

AQUARIUS CONDOMINIUM  
ASSOCIATION, INC.

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

December 31, 2012

Charles A. Krblich, P.A.

---

*Certified Public Accountants*

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information	14
Supplementary Schedule of Expenses (Unaudited)	15
Supplementary Schedule of Special Assessment Expenses (Unaudited)	17

# Charles A. Krblich, P.A.

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Unit Owners of  
Aquarius Condominium Association, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Aquarius Condominium Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2012, 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 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 Aquarius Condominium Association, Inc. as of December 31, 2012, 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.

***Other Matter***

Management has omitted the 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. Our opinion on the basic financial statements is not affected by the missing information.

A handwritten signature in blue ink, reading "Charles A. Kuller, CPA, CMA". The signature is written in a cursive style.

---

Fort Lauderdale, Florida  
May 15, 2013

Aquarius Condominium Association, Inc.

BALANCE SHEET

December 31, 2012

	FUNDS			
	Operating	Special Assessments	Property	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 213,945	\$ 745,349	\$ -	\$ 959,294
Certificates of deposit	-	263,674	-	263,674
Accounts receivable, net	46,963	-	-	46,963
Prepaid expenses, principally insurance	193,350	-	-	193,350
Due to/from other funds	(276,342)	276,342	-	-
Total current assets	177,916	1,285,365	-	1,463,281
Land, property and equipment - at cost, net	-	-	1,358,565	1,358,565
Deposits, etc.	10,041	-	-	10,041
Total assets	\$ 187,957	\$ 1,285,365	\$ 1,358,565	\$ 2,831,887
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Assessments collected in advance	\$ 18,331	\$ 7,107	\$ -	\$ 25,438
Deferred revenue	-	40,843	-	40,843
Accounts payable and accrued expenses	113,736	-	-	113,736
Payroll and other taxes payable	7,330	-	-	7,330
Refundable deposits	50,725	-	-	50,725
Total current liabilities	190,122	47,950	-	238,072
Commitments and contingencies	-	-	-	-
Fund balances	(2,165)	1,237,415	1,358,565	2,593,815
Total liabilities and fund balances	\$ 187,957	\$ 1,285,365	\$ 1,358,565	\$ 2,831,887

See accompanying notes to the financial statements.



Aquarius Condominium Association, Inc.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

Year ended December 31, 2012

	FUNDS			
	Operating	Special Assessments	Property	Totals
Revenues:				
Maintenance assessments	\$ 2,068,974	\$ -	-	\$ 2,068,974
Interest	243	6,372	-	6,615
Miscellaneous	27,193	-	-	27,193
Total revenues	2,096,410	6,372	-	2,102,782
Expenses:				
Employees, payroll	758,807	-	-	758,807
Administrative	75,330	877	-	76,207
Restaurant subsidy and repairs	12,441	-	-	12,441
Utilities	432,802	-	-	432,802
Contracts, maintenance	132,301	-	-	132,301
Repairs and maintenance	175,721	-	-	175,721
Insurance	434,237	-	-	434,237
Provision for doubtful accounts	3,107	-	-	3,107
Depreciation	-	-	1,959	1,959
Capital repairs and improvements	-	257,691	-	257,691
Total expenses	2,024,746	258,568	1,959	2,285,273
Excess (deficiency) of expenses over revenues	71,664	(252,196)	(1,959)	(182,491)
Fund balances at beginning of year	(72,822)	1,489,611	1,359,517	2,776,306
Interfund transfers	(1,007)	-	1,007	-
Fund balances at end of year	\$ (2,165)	\$ 1,237,415	\$ 1,358,565	\$ 2,593,815

See accompanying notes to the financial statements.

Aquarius Condominium Association, Inc.

