

Sunset Lakes Homeowners Association, Inc.

Financial Statements and
Supplementary Information

December 31, 2023

Cole & Associates, LLC

Certified Public Accountants

Cole & Associates, LLC

Certified Public Accountants

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Sunset Lakes Homeowners Association, Inc.
To the Board of Directors:

We have reviewed the accompanying financial statements of Sunset Lakes Homeowners Association, Inc., which comprise the balance sheet as December 31, 2023 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Sunset Lakes Homeowners Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 12 be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Supplementary Information

The accompanying supplementary comparison schedules on pages 13 - 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information and we do not express an opinion, a conclusion, nor provide any assurance on it.

A handwritten signature in black ink that reads "Cole & Associates, LLC". The signature is written in a cursive, flowing style.

Cole & Associates, CPA, LLC
Certified Public Accountants
February 13, 2024

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2023

| | Operating Fund | Replacement Fund | Total |
|---|-------------------|---------------------|-------------------|
| ASSETS: | | | |
| Cash | \$ 304,625 | \$ 244,705 | \$ 549,330 |
| Assessments receivable (Note 3) | 12,350 | - | 12,350 |
| Prepaid expenses | 9,546 | - | 9,546 |
| TOTAL ASSETS | \$ 326,521 | \$ 244,705 | \$ 571,226 |
| | | | |
| LIABILITIES: | | | |
| Accounts payable and accrued expenses | \$ 34,684 | \$ 2,564 | \$ 37,248 |
| Prepaid assessments | 130,557 | - | 130,557 |
| Contract liabilities (Assessments received in advance - Replacement: Note 2) | - | 242,141 | 242,141 |
| TOTAL LIABILITIES | 165,241 | 244,705 | 409,946 |
| | | | |
| FUND BALANCE (Replacement: Note 2) | 161,280 | - | 161,280 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 326,521 | \$ 244,705 | \$ 571,226 |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2023

| | Operating Fund | Replacement Fund | Total |
|--|-------------------|---------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| REVENUE: | | | |
| Assessment income | \$ 264,799 | \$ 132,232 | \$ 397,031 |
| Contractual collections/liability adjustment | (1,200) | (2,130) | (3,330) |
| Gate remotes/cards | 870 | 8,078 | 8,948 |
| Interest income | 1,824 | 2,130 | 3,954 |
| Other income | 5,312 | - | 5,312 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL REVENUE | \$ 271,605 | \$ 140,310 | \$ 411,915 |
| | <u> </u> | <u> </u> | <u> </u> |
| EXPENDITURES: | | | |
| Accounting & legal | \$ 13,270 | \$ - | \$ 13,270 |
| Contracts grounds maintenance | 92,903 | - | 92,903 |
| Insurance | 10,466 | - | 10,466 |
| Irrigation repairs | 3,505 | - | 3,505 |
| Licenses, permits, & taxes | 61 | - | 61 |
| Management fees | 22,800 | - | 22,800 |
| Office & other expenses | 15,799 | - | 15,799 |
| Other grounds maintenance | 74,023 | - | 74,023 |
| Payroll expense | 19,058 | - | 19,058 |
| Property taxes | 1,037 | - | 1,037 |
| Utilities | 23,068 | - | 23,068 |
| Reserves expenditures | | 140,310 | 140,310 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL EXPENDITURES | \$ 275,990 | \$ 140,310 | \$ 416,300 |
| | <u> </u> | <u> </u> | <u> </u> |
| EXPENDITURES IN EXCESS OF REVENUE | (4,385) | - | (4,385) |
| | <u> </u> | <u> </u> | <u> </u> |
| BEGINNING FUND BALANCE | 165,665 | - | 165,665 |
| | <u> </u> | <u> </u> | <u> </u> |
| ENDING FUND BALANCE | \$ 161,280 | \$ - | \$ 161,280 |
| | <u> </u> | <u> </u> | <u> </u> |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2023

