

Sunset Lakes Homeowners Association, Inc.

Financial Statements and
Supplementary Information

December 31, 2025

Cole & Associates, LLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Sunset Lakes Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2025, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunset Lakes Homeowners Association, Inc. as of December 31, 2025, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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 relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sunset Lakes Homeowners Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism through the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sunset Lakes Homeowners Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sunset Lakes Homeowners Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Disclaimer of Opinion on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Comparison Statements of Operating Fund Revenues and Expenditures on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and 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.



Cole & Associates, CPA, LLC
Certified Public Accountants
April 21, 2026

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2025

	Operating Fund	Replacement Fund	Total
ASSETS:			
Cash & cash equivalents	\$ 306,716	\$ 359,912	\$ 666,628
Assessments receivable (Note 3)	27,886	-	27,886
Prepaid expenses	10,370	-	10,370
TOTAL ASSETS	<u>\$ 344,972</u>	<u>\$ 359,912</u>	<u>\$ 704,884</u>
LIABILITIES:			
Accounts payable and accrued expenses	\$ 13,378	\$ 2,450	\$ 15,828
Income tax payable	2,745	-	2,745
Prepaid assessments	169,225	-	169,225
Contract liabilities (Assessments received in advance - Replacement: Note 2)	-	357,462	357,462
TOTAL LIABILITIES	<u>185,348</u>	<u>359,912</u>	<u>545,260</u>
FUND BALANCE (Replacement: Note 2)	<u>159,624</u>	<u>-</u>	<u>159,624</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 344,972</u>	<u>\$ 359,912</u>	<u>\$ 704,884</u>

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUE:			
Assessment income	\$ 275,732	\$ 218,500	\$ 494,232
Contractual collections/liability adjustment	(11,883)	(6,957)	(18,840)
Interest income	5,136	10,084	15,220
Other income	46,295	-	46,295
TOTAL REVENUE	<u>\$ 315,280</u>	<u>\$ 221,627</u>	<u>\$ 536,907</u>
EXPENDITURES:			
Accounting & legal	\$ 34,244	\$ -	\$ 34,244
Contract grounds maintenance	101,780	-	101,780
Income tax expense	2,745	-	2,745
Insurance	9,898	-	9,898
Irrigation repairs	2,294	-	2,294
Licenses, permits, & taxes	61	-	61
Management fees	24,000	-	24,000
Office & other expenses	19,682	-	19,682
Other grounds maintenance	67,350	-	67,350
Payroll expense	11,813	-	11,813
Property taxes	2,986	-	2,986
Safety & security	1,750	-	1,750
Utilities	23,676	-	23,676
Reserves expenditures		221,627	221,627
TOTAL EXPENDITURES	<u>\$ 302,279</u>	<u>\$ 221,627</u>	<u>\$ 523,906</u>
REVENUE IN EXCESS OF EXPENDITURES	13,001	-	13,001
BEGINNING FUND BALANCE	<u>146,623</u>	<u>-</u>	<u>146,623</u>
ENDING FUND BALANCE	<u><u>\$ 159,624</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 159,624</u></u>

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2025

	Operating Fund	Replacement Fund
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CASH FLOWS FROM OPERATING ACTIVITIES:		
Assessment fees collected	\$ 255,773	\$ 218,779
Interest received	5,136	10,084
Other income	46,295	-
Cash paid for operating expenses	(312,784)	-
Replacement expenses paid	-	(219,456)
	<hr/>	<hr/>
Net cash provided (used) by operating activities:	(5,580)	9,407
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NET CHANGE IN CASH	(5,580)	9,407
CASH AND CASH EQUIVALENTS - Beginning of Year	312,296	350,505
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CASH AND CASH EQUIVALENTS - End of Year	\$ 306,716	\$ 359,912
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SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2025

	Operating Fund	Replacement Fund
RECONCILIATION OF NET REVENUES OVER EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenues over expenditures	\$ 13,001	\$ -
Adjustment to reconcile net revenues over expenditures to net cash provided by operating activities:		
Contractual collections adjustment	11,883	-
(Increase) decrease in:		
Assessments receivable	(37,186)	-
Prepaid expenses	(1,415)	-
Due from operating fund	-	279
Due to reserve fund	(279)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	2,508	2,171
Income tax payable	285	-
Prepaid assessments	5,623	-
Contract liabilities	-	6,957
Net cash provided (used) by operating activities:	(5,580)	9,407
NET CHANGE IN CASH	(5,580)	9,407
CASH AND CASH EQUIVALENTS - Beginning of Year	312,296	350,505
CASH AND CASH EQUIVALENTS - End of Year	\$ 306,716	\$ 359,912
SUPPLEMENTAL DISCLOSURES		
Income tax paid	\$ 2,869	

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sunset Lakes Homeowners Association, Inc. (the "Association") was incorporated in the State of Florida on April 9, 1990. 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, 2025

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 2025 are \$350,505 and \$357,462, respectively.

Real and Common Area Property

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership in accordance with Accounting Standards Codification 972.360.25 for Common Interest Realty Associations, which includes either assets the board may dispose of for cash without membership approval or assets that generate significant revenues. 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, 2025, the uninsured portion of cash balances is \$0.

