

2021

Sandpointe Townhouses Owners Association, Inc.

Financial Statements, Supplementary
Information and Independent Auditor's
Report

As of and for the Six Months Ended June 30, 2021

PURVIS GRAY

CERTIFIED PUBLIC ACCOUNTANTS

SANDPOINTE TOWNHOUSES OWNERS
ASSOCIATION, INC.

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sandpointe Townhouses Owners Association, Inc.

We have audited the accompanying financial statements of Sandpointe Townhouses Owners Association, Inc. (the Association), which comprise the balance sheet as of June 30, 2021, and the related statements of revenues, expenses and changes in fund balances and cash flows for the six months 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.

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Board of Directors
Sandpointe Townhouses Owners Association, Inc.

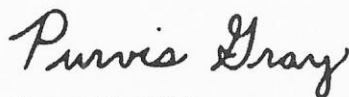
INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2021, and the results of its operations and its cash flows for the six months then ended in accordance 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 future major repairs and replacements, on page 12, 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.



August 19, 2021
Winter Park, Florida

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
BALANCE SHEET
JUNE 30, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Termite Fund</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents	\$ 58,106	\$ 3,540,718	\$ 96,228	\$ 3,695,052
Assessments Receivable (Note 1)	1,179	-	-	1,179
Due from Replacement Fund	28,935	-	-	28,935
Due from Operating Fund	-	-	3,773	3,773
Prepaid Expenses and Other Assets	7,024	-	-	7,024
Total Assets	<u>\$ 95,244</u>	<u>\$ 3,540,718</u>	<u>\$ 100,001</u>	<u>\$ 3,735,963</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and Accrued Expenses	\$ 9,225	\$ 701,604	\$ -	\$ 710,829
Assessments Received in Advance	63,939	-	-	63,939
Note Payable, Net (Note 3)	-	3,411,773	-	3,411,773
Contract Liabilities (Notes 1 and 2)	-	2,826,283	100,001	2,926,284
Due to Operating Fund	-	28,935	-	28,935
Due to Termite Fund	3,773	-	-	3,773
Total Liabilities	<u>76,937</u>	<u>6,968,595</u>	<u>100,001</u>	<u>7,145,533</u>
Commitments and Contingencies (Notes 2, 5 and 6)				
Fund Balances	<u>18,307</u>	<u>(3,427,877)</u>	<u>-</u>	<u>(3,409,570)</u>
Total Liabilities and Fund Balances	<u>\$ 95,244</u>	<u>\$ 3,540,718</u>	<u>\$ 100,001</u>	<u>\$ 3,735,963</u>

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE SIX MONTHS ENDED JUNE 30, 2021

	Operating Fund	Replacement Fund	Termite Fund	Total
Revenues				
Maintenance Fee Assessments (Note 1)	\$ 411,024	\$ 1,786,462	\$ -	\$ 2,197,486
Interest Income	4	420	5	429
Late Charges	500	-	-	500
Other Income	6,592	-	-	6,592
Total Revenues	<u>418,120</u>	<u>1,786,882</u>	<u>5</u>	<u>2,205,007</u>
Expenses				
Grounds	127,283	-	-	127,283
Maintenance and Replacement	64,552	5,158,509	6,074	5,229,135
Utilities	19,305	-	-	19,305
General and Administrative (Note 4)	123,661	-	-	123,661
Interest (Notes 1 and 3)	-	56,250	-	56,250
Total Expenses	<u>334,801</u>	<u>5,214,759</u>	<u>6,074</u>	<u>5,555,634</u>
Excess (Deficiency) of Revenues Over Expenses	83,319	(3,427,877)	(6,069)	(3,350,627)
Fund Balances, Beginning of Period	(58,943)	-	-	(58,943)
Transfer from Operating Fund (Note 1)	<u>(6,069)</u>	<u>-</u>	<u>6,069</u>	<u>-</u>
Fund Balances, End of Period	<u>\$ 18,307</u>	<u>\$ (3,427,877)</u>	<u>\$ -</u>	<u>\$ (3,409,570)</u>