STATEMENT OF CASH FLOWS

Year ended December 31, 2012

	FUNDS			
	Operating	Special Assessments	Property	Totals
Cash flows from operating activities:				
Cash collected from unit owners and others	\$ 2,012,549	\$ (202)	\$ -	\$ 2,012,347
Interest received	243	6,372	-	6,615
Cash paid to employees and suppliers	(1,988,708)	(453,252)	-	(2,441,960)
Income taxes paid	-	-	-	-
Interest paid	-	-	-	-
Net cash provided by (used in) operating activities	24,084	(447,082)	-	(422,998)
Cash flows from investing activities:				
Purchase of property and equipment	-	-	(1,007)	(1,007)
Net maturities (purchases) of certificates of deposit	-	721,668	-	721,668
Net cash provided by investing activities	-	721,668	(1,007)	720,661
Cash flows from financing activities:				
Interfund transfers	(1,007)	-	1,007	-
Net change in due to/from other funds	24,051	(24,051)	-	-
Net cash provided by (used in) financing activities	23,044	(24,051)	1,007	-
Net increase in cash and cash equivalents	47,128	250,535	-	297,663
Cash and cash equivalents at beginning of year	166,817	494,814	-	661,631
Cash and cash equivalents at end of year	\$ 213,945	\$ 745,349	\$ -	\$ 959,294
Reconciliation of excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:				
Excess (deficiency) of revenues over expenses	\$ 71,664	\$ (252,196)	(1,959)	\$ (182,491)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:				
Depreciation	-	-	1,959	1,959
Allowance for doubtful accounts	4,093	-	-	4,093
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(35,946)	-	-	(35,946)
Prepaid expenses, principally insurance	(19,498)	-	-	(19,498)
Increase (decrease) in:				
Assessments collected in advance	2,645	(202)	-	2,443
Deferred revenue	(54,010)	-	-	(54,010)
Accounts payable and accrued expenses	56,334	(194,684)	-	(138,350)
Income taxes payable	(798)	-	-	(798)
Refundable deposits	(400)	-	-	(400)
Net cash provided by (used in) operating activities	\$ 24,084	\$ (447,082)	\$ -	\$ (422,998)

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Aquarius Condominium Association, Inc. (referred to as the "Condominium Association" or the "Association") was organized in 1969 as a corporation not-for-profit under Chapter 617 of the Florida Statutes. The Association was formed to administer the operations and management and to maintain and preserve the common property of the Aquarius Condominium in Hollywood, Florida, which consists of 269 residential units.

A summary of the significant accounting policies consistently applied in the preparation of the financial statements follows.

Basis of Accounting and Reporting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as outlined in the Financial Accounting Standards Board *Accounting Standards Codification* ("ASC"). Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. The Association presents its financial statements as separate funds based on its different funding policies for operation, special assessments for major repairs and betterments, and purchase of additional commonly owned equipment. It is the policy of the Association to allocate to each fund interest earned on its cash accounts.

The Operating Fund reflects the operating assessments paid by unit owners to meet the regular recurring costs of operation. Expenses of the fund are limited to those connected with the day-to-day operation.

The Special Assessments Fund reflects special assessments paid by unit owners to meet costs for certain improvements and replacements.

The Property Fund consists of certain commonly owned assets, which the Board of Directors has capitalized, and is still depreciating. Also included are commonly owned assets which are currently capitalized because these assets are tangible personal property and could be detached from the common elements of the Association.

Property, Equipment and Depreciation

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. Depreciation is provided for on the commonly owned assets in the Property Fund on the straight-line method in amounts sufficient to relate the cost of the depreciable assets to



Aquarius Condominium Association, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE A – CONTINUED

Property, Equipment and Depreciation – continued

operations over their estimated service lives. The Association capitalizes personal property at cost and depreciates it using the straight-line method, when the individual item's cost exceeds \$1,000.

Member Assessments

Prior to the beginning of the year, the Condominium Association approved a proposed budget, which sets forth the estimated operating expenses. Each unit owner was required to pay a monthly maintenance assessment based upon the Association governing documents. The Association's policy is to retain legal counsel and place liens on the properties of the unit owners whose assessments are thirty days or more delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The unit owners have prepaid \$18,331 of the 2013 assessment.

