



Sunset Lakes Homeowners Association, Inc.

Financial Statements

December 31, 2015

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INDEPENDENT ACCOUNTANT'S REVIEW 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, 2015, and the related statements of revenues, 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 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.

Accountant's Conclusion on the Financial Statements

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 10 be presented to supplement the basic financial statements. Such information, 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 not audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

McDonough CPA Solutions, PA

Melbourne, Florida
December 13, 2016

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 56,854	\$ 298,090	\$ 354,944
Certificates of deposit	-	213,463	213,463
Assessments receivables, net	21,857	-	21,857
	<u>\$ 78,711</u>	<u>\$ 511,553</u>	<u>\$ 590,264</u>
Liabilities			
Accounts payable	1,538	-	1,538
Prepaid member assessments	5,396	-	5,396
	<u>6,934</u>	<u>-</u>	<u>6,934</u>
Fund balances	<u>71,777</u>	<u>511,553</u>	<u>583,330</u>
Total liabilities and fund balances	<u>\$ 78,711</u>	<u>\$ 511,553</u>	<u>\$ 590,264</u>

See accompanying notes and independent accountant's report.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 217,129	\$ 92,411	\$ 309,540
Late fees	10,666	-	10,666
Violation fees	6,700	-	6,700
Miscellaneous income	9,132	-	9,132
Interest income	106	1,225	1,331
	<u>243,733</u>	<u>93,636</u>	<u>337,369</u>
Expenses			
Administrative and management	23,891	-	23,891
Building and ground maintenance	138,949	97,362	236,311
Insurance	6,298	-	6,298
Bad debt expense	53,791	-	53,791
Professional services	(2,840)	-	(2,840)
Taxes	457	-	457
Utilities	19,640	-	19,640
	<u>240,186</u>	<u>97,362</u>	<u>337,548</u>
Excess (deficit) of revenues over expenses	3,547	(3,726)	(179)
Fund balances, beginning of the year	<u>68,230</u>	<u>515,279</u>	<u>583,509</u>
Fund balances, end of the year	<u>\$ 71,777</u>	<u>\$ 511,553</u>	<u>\$ 583,330</u>

See accompanying notes and independent accountant's report.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficit) of revenues over expenses	\$ 3,547	\$ (3,726)	\$ (179)
Changes in operating assets and liabilities:			
Assessments receivable	48,830	-	48,830
Accounts payable	(822)	(1,842)	(2,664)
Prepaid assessments	(38,486)	-	(38,486)
	<u>13,069</u>	<u>(5,568)</u>	<u>7,501</u>
Cash at beginning of year	<u>43,785</u>	<u>517,121</u>	<u>560,906</u>
Cash at end of year	<u><u>\$ 56,854</u></u>	<u><u>\$ 511,553</u></u>	<u><u>\$ 568,407</u></u>

See accompanying notes and independent accountant's report.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A—NATURE OF ORGANIZATION

Sunset Lakes Homeowners Association was incorporated on April 9, 1990, in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The Association consists of 469 residential units located in Merritt Island, Florida.

NOTE B—DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 15, 2016, the date that the financial statements were available to be issued.

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Accounting

The Association prepares its financial statements on the accrual basis and presents them as separate funds based on its different funding policies for operations and replacement expenditures.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund—This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund—This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent, as directed by the Board of Directors. The Association has established a reserve for uncollectable assessments from the owners in the amount of \$27,409 at December 31, 2015.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments (continued)

Assessments receivable are reported at the amount the Association expects to collect from the homeowners. The difference between the amount assessed and the amount expected to be collected is reported in the statement of revenues, expenses and changes in fund balance with an offsetting entry to a valuation allowance for assessments receivable. Balances that are still outstanding after the Association has used reasonable collection efforts are written off through a charge to the valuation allowance.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Real and Common Area Property

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Expenditures for maintenance and repairs are charged against operations as incurred.

Cash and Cash Equivalents

The Association considers cash and highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit are held for investment and mature between February and November 2016. The certificates bear interest ranging from 0.19% to 0.35% and are recorded at cost which approximates fair market value.

Concentration of Credit Risk

Financial instruments may potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of American, consist mostly of bank accounts, high quality short-term liquid money market instruments with major financial institutions, and certificate of deposits.

The Association maintains its cash and cash equivalents balance at several financial institutions. The Federal Deposit Insurance Corporation insures accounts up to \$250,000 at each of the financial institutions. At December 31, 2015, uninsured balances are approximately \$219,000. The Association has not incurred any losses related to these deposits.

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE D—INCOME TAXES

The Association files its income tax return as a homeowners' association, in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its investment income and other non-exempt function income. The Association did not incur income tax expense for the year ended December 31, 2015.

NOTE E—COMMITMENTS

The Association entered into an agreement with a management company on October 24, 2004. The agreement calls for an annual management fee of \$16,200 increased annually by 2% of the prior year fee. The total fee charged to the Association for the year ended December 31, 2015 amounted to \$17,820.

NOTE F—CONCENTRATION RISK

The Association has one major vendor, which is also the management company (see Note E), that accounted for approximately 21% and \$69,970 of the Associations' maintenance expenses for the year ended December 31, 2015. The Association expects to maintain the relationship with the vendor.

NOTE G—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$511,553 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, 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, subject to member approval, 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
DECEMBER 31, 2015

NOTE G—FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

Member’s equity designated for future major repairs and replacements has been allocated by the Board of Directors to the components of common property as follows:

<u>Components</u>	Fund Balance 01/01/2015	Additions	Charges	Fund Balance 12/31/2015
Roads	\$ 308,113	\$ 2,725	\$ 63	\$ 310,775
Capital assets	26,051	68,954	75,033	19,972
Deferred maintenance	17,218	11,598	11,718	17,098
Gates	36,149	2,221	38	38,332
Playground equipment	22,134	1,360	463	23,031
Tennis/Basketball Court	17,701	1,059	-	18,760
Gazebo/Dock/Pier/Bridges	62,975	3,630	10,047	56,558
Entrance Sign	13,088	864	-	13,952
Interest	11,850	1,225	-	13,075
	<u>\$ 503,429</u>	<u>\$ 92,411</u>	<u>\$ 97,362</u>	<u>\$ 498,478</u>

REQUIRED SUPPLEMENTAL INFORMATION

SUNSET LAKES HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF INFORMATION OF FUTURE MAJOR REPAIR AND REPLACEMENTS
DECEMBER 31, 2015

Replacement costs are based on the Association's assessment of the estimated costs to repair or replace common property components. The Association considers current replacement cost and remaining useful life to determine future replacement costs. The estimated useful lives and estimated current replacement costs are reviewed annually and adjustments are made as necessary.

The following table presents significant information concerning the replacement fund for the common areas:

<u>Components</u>	Estimated Useful Life	Remaining Life (Years) as of December 31, 2015	Estimated Replacement Cost	Fund Balances as of December 31, 2015
Interest	N/A	N/A	\$ -	\$ 13,075
Roads	40	33	400,000	310,775
Capital assets	3	1	95,005	19,972
Deferred maintenance	3	2	40,440	17,098
Gates	25	22	75,000	38,332
Playground equipment	15	11	41,000	23,031
Tennis/Basketball Court	25	20	40,000	18,760
Gazebo/Dock/Pier/Bridges	20	14	120,000	56,558
Entrance Sign	10	8	20,000	13,952
			<u>\$ 831,445</u>	<u>\$ 511,553</u>

See independent accountant's review report.