| | Operating Fund | Replacement Fund |
|--|-------------------|---------------------|
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Assessment fees collected | \$ 262,987 | \$ 143,700 |
| Gate remotes/cards | 870 | 8,078 |
| Interest received | 1,824 | 2,130 |
| Other income | 5,312 | - |
| Cash paid for operating expenses | (273,719) | - |
| Replacement expenses paid | - | (137,746) |
| | <hr/> | <hr/> |
| Net cash provided (used) by operating activities: | (2,726) | 16,162 |
| | <hr/> | <hr/> |
| NET CHANGE IN CASH | (2,726) | 16,162 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 307,351 | 228,543 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS - End of Year | <u>\$ 304,625</u> | <u>\$ 244,705</u> |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2023

| | Operating Fund | Replacement Fund |
|---|-------------------------|-------------------------|
| | <hr/> | <hr/> |
| RECONCILIATION OF NET REVENUES OVER EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Excess of revenues over expenditures | \$ (4,385) | \$ - |
| Adjustment to reconcile net revenues over expenditures to net cash provided by operating activities: | | |
| Contractual collections adjustment | 1,200 | - |
| (Increase) decrease in: | | |
| Assessments receivable | (7,340) | - |
| Prepaid expenses | (3,353) | - |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 6,824 | 2,564 |
| Prepaid assessments | 4,328 | - |
| Contract liabilities | - | 13,598 |
| Net cash provided (used) by operating activities: | <hr/> (2,726) | <hr/> 16,162 |
| NET CHANGE IN CASH | <hr/> (2,726) | <hr/> 16,162 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 307,351 | 228,543 |
| CASH AND CASH EQUIVALENTS - End of Year | <hr/> <u>\$ 304,625</u> | <hr/> <u>\$ 244,705</u> |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sunset Lakes Homeowners Association, Inc. (the "Association") is incorporated in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 469 residential units located in Brevard County, Florida. The Association is governed by a Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions, bylaws, and rules and regulations.

Financial Statements

The accompanying financial statements were prepared pursuant to the requirements of Florida Statutes and the American Institute of Certified Public Accountants.

Fund Accounting

The Association presents its financial statements on the accrual basis using fund accounting. The financial statements are therefore segregated into funds based upon different funding policies established for operating and capital expenditures.

The Operating Fund reflects the maintenance assessments paid by unit owners to meet the regular, recurring costs of operations. Expenditures from this fund are limited to those connected with daily operations.

The Replacement Fund is composed of capital assessments paid by unit owners to fund future replacements and major repairs. Expenditures from this fund are typically restricted to those items for which assessments were specifically collected. Interest earned on replacement funds remains in the Replacement Fund and may only be expended for components previously funded.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Liabilities (Assessments received in advance – Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to the major repairs and replacement fund. The balances of contract liabilities as of the beginning and end of the year ended 2023 are \$228,543 and \$242,141, respectively.

Real and Common Area Property

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. Real and common area property acquired from the developer is not capitalized in the Association's financial statements, as it is owned by the individual unit owners in common and not by the Association. As a result, improvements made to the real property and common areas are expensed as incurred.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Concentrations of Risk

The Association maintains cash balances at several banks. Deposits at banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2023, the uninsured portion of cash balances is \$0.

As of November 28, 2023, the Association no longer has insurance coverage for damages covered by windstorm. The Association would be solely responsible for losses related to wind damage.

Commitments and Contingency

The Association has entered into various short-term contractual agreements with outside vendors and service providers to maintain its common property and to administer the Association. These contracts have different expiration dates and renewal terms.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date that the financial statements were issued.

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS

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 its governing documents. Because the owners have not elected to provide for reserve accounts pursuant to Section 720.303(6) of the Florida Statutes, these funds are not subject to the restrictions on use of such funds set forth in that statute, nor are reserves calculated in accordance with that statute.

The Financial Accounting Standards Board (FASB) requires disclosure of the amount of annual funding required to fully fund each reserve account over the remaining useful life of the applicable assets. This calculation is presented in the Supplementary Information on Future Repairs and Replacements based upon estimates of replacement values and remaining lives as discussed below. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our engagement.