Use of 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 reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all unrestricted highly liquid investments with a partial maturity of three months or less to be cash equivalents. These include cash on deposit, cash on hand and money market funds.

Fair Value of Financial Instruments

Assets, including cash and accounts receivable, are carried at amounts which approximate fair value. Liabilities are carried at amounts which approximate fair value.

Income Taxes

The Condominium Association makes an election each year to file either as a regular corporation or as a qualifying homeowners' association under Section 528 of the Internal Revenue Code. The Association's income tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2009-2012. In evaluating the Association's tax provisions and accruals, future taxable income, and the reversal of

Aquarius Condominium Association, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE A – CONTINUED

Income Taxes – continued

temporary differences, interpretations and tax planning strategies are considered. The Association believes their estimates are appropriate based on current facts and circumstances. The Association's policy on statement of revenues, expenses and changes in fund balances classification of interest and penalties related to income tax obligations is to include such items as part of interest expense and miscellaneous expense, respectively.

Allowance for Doubtful Accounts

The Association provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Based on these factors, there is an allowance for doubtful accounts of \$111,093, at December 31, 2012.

Date of Management Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of this report. That date is the date the financial statements were available to be issued.

NOTE B – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2012 are comprised of the following:

Accounts receivable – operating	
Maintenance assessments due from owners	\$ 158,056
Less allowance for doubtful accounts	111,093
Accounts receivable – operating, net	\$ <u>46,963</u>

NOTE C – LAND, PROPERTY AND EQUIPMENT

At December 31, 2012, the land, property and equipment consisted of the following:

Land, recreation facility	\$ 1,352,500
Furniture and fixtures	44,686
Less accumulated depreciation	38,621
Land, property and equipment – at cost, net	\$ <u>1,358,565</u>

On June 4, 1976, the Association purchased certain land and recreation facilities from the condominium's developer, Aquarius Development Corp. for \$1,352,500. Accordingly, the



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE C – CONTINUED

unit owners have total equity in the land and recreation facilities as of that date and they are capitalized for financial statement purposes. Depreciation expense for 2012 was \$1,959.

NOTE D – INCOME TAXES

Condominium associations may elect to be taxed as regular corporations or as homeowners' associations. The Association anticipates electing taxation as a regular corporation for the year ended December 31, 2012. Under that election, the Association is generally taxed only on non-membership income, reduced by non-membership expenses, at regular federal and state corporate tax rates. Membership income is exempt from taxation under Section 277 of the Internal Revenue Code. Utilizing the regular corporation method of tax filing for the year ended December 31, 2012, and taking into consideration a general business credit from the credit for small employer health insurance premiums, there was no resulting income tax.

NOTE E – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association, by vote of a majority of members at a duly called meeting in January 2012, elected not to provide for cash reserves for any items in which the replacement value is more than \$10,000 and has a life expectancy of more than one year. The funding program for replacement of selected Association common property is recommended by Florida Statutes.

The lack of a replacement funding program could result in higher regular assessments and/or special assessments in the future. The Association has not conducted an independent engineering study to determine the remaining useful lives of all the components of common property and estimates of the cost of major repairs and replacements that may be required in the future. When funds are required to meet future needs for major repairs and replacements, the Association plans to increase maintenance or have special assessments.

NOTE F – SPECIAL ASSESSMENTS

In May 2007, the Board of Directors passed special assessment 1/2007 for various projects. Work on these projects continued through 2008 and the unspent balance of \$40,843 has been deferred to 2012.