The Association has not obtained insurance coverage for damages covered by windstorm. The Association would be liable for all related costs and has the right to increase regular assessments, levy a special assessment or delay repairs until adequate funds are available.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 but are generally less than a year in duration and/or are cancelable by either party.

Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 21, 2026.

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 under 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 Association fulfills its performance obligations through the contracting and arrangement of major repairs and replacements with third party vendors and generally has no direct obligation for warranties, returns or other related obligations.

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.

In September 2025, the Association had a reserve study performed to estimate 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.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025

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

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.

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

COMPONENT	BEGINNING BALANCE	FUNDING DURING YEAR	INTEREST & OTHER INCOME	CHARGES TO FUND	EQUITY BALANCE 12/31/2025	LIABILITY BALANCE 12/31/2025
Pooled	\$ 284,770	\$ 218,500	\$ 10,084	\$ 176,416	\$ -	\$ 336,938
Playground equipment	9,928	-	-	-	-	9,928
Gazebos / docks / piers / bridges	37,612	-	-	37,612	-	-
Entrance sign	18,195	-	-	7,599	-	10,596
TOTAL	\$ 350,505	\$ 218,500	\$ 10,084	\$ 221,627	\$ -	\$ 357,462
				Total Replacement fund		\$ 357,462

During 2025, the Association paid for various expenses through the pooled reserve including \$103,054 on road replacement, \$28,275 on sidewalk repairs, and \$28,200 on storm water drainage repairs.

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, 2025

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 \$20,100 on December 31, 2025. The balances of assessments receivable as of the beginning and the end of the year are \$10,807 and \$47,986, 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 2025, 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 \$2,745 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, 2025, 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, 2025

In September 2025, the Association had a reserve study performed to estimate the remaining useful lives and current replacement costs of common property components. Estimates were based upon professional judgment, 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 2025	2026 FUNDING REQUIRED
Pooled	-	\$ -	\$ 336,938	\$ 226,100
Roads	1 - 14	1,667,930	-	-
Playground equipment	10	60,000	9,928	-
Tennis / basketball court	2 - 22	125,720	-	-
Gazebos / docks / piers / bridges	5 - 28	316,000	-	-
Gates	7 - 15	109,300	-	-
Entrance sign	10 - 20	24,000	10,596	-
Reserve study	3	3,900	-	-
Ponds	3 - 30+	4,036,860	-	-
Stormwater drainage	1 - 30+	3,218,780	-	-
Sidewalks	3 - 30+	2,596,800	-	-
Fencing	8	24,000	-	-
Irrigation system	17	63,000	-	-
		<u>\$ 12,246,290</u>	<u>\$ 357,462</u>	<u>\$ 226,100</u>

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2025

	Actual	Budget	Variance
REVENUE:			
Assessment income	\$ 494,232	\$ 494,232	\$ -
Contractual collections adjustment	(11,883)	(1,200)	(10,683)
Interest income	5,136	-	5,136
Other income	46,295	-	46,295
TOTAL REVENUE	\$ 533,780	\$ 493,032	\$ 40,748
EXPENDITURES:			
Accounting & legal	34,244	15,700	18,544
Contracts grounds maintenance	101,780	98,340	3,440
Income tax expense	2,745	-	2,745
Insurance	9,898	9,771	127
Irrigation repairs	2,294	3,000	(706)
Licenses, permits, & taxes	61	86	(25)
Management fees	24,000	24,000	-
Office & other expenses	19,682	20,676	(994)
Other grounds maintenance	67,350	50,909	16,441
Payroll expense	11,813	24,900	(13,087)
Property taxes	2,986	1,100	1,886
Safety & security	1,750	1,800	(50)
Utilities	23,676	24,250	(574)
Reserve funding	218,500	218,500	-
TOTAL EXPENDITURES	520,779	493,032	27,747
REVENUE IN EXCESS OF EXPENDITURES	\$ 13,001	\$ -	\$ 13,001

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

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

FOR THE YEAR ENDED DECEMBER 31, 2025

	2025	2024	Variance
REVENUE:			
Assessment income	\$ 494,232	\$ 449,302	\$ 44,930
Contractual collections adjustment	(11,883)	(1,200)	(10,683)
Interest income	5,136	7,484	(2,348)
Other income	46,295	4,772	41,523
TOTAL REVENUE	\$ 533,780	\$ 460,358	\$ 73,422
EXPENDITURES:			
Accounting & legal	34,244	15,541	18,703
Contracts grounds maintenance	101,780	97,301	4,479
Income tax expense	2,745	2,460	285
Insurance	9,898	10,212	(314)
Irrigation repairs	2,294	1,254	1,040
Licenses, permits, & taxes	61	61	-
Management fees	24,000	22,800	1,200
Office & other expenses	19,682	19,513	169
Other grounds maintenance	67,350	53,897	13,453
Payroll expense	11,813	17,769	(5,956)
Property taxes	2,986	-	2,986
Safety & security	1,750	-	1,750
Utilities	23,676	23,107	569
Reserve funding	218,500	211,100	7,400
TOTAL EXPENDITURES	520,779	475,015	45,764
REVENUE IN EXCESS OF EXPENDITURES	\$ 13,001	\$ (14,657)	\$ 27,658