The Association received approximately \$220,000 in insurance proceeds. The reduced amount was due to the Association not having insurance coverage for tree or debris removal or tree replacement.

During March 2019, the Association settled a case for unpaid legal fees to a law firm related to work performed during 2016. The amount was settled for approximately \$70,000. A payment plan was put in place with a down payment of \$20,000 due by April 15, 2019, and \$10,000 due monthly thereafter until September 2019. The amount is included in accrued expenses.

During 2019, a demand was placed against the Association by another law firm for unpaid legal fees related to work performed during 2017. A settlement is probable and estimated to be \$30,000. The amount is included in accrued expenses.

Subsequent Events

On August 6, 2019, the Association entered into a \$1.5 million non-revolving line of credit facility converting to a term loan payable to a financial institution. Repayment during the line of credit period consisted of interest only payments. On September 5, 2019 the line of credit converted to a term loan at a fixed interest rate of 4.25% for a term of 36 months. Principal and interest payments are due monthly. Collateral for the loan is first position assignment of the Association's future income including its right to receive general assessments and any special assessments. Three months debt service, approximately \$133,500, will be maintained in a separate deposit account at the financial institution for the life of the loan.

On December 12, 2019, the Association entered into a promissory note for \$120,000. The note is payable with sixty-eight daily payments of principal and interest of \$2,779.97.

NOTE 5 – CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Association to concentration of credit risk are primarily cash and cash equivalents. At December 31, 2018, the balances were insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000, at which date, the balances with one bank exceeded those limits by a total of approximately \$66,309. The Association believes it is not exposed to any significant credit risk on cash.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, less accumulated depreciation at December 31, 2018:

Furniture and fixtures	\$	25,915
Equipment		176,540
Computer equipment		5,003
Vehicles		453,139
Boat yards		<u>112,860</u>
		773,457
Accumulated depreciation		<u>(586,154)</u>
Property and equipment, <i>net</i>	\$	<u>187,303</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The Association has title to two units located within the Association's boundaries. The Association owes assessments to the local associations of these units. The amount due at December 31, 2018 totaled \$41,747.

NOTE 8 – INTERFUND TRANSACTIONS

During the current fiscal year and in prior years the Operating Fund and Replacement Fund borrow funds from each other as deemed necessary by the Board of Directors. The majority of the interfund transactions in the current year resulted from the Operating Fund borrowing from the Replacement Fund because of lack of funds to maintain daily operations and clean-up and repairs which resulted from Hurricane Irma.

Interfund transfers are permanent transfers to or from the Operating Fund to or from the Replacement Fund for the excess or deficit of revenues over expenses in the operating funds at year end of the managed neighborhoods. Purchases of property and equipment for which funds had been accumulated for in the Replacement Fund are also treated as permanent interfund transfers.

NOTE 9 – NOTES PAYABLE AND RESTRICTED CASH

On September 20, 2017, the Association entered into a promissory note for \$500,000 payable to a financial institution. The note has a variable interest rate, which is the US Prime Rate. Interest payments are due on the 20th day of each month. The entire principal balance of \$500,000 along with any outstanding interest is due on September 20, 2020. The note is collateralized by a right to collect assessments and assign property liens. Collateral for the loan is accounts and general intangibles, including but not limited to, special assessments and regular assessments.

On October 25, 2017, the Association entered into a promissory note for \$300,000 payable to a financial institution. The note has a variable interest rate, which is the US Prime Rate. Interest payments are due on the 25th day of each month. The entire principal balance of \$300,000 along with any outstanding interest is due on October 25, 2020. The loan is secured by the assignment of a deposit account with the lender for the principal amount of the loan. Collateral for the loan is accounts and general intangibles, including but not limited to, special assessments and regular assessments.

On December 3, 2018, the Association entered into a purchase agreement of future receivables for \$227,075. The principal and interest will be repaid with \$1,999 daily. The estimated payoff date was June 30, 2019. The loan is secured by a personal guarantee from the Board of Director's President.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

On December 4, 2018, the Association entered into a promissory note for \$30,000. The note has a \$5,000 interest charge due along with the principal on September 15, 2019.