In the fall of 2023, the Association estimated the remaining useful lives and current replacement costs of common property components. Estimates were based on professional judgment, which may include contractor estimates for major components. The Association is funding for major repairs and replacements over the remaining useful lives, and considering amounts previously accumulated in the replacement fund.

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 to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS (Continued)

Spending components below zero is technically borrowing from another component's fund, which requires a membership vote. Per Florida Statutes, funding formulas for the next year's budgeted contribution is the sum of the amount necessary to bring a negative component balance to zero plus the deferred maintenance or estimated replacement cost of the reserve component divided by the estimated remaining useful life of the component.

The following table presents significant information about the components of common property:

| COMPONENT | BEGINNING BALANCE | FUNDING DURING YEAR | INTEREST & OTHER INCOME | CHARGES TO FUND | BALANCE 12/31/2023 |
|-----------------------------|----------------------|---------------------------|-------------------------------|----------------------------|-----------------------|
| Pooled | \$ 27,407 | \$ 143,700 | \$ 9,071 | \$ 31,610 | \$ 148,568 |
| Deferred maintenance | 56,094 | - | - | 92,883 | (36,789) |
| Roads | 22,698 | - | 199 | - | 22,897 |
| Playground equipment | 14,037 | - | 97 | 3,043 | 11,091 |
| Gazebos/docks/piers/bridges | 57,659 | - | 398 | 12,446 | 45,611 |
| Capital improvements | 32,284 | - | 284 | - | 32,568 |
| Entrance sign | 18,364 | - | 159 | 328 | 18,195 |
| TOTAL | \$ 228,543 | \$ 143,700 | \$ 10,208 | \$ 140,310 | \$ 242,141 |
| | | | | Contract liability portion | 242,141 |
| | | | | Equity portion | - |
| | | | | | <u>\$ 242,141</u> |

NOTE 3: MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Association expenses are allocated on a pro-rata basis per unit (1/469). Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement assessments are satisfied when these funds are expended for their designated purpose.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 3: MEMBER ASSESSMENTS (Continued)

Assessments receivable at the balance sheet date represent fees due from unit owners. It is the Association's policy to retain legal counsel and place liens on the property of delinquent homeowners. Assessments that have been deemed to be uncollectible as of the report date have been charged to contractual collections adjustments. The allowance for uncollectible accounts is \$7,593 on December 31, 2023. The balances of assessments receivable as of the beginning and the end of the year are \$14,210 and \$19,943, respectively.

NOTE 4: INCOME TAXES

Associations may be taxed as homeowners' associations under Internal Revenue Code (IRC) 528 or as regular corporations under IRC 277. In 2023, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, net of directly related expenses, at a rate of 30%. Income tax expense was \$0 for the year then ended.

The Association follows FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, which provides guidance on accounting for uncertainty in income taxes recognized in the Association's financial statements. The guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. As of December 31, 2023, the Association had no uncertain tax positions that require either recognition or disclosure in the Association's financial statements. Generally, the Association's tax returns remain open for three years for federal income tax examination.

SUPPLEMENTARY INFORMATION

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)**

DECEMBER 31, 2023

In the fall of 2023, the Association estimated the remaining useful lives and current replacement costs of common property components. Estimates were based upon a professional study in February 2021, which may include contractor estimates for major components.

The following is based on the estimate and presents significant information about the components of common property:

| COMPONENT | ESTIMATED REMAINING USEFUL LIFE (YEARS) | ESTIMATED CURRENT REPLACEMENT COST | REPAIRS / REPLACEMENTS 2023 | 2024 FUNDING REQUIRED |
|----------------------------|--|---|-----------------------------------|-----------------------------|
| Pooled | - | \$ - | \$ 148,568 | \$ 154,300 |
| Deferred maintenance | 0 - 19 | 385,753 | (36,789) | 36,789 |
| Roads | 3 - 16 | 954,990 | 22,897 | - |
| Playground equipment | 12 | 58,000 | 11,091 | - |
| Tennis/basketball court | 0 - 9 | 102,520 | - | - |
| Gazebos/docks/piers/bridge | 0 - 8 | 269,200 | 45,611 | - |
| Gates | 0 - 9 | 88,500 | - | - |
| Capital improvements | - | - | 32,568 | - |
| Entrance sign | 9 | 10,000 | 18,195 | - |
| Reserve study | 1 | 3,800 | - | - |
| | | <u>\$ 1,872,763</u> | <u>\$ 242,141</u> | <u>\$ 191,089</u> |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION - STATEMENT OF REVENUES AND EXPENSES
ACTUAL TO BUDGET (UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2023