On January 31, 2006, the Association entered into an agreement with the developer for the proposed development of an adjacent property whereby the developer was to make a

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE F – CONTINUED

capital contribution to the Association for the purpose of making physical improvements to the Aquarius Condominium, which said improvements, would in part provide a better aesthetic view for the prospective residents of the property being developed. The contribution was to be \$3,800,000. The contribution was to be paid as follows, \$600,000 within fifteen days of the earlier to occur of (i) date of issuance of all permits required to commence construction or (ii) the date a mortgage is recorded against the subject property for the purpose of securing construction loans. The remainder of \$3,200,000 shall be due within thirty days of the issuance of any temporary or permanent certificate of occupancy for the new development. In April, 2007, the Association received the initial payment of \$600,000 and a letter of credit for the remainder and the Association ratified the Release of Declaration of Restriction.

In January, 2009, the developer proposed an immediate payment of a reduced amount of \$2,950,000. At a special meeting held on February 5, 2009, the Board of Directors presented the proposed settlement and a majority of unit owners present voted to accept the offer. The Board voted unanimously to accept the offer and the money was received in February, 2009. Management's intention is to use these funds to finance needed capital improvements to the building and grounds, projects that would have necessitated special assessments if the Association had not received this capital contribution. The capital contribution and the expenses associated with it are reported in the special assessment fund.

On October 7, 2010, the Board approved a special assessment totaling \$2,258,439 identifying specific projects and allocating the balance of the settlement of \$2,258,439, as described above, to these expenses. For the year ended December 31, 2012, the Association has incurred expenses of \$257,691 for various repair and improvement projects and \$877 for administrative expenses associated with these projects.

NOTE G – COMMITMENTS AND CONTINGENCIES

Maintenance Contracts and Service Agreements

The Association enters into various maintenance contracts and service agreements to cover landscaping, janitorial, elevator, and other miscellaneous items. The contracts and agreements are subject to various terms and expiration dates.

Bulk Cable Contract

The Association entered into a non-cancelable contract for bulk cable television service commencing April 1, 2001, and renewed this agreement commencing June 1, 2004, for an additional five years. The Association exercised two, two year extensions of the contract



Aquarius Condominium Association, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE G – CONTINUED

with a three percent increase each year. Future payments under the agreement, excluding approved rate increases are as follows:

2013	\$	29,792
------	----	--------

Insurance Risk

The Association carries a maximum of approximately \$1,815,000 per calendar year deductible on windstorm and hail coverage on its property insurance.

Sales Tax Contingency

Florida Statutes require the collection of sales tax by lessors of commercial rental real estate. The lease to the beauty salon called for the collection of monthly rent and applicable sales tax in accordance with this law. In 1998, the Association began collecting sales tax from the beauty salon. The obligation to the State of Florida would include 6% sales tax on all rents previously collected. In addition the Association would be subject to penalties and interest for the sales tax not previously remitted. The amount of the obligation is not readily determinable, but can be estimated at approximately \$7,330.

Legal Matters

The Association is engaged in legal proceedings incidental to its normal business activities. In the opinion of management, none of these proceedings are material in relation to the Association's financial position.

Concentration of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk are primarily cash and cash equivalents, certificates of deposit and unit owner receivables. The Association invests its excess cash in both deposits and high quality short-term liquid money market instruments with major financial institutions and the carrying value approximates fair value. Deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) with unlimited deposit insurance coverage for noninterest bearing accounts (ending January 1, 2013), while interest bearing accounts are insured up to \$250,000. At December 31, 2012, the Association had approximately \$75,000 in excess of federally insured amounts (FDIC). Aquarius Condominium Association, Inc. has not experienced losses related to these investments. The Association has assessed its significant credit risk on unit owner receivables and has provided an allowance for accounts believed to be uncollectible.

Aquarius Condominium Association, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE G – CONTINUED

Leases

The Association leases a copier for its office under an operating lease with unrelated parties. Payments on the lease for the year totaled \$3,097. Future minimum lease payments are as follows as of December 31:

2013	\$2,352
2014	\$1,764

NOTE H – LEASE

Aquarius Restaurant – The Association entered into an agreement in March 2011, for the operation of the restaurant for a two year period beginning April 1, 2011, and ending March 31, 2013. The lease may be terminated by the Association without cause upon 30 days' notice. In lieu of rent, the lessee agrees to provide twenty-four months of restaurant service. In addition, the Association has agreed to subsidize the restaurant operation during the term of the lease at a rate of \$800 per month for the months of September through May and \$1,000 per month for the months of June, July and August. The restaurant subsidy for the year ended December 31, 2012, was \$9,628.