Aggregate maturities of the notes are as follows:

2019	\$ 257,090
2020	<u>800,000</u>
Total	\$ <u>1,057,090</u>

NOTE 10 – CAPITAL LEASES

The Association leases some of its equipment from several leasing corporations under capital leases. The economic substance of the lease is that the Association is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Association's assets and liabilities. The following is an analysis of the leased assets included in Property and Equipment:

Equipment	\$ 149,453
Less accumulated depreciation	<u>(19,578)</u>
	\$ <u>129,875</u>

The following is a schedule by years of future minimum payments required under the lease and included in accounts payable and accrued expenses:

Year Ending – 2019	\$ 49,319
Year Ending – 2020	<u>52,702</u>
	\$ <u>102,021</u>

NOTE 11 – COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of these financial statements. As such, it is uncertain as to the full magnitude that the pandemic will have on the Association financial condition, liquidity, and future results of operations. The Association is actively monitoring the situation. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Association is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future fiscal years.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES – OPERATING FUND (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2018

	Master	Belmont	Cedar Landing	Chantarelle/ Ravena	Corella	Ensenada I	Ensenada II	Haciendas	Juniper	Lakeside
REVENUES										
Regular assessments	3,296,547	20,160	43,520	65,504	21,960	23,800	32,292	40,735	48,280	38,352
Interest income	9,870	-	-	-	-	-	-	-	-	-
Estoppel income	99,530	-	-	-	-	-	-	-	-	-
Other income	248,174	-	-	-	-	-	-	-	-	-
Total revenues	3,654,121	20,160	43,520	65,504	21,960	23,800	32,292	40,735	48,280	38,352
EXPENSES										
Accounting	32,500	-	-	-	-	-	-	-	-	-
Advertising	66,202	-	-	-	-	-	-	-	-	-
Auditing	36,025	-	-	-	-	-	-	-	-	-
Bad debts	54,942	-	-	-	-	-	-	-	-	-
Community events	198,511	-	-	-	-	-	-	-	-	-
Depreciation	80,217	-	-	-	-	-	-	-	-	-
Electricity	66,870	4,431	-	5,196	1,261	592	264	3,828	4,954	4,414
Insurance	633,287	-	-	-	-	-	-	-	-	-
Interest	207,100	-	-	-	-	-	-	-	-	-
Landscape maintenance	262,801	5,898	6,270	5,001	19,120	4,925	3,115	5,131	10,447	4,575
Legal fees	346,782	-	-	-	-	-	-	-	-	-
Licenses and permits	8,001	-	-	-	-	-	-	-	-	-
Pool service	38,630	-	-	-	-	-	-	-	-	-
Postage and office	172,671	-	-	-	-	-	-	-	-	-
Public Safety	145,200	-	-	-	-	-	-	-	-	-
Repairs and replacements	195,333	17,918	8,910	13,428	10,476	2,866	16,786	47,544	12,036	19,853
Salaries	1,440,257	4,461	8,419	11,026	3,778	5,265	7,250	8,301	10,528	8,734
Technical support	124,241	-	-	-	-	-	-	-	-	-
Telephone	25,202	-	-	-	-	-	-	-	-	-
Trash removal	97,376	-	-	-	-	-	-	-	-	-
Vehicles	51,133	-	-	-	-	-	-	-	-	-
Water and sewer	49,681	-	-	-	-	-	-	-	-	-
State income taxes	-	-	-	-	-	-	-	-	-	-
Federal income taxes	-	-	-	-	-	-	-	-	-	-
Total expenses	4,332,962	32,708	23,599	34,651	34,635	13,648	27,415	64,804	37,965	37,576
EXCESS OF REVENUES										
(UNDER)OVER EXPENSES	(678,841)	(12,548)	19,921	30,853	(12,675)	10,152	4,877	(24,069)	10,315	776
BEGINNING FUND (DEFICITS)										
	(3,034,584)	-	-	-	-	-	-	-	-	-
Interfund transfers-property	119,371	-	-	-	-	-	-	-	-	-
Interfund transfers-managed neighborhoods	-	12,548	(19,921)	(30,853)	12,675	(10,152)	(4,877)	24,069	(10,315)	(776)
ENDING FUND (DEFICITS)	(3,594,054)	-	-	-	-	-	-	-	-	-

See independent auditor's report.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES – OPERATING FUND (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2018

