



**Sunset Lakes Homeowners
Association, Inc.**

FINANCIAL STATEMENTS

December 31, 2021



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INDEPENDENT ACCOUNTANTS' REPORT

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

We have reviewed the accompanying financial statements of Sunset Lakes Homeowners Association, Inc., which comprise the Balance Sheet as of December 31, 2021, and the related Statements of Revenue, Expenses and Changes in Fund Balance 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 entity 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, and for 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.

Accountants' 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.

Accountants' 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.

Supplementary Information

The supplementary information included in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and the Schedule of Operating Fund Revenue and Expenses - Budget and Actual is presented for purposes of additional analysis and is 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. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

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 16 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. The information is the responsibility of management. 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 required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida

April 26, 2022

Sunset Lakes Homeowners Association, Inc.
Balance Sheet

December 31,

2021

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 145,516	\$ 671,164	\$ 816,680
Assessments receivable, net	12,784	-	12,784
Prepaid expenses	8,317	-	8,317
Interfund balance	150,002	(150,002)	-
Total assets	\$ 316,619	\$ 521,162	\$ 837,781
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 6,885	\$ -	\$ 6,885
Prepaid assessments	116,548	-	116,548
Performance obligation	-	521,162	521,162
Total liabilities	123,433	521,162	644,595
Fund balance	193,186	-	193,186
Total liabilities and fund balance	\$ 316,619	\$ 521,162	\$ 837,781

See accompanying notes and independent accountant's review report.

Sunset Lakes Homeowners Association, Inc.
Statement of Revenue, Expenses and Changes in Fund Balance

For the year ended December 31,

2021

	Operating Fund	Replacement Fund	Total
Revenue			
Regular assessments	\$ 222,945	\$ 26,191	\$ 249,136
Interest income	105	946	1,051
Miscellaneous income	9,369	-	9,369
<hr/>			
Total revenue	232,419	27,137	259,556
Expenses			
Administrative	32,327	-	32,327
Professional fees	31,681	-	31,681
Building maintenance	29,793	-	29,793
Grounds and lawn maintenance	115,552	-	115,552
Lakes and waterways maintenance	13,738	-	13,738
Utilities	21,255	-	21,255
Security expenses	950	-	950
Insurance	8,230	-	8,230
Income tax expense	266	-	266
Miscellaneous expense	3,323	-	3,323
Bad debt expense	7,500	-	7,500
Reserve expenditures	-	40,408	40,408
Waived fines	13,250	-	13,250
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Total expenses	277,865	40,408	318,273
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Deficit of revenues over expenses	(45,446)	(13,271)	(58,717)
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Beginning fund balance	238,632	13,271	251,903
<hr/>			
Ending fund balance	\$ 193,186	\$ -	\$ 193,186

See accompanying notes and independent accountant's review report.

Sunset Lakes Homeowners Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2021

	Operating Fund	Replacement Fund	Total
Operating Activities			
Maintenance assessments	\$ 295,391	\$ 26,191	\$ 321,582
Miscellaneous income	9,369	-	9,369
Interest income	105	946	1,051
Cash paid for operating and replacement fund expenses	(286,647)	(40,408)	(327,055)
Performance obligations	-	88,544	88,544
Income taxes	(548)	-	(548)
Interfund balances	(160,025)	160,025	-
Net cash provided by (used in) operating activities	(142,355)	235,298	92,943
Net increase (decrease) in cash	(142,355)	235,298	92,943
Cash at beginning of year	287,871	435,866	723,737
Cash at end of year	\$ 145,516	\$ 671,164	\$ 816,680

(continued)

See accompanying notes and independent accountant's review report.

