

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sunset Cove Homeowners' Association, Inc.
Plantation, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Sunset Cove Homeowners' Association, Inc., which comprise the balance sheet as of December 31, 2020, 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunset Cove Homeowners' Association, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information 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 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.

Lanter, Leonardo & DiCrescenzo, LLC

Lanter, Leonardo & DiCrescenzo, LLC
Certified Public Accountants
Boca Raton, Florida
October 6, 2021

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

Balance Sheet
December 31, 2020

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 159,317	\$ 583,228	\$ 742,545
Assessments receivable, net	6,373	-	6,373
Other receivable	18,285	-	18,285
Prepaid insurance	11,263	-	11,263
Prepaid expense	350	-	350
Total Assets	<u>\$ 195,588</u>	<u>\$ 583,228</u>	<u>\$ 778,816</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 93,034	\$ -	\$ 93,034
Prepaid assessments	35,398	-	35,398
Contract liabilities (assessments received in advance-replacement fund)	-	578,216	578,216
Total Liabilities	<u>128,432</u>	<u>578,216</u>	<u>706,648</u>
FUND BALANCES	<u>67,156</u>	<u>5,012</u>	<u>72,168</u>
Total Liabilities and Fund Balances	<u>\$ 195,588</u>	<u>\$ 583,228</u>	<u>\$ 778,816</u>

The accompanying notes are an integral part of these financial statements.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 648,272	\$ -	\$ 648,272
Insurance recovery	18,285	-	18,285
Late fees	231	-	231
Miscellaneous income	2,654	-	2,654
Interest	286	2,111	2,397
Total Revenues	<u>669,728</u>	<u>2,111</u>	<u>671,839</u>
EXPENSES			
Administrative	17,042	-	17,042
Master association fees	60,994	-	60,994
Insurance	12,212	-	12,212
Contracts	391,913	-	391,913
Repairs and maintenance	208,602	-	208,602
Utilities	21,185	-	21,185
Total Expenses	<u>711,948</u>	<u>-</u>	<u>711,948</u>
Excess (Deficiency) of Revenues over Expenses	(42,220)	2,111	(40,109)
Fund Balances - Beginning of Year	<u>109,376</u>	<u>2,901</u>	<u>112,277</u>
Fund Balances- End of Year	<u>\$ 67,156</u>	<u>\$ 5,012</u>	<u>\$ 72,168</u>

The accompanying notes are an integral part of these financial statements.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (Deficiency) of Revenues over Expenses	\$ (42,220)	\$ 2,111	\$ (40,109)
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash			
Provided by Operating Activities:			
(Increase) decrease in assets:			
Assessments receivable	27,957	-	27,957
Prepaid insurance	(582)	-	(582)
Other receivable	(18,285)	-	(18,285)
Increase in liabilities:			
Accounts payable	49,065	-	49,065
Prepaid assessments	3,670	-	3,670
Contract liabilities (Assessments received in advance-replacement fund)	-	100,000	100,000
Net Cash Provided by Operating Activities	19,605	102,111	121,716
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to/from funds	(33,333)	33,333	-
Net Cash Provided by (Used in) Financing Activities	(33,333)	33,333	-
Net Increase (Decrease) in Cash	(13,728)	135,444	121,716
Cash - Beginning of Year	173,045	447,784	620,829
Cash - End of Year	\$ 159,317	\$ 583,228	\$ 742,545

The accompanying notes are an integral part of these financial statements.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Sunset Cove Homeowners' Association, Inc. (the "Association"), located in Plantation, Florida, is a residential homeowners association incorporated in March 1989 in the State of Florida under Statute 720 as a not-for-profit corporation for the purpose of maintaining and preserving the common property owned by the individual homeowners and consists of 219 residential units.

2. Basis of Presentation

The Association uses the accrual method of accounting, i.e. revenues are recognized as earned and expenses are deducted in the period in which they are incurred.

3. Fund Accounting

The Association uses fund accounting, which requires that funds such as the operating fund and replacement fund be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and Property Manager as guided by both the corresponding budgets. Disbursements from the replacement fund may be made only for their designated purposes.

4. Use of Estimates

The Association uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

5. Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the Association considers demand deposits with banks, certificates of deposit, money market funds and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

6. Capitalization and Depreciation Policy

Real property not directly associated with units is recognized as assets by the Association when the Association has title to the property and either the asset can be disposed of by the Board of Directors or generates significant cash flows from members on the basis of usage or from nonmembers. Common personal property purchased with Association funds, with a useful life of more than one year, is capitalized on the Association's financial statements. Capitalized assets are depreciated over their estimated useful lives using the straight-line method of depreciation.

7. Prepaid Assessments

Assessments received in advance for the subsequent year are recognized as prepaid assessments on the accompanying balance sheet.

8. Fair value Market Measurement

The Association has determined that there was no material difference between the carrying value and the fair value of its financial assets and liabilities at December 31, 2020 and therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2020.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Interest Income

The Association's policy is to allocate to the operating and replacement funds all interest earned on their respective cash accounts.