	Oakwood		Paseos II/		Pelican		Skylark	Spicewood	Sunflower	Totals
	Live Oak	Oak Lake	Estates	Paseos I	Oakwood III	Point				
REVENUES										
Regular assessments	29,640	34,320	31,620	15,184	30,400	18,480	21,504	20,384	24,424	3,857,106
Interest income	-	-	-	-	-	-	-	-	-	9,870
Estoppel income	-	-	-	-	-	-	-	-	-	99,530
Other income	-	-	-	-	-	-	-	-	-	248,174
Total revenues	29,640	34,320	31,620	15,184	30,400	18,480	21,504	20,384	24,424	4,214,680
EXPENSES										
Accounting	-	-	-	-	-	-	-	-	-	32,500
Advertising	-	-	-	-	-	-	-	-	-	66,202
Auditing	-	-	-	-	-	-	-	-	-	36,025
Bad debts	-	-	-	-	-	-	-	-	-	54,942
Community events	-	-	-	-	-	-	-	-	-	198,511
Depreciation	-	-	-	-	-	-	-	-	-	80,217
Electricity	2,428	2,861	4,271	163	2,412	409	1,226	1,457	2,444	109,481
Insurance	-	-	-	-	-	-	-	-	-	633,287
Interest	-	-	-	-	-	-	-	-	-	207,100
Landscape maintenance	6,542	1,669	4,676	4,617	5,735	5,618	4,619	6,026	4,406	371,191
Legal fees	-	-	-	-	-	-	-	-	-	346,782
Licenses and permits	-	-	-	-	-	-	-	-	-	8,001
Pool service	-	-	-	-	-	-	-	-	-	38,630
Postage and office	-	-	-	-	-	-	-	-	-	172,671
Public Safety	-	-	-	-	-	-	-	-	-	145,200
Repairs and replacements	4,240	10,591	32,530	6,948	20,226	966	13,653	30,954	4,691	469,949
Salaries	5,885	6,820	5,265	3,217	4,952	3,407	3,467	3,217	5,325	1,549,574
Technical support	-	-	-	-	-	-	-	-	-	124,241
Telephone	-	-	-	-	-	-	-	-	-	25,202
Trash removal	-	-	-	-	-	-	-	-	-	97,376
Vehicles	-	-	-	-	-	-	-	-	-	51,133
Water and sewer	-	-	-	-	-	-	-	-	-	49,681
State income taxes	-	-	-	-	-	-	-	-	-	-
Federal income taxes	-	-	-	-	-	-	-	-	-	-
Total expenses	19,095	21,941	46,742	14,945	33,325	10,400	22,965	41,654	16,866	4,867,896
EXCESS OF REVENUES (UNDER)OVER EXPENSES										
	10,545	12,379	(15,122)	239	(2,925)	8,080	(1,461)	(21,270)	7,558	(653,216)
BEGINNING FUND (DEFICITS)										
Interfund transfers-property	-	-	-	-	-	-	-	-	-	(3,034,584)
Interfund transfers-managed neighborhoods	(10,545)	(12,379)	15,122	(239)	2,925	(8,080)	1,461	21,270	(7,558)	(25,625)
ENDING FUND (DEFICITS)	-	-	-	-	-	-	-	-	-	(3,594,054)

See independent auditor's report.

HAMMOCKS COMMUNITY ASSOCIATION INCORPORATED

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED) DECEMBER 31, 2018

Replacement costs are based on the estimated costs determined by management and the board of directors to repair or replace common property components. A formal study by an independent engineer was conducted in November 2011. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of such estimates. Estimated current replacement costs have not been revised since that date and take into account the effects of inflation at a rate of 1% between the date of the study and the date that the components will require repair or replacements. The following information presents significant information about the components of common property.

In addition to the components stated in the study, the Association is accumulating funds for clean up related to a possible disaster. The common property components are being accumulated as deferred maintenance. The Association is accumulating reserves for the managed neighborhoods and transfers any excess of operating revenues over (under) expenses to the replacement fund.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>	<u>Replacement Fund Balance At December 31, 2018</u>
Asphalt	0-7.5	\$ 590,460	\$ -0-
Beach sand	0	30,000	-0-
Ceiling covering	0	3,178	-0-
Courts	3.3	2,316	-0-
Decks	0-8	118,259	-0-
Doors	0	24,900	-0-
Equipment	0-4.6	159,678	-0-
Fixtures	0-1.8	38,152	-0-
Floor covering	0-5.2	84,457	-0-
Fountains	0-5.4	159,793	-0-
Furniture	0-2.5	128,418	-0-
HVAC	0-3	40,910	-0-
Landscaping	0	29,201	-0-
Lighting	0-2.8	194,981	-0-
Paint	0	49,956	-0-
Plumbing fixtures	0	8,950	-0-
Pool equipment	0-7.3	38,500	-0-
Pool finish	0	68,844	-0-
Railing	12.3	19,918	-0-
Roofs	0-14.5	185,628	-0-
Signs	0-5.7	127,495	-0-
Structures	0-1.1	76,189	-0-
Vehicles	3-8	355,395	47,646
Walls and fence	0-7.6	312,410	-0-
Deferred maintenance	n/a	n/a	940,496
Disaster fund	n/a	n/a	-0-
Managed neighborhoods	n/a	n/a	1,409,485
TOTALS		<u>\$ 2,847,988</u>	<u>\$ 2,397,627</u>

See independent auditor's report.