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|--|-------------------|--------------------|------------------|
| REVENUE: | | | |
| Assessment income | \$ 408,499 | \$ 408,499 | \$ - |
| Contractual collections adjustment | (1,200) | (1,200) | - |
| Gate remotes/cards | 870 | - | 870 |
| Interest income | 1,824 | - | 1,824 |
| Other income | 5,312 | - | 5,312 |
| TOTAL REVENUE | <u>\$ 415,305</u> | <u>\$ 407,299</u> | <u>\$ 8,006</u> |
| EXPENDITURES: | | | |
| Accounting & legal | 13,270 | 18,350 | (5,080) |
| Contracts grounds maintenance | 92,903 | 93,583 | (680) |
| Income tax expense | - | 500 | (500) |
| Insurance | 10,466 | 11,000 | (534) |
| Irrigation repairs | 3,505 | 3,000 | 505 |
| Licenses, permits, & taxes | 61 | 86 | (25) |
| Management fees | 22,800 | 22,800 | - |
| Office & other expenses | 15,799 | 30,276 | (14,477) |
| Other grounds maintenance | 74,023 | 96,634 | (22,611) |
| Payroll expense | 19,058 | 22,410 | (3,352) |
| Property taxes | 1,037 | 1,200 | (163) |
| Utilities | 23,068 | 20,100 | 2,968 |
| Reserve funding | 143,700 | 143,700 | - |
| TOTAL EXPENDITURES | <u>419,690</u> | <u>463,639</u> | <u>(43,949)</u> |
| EXPENDITURES IN EXCESS OF REVENUE | <u>\$ (4,385)</u> | <u>\$ (56,340)</u> | <u>\$ 51,955</u> |

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION - STATEMENT OF REVENUES AND EXPENSES
ACTUAL TO PRIOR YEAR (UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2023

| | 2023 | 2022 | Variance |
|--|-------------------|--------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| REVENUE: | | | |
| Assessment income | \$ 408,499 | \$ 371,448 | \$ 37,051 |
| Contractual collections adjustment | (1,200) | 180 | (1,380) |
| Gate remotes/cards | 870 | 1,240 | (370) |
| Interest income | 1,824 | 355 | 1,469 |
| Other income | 5,312 | 10,946 | (5,634) |
| TOTAL REVENUE | <u>\$ 415,305</u> | <u>\$ 384,169</u> | <u>\$ 31,136</u> |
| EXPENDITURES: | | | |
| Accounting & legal | 13,270 | 25,088 | (11,818) |
| Contracts grounds maintenance | 92,903 | 90,441 | 2,462 |
| Insurance | 10,466 | 10,035 | 431 |
| Irrigation repairs | 3,505 | 4,589 | (1,084) |
| Licenses, permits, & taxes | 61 | 61 | - |
| Management fees | 22,800 | 22,512 | 288 |
| Office & other expenses | 15,799 | 20,098 | (4,299) |
| Other grounds maintenance | 74,023 | 68,778 | 5,245 |
| Payroll expense | 19,058 | 22,043 | (2,985) |
| Property taxes | 1,037 | 1,007 | 30 |
| Utilities | 23,068 | 19,138 | 3,930 |
| Reserve funding | 143,700 | 127,900 | 15,800 |
| TOTAL EXPENDITURES | <u>419,690</u> | <u>411,690</u> | <u>8,000</u> |
| EXPENDITURES IN EXCESS OF REVENUE | <u>\$ (4,385)</u> | <u>\$ (27,521)</u> | <u>\$ 23,136</u> |