## SUPPLEMENTARY INFORMATION

Charles A. Krblich, P.A.

*Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Unit Owners of  
Aquarius Condominium Association, Inc.

We have audited the financial statements of Aquarius Condominium Association, Inc. as of and for the year ended December 31, 2012, and our report thereon dated May 15, 2013, which expressed an unqualified opinion on those financial statements, appears on page one. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedule of Expenses (Unaudited) and the Supplementary Schedule of Special Assessment Expenses (Unaudited), which are the responsibility of the Association's management, are presented for purposes of additional analysis and are 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.



Fort Lauderdale, Florida  
May 15, 2013



Aquarius Condominium Association, Inc.

Supplementary Schedule of Expenses (Unaudited)

Year ended December 31, 2012

Employees, payroll:	
Security contract	\$ 237,271
Valet contract	72,264
Janitorial service contract	97,648
Uniforms	3,197
Health insurance	24,210
Employee leasing	<u>324,217</u>
Total employees, payroll	\$ <u><u>758,807</u></u>
Administrative:	
Office, copier, postage, printing	\$ 22,978
License fees	2,798
Accounting and legal	<u>49,554</u>
Total administrative	\$ <u><u>75,330</u></u>
Restaurant subsidy and repairs:	
Restaurant subsidy	\$ 9,628
Restaurant repairs	<u>2,813</u>
Total restaurant subsidy and repairs	\$ <u><u>12,441</u></u>
Utilities:	
Electricity	\$ 185,609
Water and sewer	143,263
Gas	15,358
Telephone	5,466
Cable	<u>83,106</u>
Total utilities	\$ <u><u>432,802</u></u>
Contracts - Maintenance:	
Air-conditioning contract	\$ 13,016
Elevator contract	27,303
Pool service contract	6,107
Pest control	9,522
Pigeon control	1,680
Trash removal	45,737
Landscape expense	10,139

Aquarius Condominium Association, Inc.

Supplementary Schedule of Expenses (Unaudited)

Year ended December 31, 2012

Contracts - Maintenance - continued:

Fire alarm contract	13,517
Water treatment	<u>5,280</u>
Total contracts - maintenance	\$ <u><u>132,301</u></u>

Repairs and maintenance:

General repairs	\$ 38,338
Marble floor maintenance	4,050
Elevator repairs	5,636
Plumbing repairs and supplies	12,902
Air conditioning repairs and supplies	70,848
Gates and doors	9,126
Electric repairs and supplies	10,447
General maintenance supplies	5,874
Paint supplies	4,670
Pool supplies and repair	<u>13,830</u>
Total repairs and maintenance	\$ <u><u>175,721</u></u>

Insurance:

Major insurance package	\$ 406,035
Flood insurance	18,094
Fidelity bond	990
Directors and officers	4,588
Boiler and machinery	<u>4,530</u>
Total insurance	\$ <u><u>434,237</u></u>

Provision for doubtful accounts	\$ <u><u>3,107</u></u>
---------------------------------	------------------------

Aquarius Condominium Association, Inc.

Supplementary Schedule of Special Assessment Expenses (Unaudited)

December 31, 2012

Administrative:	
Bid preparation	\$ 850
Bank charges	<u>27</u>
Total administrative	\$ <u>877</u>
Capital improvement expenditures:	
Architectural and structural design	\$ 4,550
Water riser replacement	158,330
Laundry equipment	4,868
Replacement air conditioning equipment - common area	23,029
Fire system upgrade	11,429
Engineering	85
Roof	<u>55,400</u>
Total capital repairs and improvements	\$ <u>257,691</u>