

Sunset Lakes Homeowners Association, Inc.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2019



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ACCOUNTANTS' COMPILATION REPORT

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

Management is responsible for the accompanying financial statements of Sunset Lakes Homeowners Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2019, and the related statement of revenue, expenses and changes in fund balance and cash flows for the year then ended, and related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

Supplementary Information

The supplementary information contained in the schedule of changes in accumulated funds for future major repairs and replacements 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. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance 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 15 be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis and, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. The required supplementary information was subject to our compilation engagement; however, we have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

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

Melbourne, Florida
December 8, 2020

Sunset Lakes Homeowners Association, Inc.
Balance Sheet

December 31,

2019

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 185,606	\$ 421,820	\$ 607,426
Assessments receivable, net	23,927	-	23,927
Prepaid insurance	6,035	-	6,035
Interfund balance	(10,022)	10,022	-
Total assets	\$ 205,546	\$ 431,842	\$ 637,388
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 9,730	\$ 1,495	\$ 11,225
Prepaid assessments	4,640	-	4,640
Performance obligation	-	419,166	419,166
Total liabilities	14,370	420,661	435,031
Fund balance	191,176	11,181	202,357
Total liabilities and fund balance	\$ 205,546	\$ 431,842	\$ 637,388

See accountants' compilation report and the accompanying notes to these financial statements.

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

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Revenue			
Regular assessments	\$ 259,474	\$ 50,066	\$ 309,540
Interest income	4	5,931	5,935
Miscellaneous income	60	-	60
Releases from performance obligations	-	91,404	91,404
Total revenue	259,538	147,401	406,939
Expenses			
Administrative	42,883	-	42,883
Professional fees	14,567	-	14,567
Building maintenance	12,388	-	12,388
Grounds and lawn maintenance	95,138	-	95,138
Lakes and waterways maintenance	17,519	-	17,519
Utilities	18,892	-	18,892
Security expenses	17,708	-	17,708
Insurance	6,128	-	6,128
Income tax expense	680	-	680
Miscellaneous expense	3,409	-	3,409
Reserve expenditures	-	141,470	141,470
Total expenses	229,312	141,470	370,782
Excess of Revenues over Expenses	30,226	5,931	36,157
Beginning Fund Balance, Restated	160,950	5,250	166,200
Ending Fund Balance	\$ 191,176	\$ 11,181	\$ 202,357

See accountants' compilation report and the accompanying notes to these financial statements.

Sunset Lakes Homeowners Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Operating Activities			
Maintenance assessments	\$ 210,257	\$ 50,066	\$ 260,323
Miscellaneous income	60	-	60
Interest income	4	5,931	5,935
Cash paid for operating and replacement fund expenses	(228,487)	(139,975)	(368,462)
Interfund balances	10,022	(10,022)	-
Net cash used in operating activities	(8,144)	(94,000)	(102,144)
Net Decrease in Cash	(8,144)	(94,000)	(102,144)
Cash at Beginning of Year	193,750	515,820	709,570
Cash at End of Year	\$ 185,606	\$ 421,820	\$ 607,426

(continued)

See accountants' compilation report and the accompanying notes to these financial statements.

Sunset Lakes Homeowners Association, Inc.
Statement of Cash Flows (continued)

For the year ended December 31,

2019

	Operating Fund	Replacement Fund	Total
Reconciliation of excess of revenues over expenses to net cash used in operating activities:			
Excess of revenues over expenses	\$ 30,226	\$ 5,931	\$ 36,157
Adjustments to reconcile excess of revenues over expenses to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Decrease in assessments receivable	933	-	933
Increase in prepaid insurance	(455)	-	(455)
Increase (decrease) in interfund balance	10,022	(10,022)	-
Increase in accounts payable	1,280	1,495	2,775
Decrease in performance obligations	-	(91,404)	(91,404)
Decrease in prepaid assessments	(50,150)	-	(50,150)
Net cash used in operating activities	\$ (8,144)	\$ (94,000)	\$ (102,144)

See accountants' compilation report and the accompanying notes to these financial statements.

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.

As of November 2019, management and accounting services are provided to the Association by Advanced Property 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 maintained in a separate component of the Replacement Fund.

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 each month. Assessments that are unpaid for over thirty (30) days after due date shall bear interest at the maximum rate permitted by law per annum until paid. The Board of Directors shall have the sole discretion to impose a late charge on payments more than ten (10) days late.

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, 2019, the allowance for doubtful accounts totaled \$28,077.

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.

Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the Balance Sheet for the year ended December 31, 2019. 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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Effective January 1, 2019, the Association adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This topic requires the recognition of 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, December 8, 2020. See Note 10 for relevant disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification. The Association elected to adopt the revenue recognition standard effective January 1, 2019 using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption. The cumulative adjustment recorded upon adoption of ASC 606 consisted of changes in the recognition of replacement fund assessments, and accordingly the accumulated funds for future major repairs and replacements are now largely classified as a performance obligation liability and not fund balance. As a result, the Association has restated its beginning fund balance as follows:

<i>December 31,</i>	2019
Beginning replacement fund balance, before restatement	\$ 515,820
Cumulative effect of change in accounting principle	(510,570)
Beginning replacement fund balance, as restated	\$ 5,250

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.

Sunset Lakes Homeowners Association, Inc.

Notes to the Financial Statements

NOTE 3: OWNERS' ASSESSMENTS (Continued)

For the year ended December 31, 2019, the Association's regular monthly assessment was \$55 per lot. Assessments, including replacement fund assessments, began upon the initial sale of the lot by the Developer. Regular assessments for the period totaled \$309,540, of which \$50,066 was allocated to the Replacement Fund.

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, 2019, the Association has reported a performance obligation liability totaling \$419,166, 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.

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.

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

NOTE 4: REVENUE RECOGNITION (Continued)

<i>For the year ended December 31,</i>	2019
<i>Recognized over time</i>	
Operating fund assessments	\$ 259,474
Miscellaneous revenue	60
<i>Recognized at a point in time</i>	
Replacement fund assessments	50,066
Released from performance obligations	91,404
<i>Not subject to ASC Topic 606</i>	
Interest income	5,935
Total revenue	\$ 406,939

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

<i>December 31,</i>	2019
Assessments receivable, net - beginning balance	\$ 24,860
Assessments receivable, net - ending balance	23,927
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	54,790
Prepaid assessments - ending balance	4,640
Performance obligation liabilities - beginning balance	510,570
Performance obligation liabilities - ending balance	419,166

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 2019.

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 \$50,066, based on a full funding plan, was included in the 2019 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 2019 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, 2019, the Association's net nonexempt function income was \$4,166, which resulted in federal income tax expense of \$1,220.

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, 2019, 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, 2019, 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 2016.

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, 2019, balances in one institution were over FDIC limits by \$134,973.

NOTE 8: CONCENTRATIONS

At December 31, 2019, two of the Association's vendors accounted for \$8,032 of the Association's outstanding accounts payable. These two vendors accounted for 72% of the accounts payable balance.

NOTE 9: WINDSTORM DEDUCTIBLE

The insurance policy for windstorm coverage was renewed on November 28, 2019. The deductible amount for named hurricane storms is estimated at \$2,238 which represents 2% of the value of insured property.

NOTE 10: SUBSEQUENT EVENT

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

For the year ended December 31,

2019

Component	Beginning		Revenues	Expenses	Ending
	Balance				Balance
Entrance signs	\$ 16,390	\$ 3,609	\$ (1,638)	\$ 18,361	
Road resurfacing	347,180	17,750	(131,333)	233,597	
Gazebo / Docks / Pier / Bridges	66,960	5,507	(1,495)	70,972	
Gates	38,560	3,643	(7,004)	35,199	
Playground equipment	9,320	1,478	-	10,798	
Tennis / basketball courts	9,140	721	-	9,861	
Deferred maintenance	6,270	7,288	-	13,558	
Capital improvement (capital assets)	16,750	10,070	-	26,820	
Interest	5,250	5,931	-	11,181	
Total	\$ 515,820	\$ 55,997	\$ (141,470)	\$ 430,347	

December 31,

2019

Performance obligation liability	\$ 419,166
Replacement fund balance	11,181
Total	\$ 430,347

See accountants' compilation report.

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

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

Component	Estimated Remaining Useful Life (Years)*	Estimated Replacement Cost	Accumulated Funds Balance at 12/31/19
Entrance signs	1	20,000	\$ 18,361
Road resurfacing	10	500,000	233,597
Gazebo / Docks / Pier / Bridges	6	100,000	70,972
Gates	10	75,000	35,199
Playground equipment	14	30,000	10,798
Tennis / basketball courts	22	25,000	9,861
Deferred maintenance	1	15,000	13,558
Capital improvement (capital assets)	6	100,000	26,820
Interest	N/A	N/A	11,181
Total		\$ 865,000	\$ 430,347

** Based on 2019 reserve plan adopted by the Board of Directors effective as of January 1, 2019*