Sunset Lakes Homeowners Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2021

	Operating Fund	Replacement Fund	Total
Reconciliation of deficit of revenues over expenses to net cash provided by (used in) operating activities:			
Deficit of revenues over expenses	\$ (45,446)	\$ (13,271)	\$ (58,717)
Adjustments to reconcile deficit of revenues over expenses to net cash provided by (used in) operating activities:			
Changes in operating assets and liabilities:			
Increase in assessments receivable	11,581	-	11,581
Decrease in prepaid expenses	(1,751)	-	(1,751)
Increase (decrease) in interfund balance	(160,025)	160,025	-
Decrease in accounts payable	(7,297)	-	(7,297)
Increase in performance obligations	-	88,544	88,544
Decrease in income tax payable	(282)	-	(282)
Increase in prepaid assessments	60,865	-	60,865
<hr/>			
Net cash provided by (used in) operating activities	\$ (142,355)	\$ 235,298	\$ 92,943

See accompanying notes and independent accountant's review report.

Sunset Lakes Homeowners Association, Inc. Notes to the Financial Statements

Note 1: DESCRIPTION OF THE ORGANIZATION

Sunset Lakes Homeowners Association, Inc. (the "Association"), a Florida not-for-profit corporation, was formed on June 1, 1993 in accordance with Chapter 720 of Florida Statutes, its Declaration of Homeowners Association, by-laws and articles of incorporation. Membership in the Association consists of 469 individually owned lots in Merritt Island, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the homeowners in common, including tennis courts, roads, signs, gates, docks, etc. Disposition of common area property requires consent of the members in accordance with the governing documents and Florida Statutes. The Association's Declaration of Homeowners Association also contains restrictions regarding the alteration, improvement, or use of the common elements.

All policy decisions, including the annual budget and owners' assessments, are formulated by the Board of Directors. Decisions are referred to the general Association membership before action is taken, when so required by the governing documents of the Association.

Management and accounting services are provided to the Association by Leland Management.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Funds

The Association is a not-for-profit organization which employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors, the Association voting membership, or applicable Florida Statute. The financial statements segregate the accounting for such funds as operating or replacement funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

Sunset Lakes Homeowners Association, Inc.

Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The operating fund is used to account for financial resources available for the general operation of the Association. Disbursements from the operating fund are normally limited to those connected with day-to-day operations of the Association and are generally made at the discretion of the Board of Directors.

The replacement fund is used to account for assessments made for major repair and replacement of common property and related expenses. Disbursements from the replacement fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund is allocated to the components based on budgeted funding.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity of 90 days or less.

Assessments Receivable from Owners and Allowance for Doubtful Accounts

Assessments receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. Assessment fees are due on the first day of January and July each year. Assessments that are unpaid for over fifteen (15) days after due date shall be assessed a late fee of \$25 and bear interest at the maximum rate permitted by law per annum until paid.

The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible (i.e., through owner bankruptcy and foreclosures), they are written off by charging the allowance and crediting the receivable. At December 31, 2021, the allowance for doubtful accounts totaled \$20,358.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage period. At December 31, 2021, prepaid expenses consists of prepaid insurance premiums.

Capitalization and Depreciation

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized includes roads, playground equipment, tennis and basketball courts, gazebos, docks, bridges, guardhouse, stormwater drainage systems and gates; this property has not been capitalized.

Sunset Lakes Homeowners Association, Inc. Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the balance sheet as of December 31, 2021. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the balance sheet as prepaid assessments and performance obligation liabilities.

Revenue Recognition

The Association recognizes revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For purposes of this Association, the definition of customers includes the Association's members.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, April 26, 2022, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Note 3: OWNERS' ASSESSMENTS

All Association members are subject to periodic assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and maintenance. Revenue and expenses are allocated equally to the individual homeowners and accordingly, assessment rates are fixed using this formula when developing the annual budget.

For the year ended December 31, 2021, the Association's annual assessment was \$720 per lot. The homeowner can elect to pay the assessment in full January 1st of each year or make semi-annual payments of \$360 on January 1st and July 1st. Assessments, including replacement fund assessments, began upon the initial sale of the lot by the Developer. Regular assessments for the period totaled \$337,680, of which \$114,735 was allocated to the replacement fund.