10. Subsequent Events

The subsequent events have been evaluated through October 6, 2021, the date the financial statements were made available to be issued. As of that date, there are no subsequent events to be reported.

11. Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. 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 is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments and special assessments are satisfied when these funds are expended for their designated purposes. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. As of December 31, 2020, the allowance for doubtful accounts was \$2,825. The Association provides for doubtful accounts based on experience and analysis of individual accounts. Any excess assessments at year end are retained by the Association for use in the succeeding year.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable, net, as of the beginning and end of the year are \$34,330 and \$6,373, respectively.

12. Contract Liabilities (Assessments Received in Advance - Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance - replacement fund) as of the beginning and end of the year are \$478,216 and \$578,216, respectively.

NOTE B - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida statutes do not require that funds be accumulated for future major repairs and replacements and the Association has not established statutory reserves from the developer or through a vote of the membership. However, the Board of Directors adopted a budget to fund several replacement fund components in the annual budget as deemed necessary. The Board of Directors approved \$100,000 in funding for the Replacement Fund in the 2020 budget.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

NOTE B - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

Accumulated funds, which aggregate to \$583,228, are presented on the accompanying December 31, 2020 balance sheet as contract liabilities and replacement fund balance. These "Assessments Received in Advance - Replacement Fund" and replacement fund balance are held in separate accounts and are generally not available for operating purposes.

In 2020, the Association had an independent study conducted to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on future major repairs and replacements is based on that study. The funds are being accumulated based on estimates of future needs for repairs and replacements of common property components.

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

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 OUR GOVERNING DOCUMENTS. BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), 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 activity was as following:

	Balance 1/1/2020	Additions (Including Interest)	Expenses	Balance 12/31/2020
Contingency	\$ 478,216	\$ 100,000	\$ -	\$ 578,216
Interest	2,901	2,111	-	5,012
Totals	\$ 481,117	\$ 102,111	\$ -	\$ 583,228

NOTE C - INSURANCE PROCEEDS

The Association filed an insurance claim of \$18,285 for damages of common property, which is reflected as other receivable and insurance recovery on the accompanying financial statements.

NOTE D - INCOME TAXES

In 2020, the Association elected to file as a homeowners' association in accordance with Internal Revenue Service Code section 528. Under this section, the Association excludes from taxation exempt function income, which generally consists of revenue from assessments to owners. The Association's investment income and other nonexempt income are subject to tax at a rate of 30%, net of any applicable expenses.

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2020

NOTE D - INCOME TAXES (Continued)

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, 2020, 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 is subject to routine audits by taxing jurisdictions; however, there are currently 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.

NOTE E - CONCENTRATION OF CREDIT RISK

The Association's cash and cash equivalent bank balances are subject to the \$250,000 per bank insurance limit established by the Federal Deposit Insurance Corporation (FDIC). The Association has not experienced any losses related to these balances and believes it is not exposed to any significant risk on these accounts. As of December 31, 2020, the Association had cash balances exceeding the FDIC limit of \$491,144.

NOTE F - COMMITMENTS

The Association has various contract services to maintain the common property including management services, lawn and irrigation services, security, pool service, janitorial service, pest control and master association fees as a result of mandatory membership. These contracts have different expiration dates and renewal terms.

NOTE G - CONTINGENCIES

Insurance Deductible

The current property insurance policy contains a deductible for hurricane damage. Should the Association incur an uninsured loss, the Association has the right to increase maintenance fees, pass a special assessment or delay repairs until funds are available.

Litigation Matters

The Association is from time-to-time subject to claims and complaints, including litigation, arising in the ordinary course of business. Management believes that the claims and complaints not reflected in this report of which it is currently aware will not materially affect its business, financial position, or future operating results.

NOTE H - COVID-19

The spread of a novel strain of Coronavirus (COVID-19) in the first months of 2020 has caused a substantial impact on the U.S. economy. There is significant uncertainty around the effects and duration of business interruption related to COVID-19. The extent of the impact on the Association's operations, management, employees, vendors, and owners, will depend on certain developments, which cannot be determined at this time.

SUPPLEMENTARY INFORMATION

SUNSET COVE HOMEOWNERS' ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2020
 (Unaudited)

In 2020, the Association had an independent study conducted to estimate the remaining useful lives and the replacement costs of the components of common property. Actual results may vary from these estimates, and such variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

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

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	Contract Liabilities and Replacement Fund Balances 12/31/2020	2021 Funding
Property site elements	1-30	\$ 2,882,314	\$ -	\$ -
Pool House Elements	3-21	210,393	-	-
Pool Elements	1-19	261,469	-	-
Pooled		-	578,216	\$ 66,000
Interest		-	5,012	-
Totals	\$ -	\$ 3,354,176	\$ 583,228	\$ 66,000