Sunset Lakes Homeowners Association, Inc.
Notes to the Financial Statements

Note 3: OWNERS' ASSESSMENTS (Continued)

The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the statement of revenue, expenses and changes in fund balance:

<i>For the year ended December 31,</i>	2021		
	Operating Fund	Replacement Fund	Total
Budgeted regular assessments	\$ 222,945	\$ 114,735	\$ 337,680
Less additions to performance obligation	-	(128,952)	(128,952)
Add releases from performance obligation	-	40,408	40,408
Total regular assessments	\$ 222,945	\$ 26,191	\$ 249,136

Note 4: REVENUE RECOGNITION

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are homeowners within the neighborhood. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the homeowners.

Performance Obligations

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve assessments, which are being recognized at a point in time. As of December 31, 2021, the Association has reported a performance obligation liability totaling \$521,162, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the replacement fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

Significant Judgments

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation. For operating fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For replacement fund amounts, the Association recognizes revenue at the point in time when reserve expenses are incurred.

Sunset Lakes Homeowners Association, Inc.
Notes to the Financial Statements

Note 4: REVENUE RECOGNITION (Continued)

Disaggregated Revenue

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenues and cash flows. The following chart contains disaggregated revenue information that reflects these qualitative factors.

<i>For the year ended December 31,</i>	2021
Recognized over time	
Operating fund assessments	\$ 222,945
Miscellaneous revenue	9,369
Recognized at a point in time	
Replacement fund assessments	26,191
Not subject to ASC Topic 606	
Interest income	1,051
Total revenue	\$ 259,556

The following table presents information about assessments receivable, contract assets, and contract liabilities:

<i>December 31,</i>	2021
Assessments receivable, net - beginning balance	\$ 24,365
Assessments receivable, net - ending balance	12,784
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	55,683
Prepaid assessments - ending balance	116,548
Performance obligation liabilities - beginning balance	432,618
Performance obligation liabilities - ending balance	521,162

Note 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for estimated future major repairs and replacements through regular assessments.

Sunset Lakes Homeowners Association, Inc.

Notes to the Financial Statements

Note 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement cost of each of the components of the replacement fund. Where applicable, licensed contractors or architects are consulted regarding useful lives and replacement costs. The Board of Directors last performed a review of the estimated replacement costs, remaining lives, and funding requirements for the reserve components concurrently with developing the annual budget for 2021. A formal reserve study was completed on February 23, 2021.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on their estimates of replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding amount of \$114,735, based on a full funding plan, was included in the 2021 budget.

Actual expenditures may vary from the estimated amounts and the variations may be significant; therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, or delay major repairs and replacements until funds are available.

Note 6: INCOME TAXES

The Association elected to file its tax return for 2021 as a homeowner association on Form 1120H. As such, the Association must comply with Internal Revenue Code (IRC) Section 528, which applies specifically to certain homeowner associations. Under IRC Section 528, the Association is not taxed on income and expenses directly related to its exempt purpose, which is the management, maintenance and protection of Association property. However, net nonexempt function income, such as interest income and revenues from nonmembers, is taxed for federal purposes at a flat 30% rate. For the year ended December 31, 2021, the Association had no net nonexempt function income. State income taxes do not apply to associations that qualify under IRC Section 528.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's policy is to record interest expense or penalties related to income tax in (operating) expense. For the year ended December 31, 2021, no interest or penalties were paid or accrued. The Association is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2018.

Sunset Lakes Homeowners Association, Inc.

Notes to the Financial Statements

Note 7: CREDIT RISK

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual lots. Should the collection of any such liens be enforced by the sale of the lot, the collectability of the receivable is dependent on the quick sale market value of the lot, and the amount of any such other liens that have priority. Market value may be influenced by the real estate market in Brevard County, Florida.

The Association maintains cash accounts with several financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"), which insures all deposit accounts up to \$250,000 in aggregate per financial institution. At times, the balances of these accounts may exceed FDIC coverage limits. At December 31, 2021, balances in one institution were over FDIC limits by \$350,006.

Note 8: CONCENTRATIONS

At December 31, 2021, three of the Association's vendors accounted for \$6,101 (95%) of the Association's outstanding accounts payable.

Note 9: WINDSTORM INSURANCE

The insurance policy for windstorm coverage was renewed on November 28, 2021. The deductible amount for named hurricane storms is estimated at \$3,151 which represents 2% of the value of insured property.

Note 10: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Organization. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

SUPPLEMENTARY INFORMATION

Sunset Lakes Homeowners Association, Inc.
Schedule of Changes in Accumulated Funds for Future
Major Repairs and Replacements

<i>For the year ended December 31,</i>	2021				
Component	Beginning Balance	Additions	Subtractions	Transfers	Ending Balance
Entrance signs	\$ 18,361	\$ 317	\$ (815)	\$ 501	\$ 18,364
Road resurfacing	226,167	41,223	1	7,499	274,890
Gazebo / Docks / Pier / Bridges	69,512	4,430	(15,010)	1,653	60,585
Gates	37,080	1,967	(4,090)	980	35,937
Playground equipment	14,550	3,285	(4,181)	383	14,037
Tennis / basketball courts	11,623	1,656	-	1,594	14,873
Deferred maintenance	13,941	59,679	(16,313)	1,607	58,914
Capital improvement (capital assets)	41,384	2,178	-	-	43,562
Interest	13,271	946	-	(14,217)	-
Total	\$ 445,889	\$ 115,681	\$ (40,408)	\$ -	\$ 521,162

<i>December 31,</i>	2021
Performance obligation liability	\$ 521,162
Total	\$ 521,162

See independent accountants' review report.

Sunset Lakes Homeowners Association, Inc.
Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,

2021

	Actual	Budget	Variance - Favorable (Unfavorable)
Revenue			
Regular assessments	\$ 222,945	\$ 222,945	\$ -
Interest income	105	-	105
Miscellaneous income	9,369	-	9,369
Total revenue	232,419	222,945	9,474
Expenses			
Administrative	32,327	31,984	(343)
Professional fees	31,681	26,500	(5,181)
Building maintenance	29,793	40,000	10,207
Grounds and lawn maintenance	115,552	114,000	(1,552)
Lakes and waterways maintenance	13,738	13,500	(238)
Utilities	21,255	19,500	(1,755)
Security expenses	950	400	(550)
Insurance	8,230	7,500	(730)
Income tax expense	266	2,500	2,234
Miscellaneous expense	3,323	3,561	238
Bad debt expense	7,500	10,000	2,500
Waived fines	13,250	-	(13,250)
Total expenses	277,865	269,445	(8,420)
Excess (deficit) of revenues over expenses	\$ (45,446)	\$ (46,500)	\$ 1,054

See independent accountants' review report.

Sunset Lakes Homeowners Association, Inc.
Supplementary Information on Future Major Repairs and Replacements

The following table is based on the Board’s estimates and presents significant information about the components of common property:

Component	Estimated Remaining Useful Life (Years)*	Estimated Replacement Cost	Accumulated Funds Balance at 12/31/21
Entrance signs	5	\$ 20,000	\$ 18,364
Road resurfacing	6	500,000	274,890
Gazebo / Docks / Pier / Bridges	11	120,000	60,585
Gates	19	75,000	35,937
Playground equipment	8	41,000	14,037
Tennis / basketball courts	17	40,000	14,873
Deferred maintenance	2	40,440	58,914
Capital improvement (capital assets)	5	25,000	43,562
Total		\$ 861,440	\$ 521,162

** Based on 2021 reserve plan adopted by the Board of Directors effective as of January 1, 2021*

See independent accountants’ review report.