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021

	Operating Fund	Replacement Fund	Termite Fund	Total
Cash Flows from Operating Activities				
Excess (Deficiency) of Revenues Over Expenses	\$ 83,319	\$ (3,427,877)	\$ (6,069)	\$ (3,350,627)
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by (Used for) Operating Activities:				
Transfer from Operating Fund	(6,069)	-	6,069	-
Amortization of Debt Issuance Costs	-	555	-	555
Cash Provided by (Used for):				
Assessments Receivable	5,256	-	-	5,256
Prepaid Expenses and Other Assets	5,009	184,798	-	189,807
Accounts Payable and Accrued Expenses	(2,494)	643,002	-	640,508
Assessments Received in Advance	13,174	-	-	13,174
Contract Liabilities	-	(1,528,462)	-	(1,528,462)
Net Cash Provided by (Used for) Operating Activities	<u>98,195</u>	<u>(4,127,984)</u>	<u>-</u>	<u>(4,029,789)</u>
Cash Flows from Financing Activities				
Interfund Borrowings, Net	(104,581)	108,354	(3,773)	-
Proceeds from Note Payable, Net of Debt Issuance Costs	-	3,483,341	-	3,483,341
Payments on Note Payable	-	(72,123)	-	(72,123)
Net Cash Provided by (Used for) Financing Activities	<u>(104,581)</u>	<u>3,519,572</u>	<u>(3,773)</u>	<u>3,411,218</u>
Net Decrease in Cash and Cash Equivalents	(6,386)	(608,412)	(3,773)	(618,571)
Cash and Cash Equivalents, Beginning of Period	<u>64,492</u>	<u>4,149,130</u>	<u>100,001</u>	<u>4,313,623</u>
Cash and Cash Equivalents, End of Period	<u>\$ 58,106</u>	<u>\$ 3,540,718</u>	<u>\$ 96,228</u>	<u>\$ 3,695,052</u>
<u>Supplemental Cash Flow Information</u>				
Cash Paid for Income Taxes	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,000</u>
Cash Paid for Interest	<u>\$ -</u>	<u>\$ 55,695</u>	<u>\$ -</u>	<u>\$ 55,695</u>

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sandpointe Townhouses Owners Association, Inc. (the Association) was incorporated in the State of Florida in March 1984, as a not-for-profit corporation for the purpose of operating and maintaining the common properties of Sandpointe Townhouses (the Community), a townhouse community located in southwest Orange County, Florida. The development consists of 368 townhouse units.

Fund Accounting

To ensure and facilitate the fiduciary responsibility required of the Association regarding restrictions placed on the use of resources available to it, the accounts are maintained in accordance with the principles of fund accounting. The purposes of the various funds and the restrictions on the use of their assets are as follows:

Operating Fund—All revenues not allocable to the replacement fund or termite fund are recorded in this fund and are available for normal operating expenditures.

Replacement Fund—This fund represents funds collected by the Association from the members to fund future replacement, major repairs, and purchases of additional commonly owned assets. Expenditures from this fund are restricted to those items for which assessments were paid.

Termite Fund—In June 2010, upon approval by the Board of Directors, the Association terminated its existing termite bond insurance and began accumulating funds in a separate interest bearing cash account for the purpose of funding future repairs for termite damage on common and privately owned assets. Policies regarding the accumulation of funds and types of expenditures for which the funds are to be used are established by the Board of Directors. During the six months ended June 30, 2021, the Association transferred \$2,296 from the operating fund to the termite fund in order to partially reimburse the termite fund for expenditures incurred. At June 30, 2021, an additional \$3,773 is due from the operating fund in order to fully fund the termite fund at its \$100,000 maximum. Additional future years' funding requirements will be determined at the Board of Director's discretion.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of reporting cash flows, the Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include checking accounts, certificates of deposit and money market funds which are maintained at federally insured financial institutions. Such accounts may at times exceed federally insured limits. The Association places its funds with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Member Assessments and Assessments Receivable

The Association derives revenue principally through owner assessments. Annual assessments are billed to owners monthly. Annual assessments are approved by the Association based upon budgeted expenditures and, pursuant to the by-laws of the Association, assessments are allocated to the unit owners in proportions or percentages provided in the Declaration of Covenants. In the event that assessments exceed the related expenditures in any one year, the excess may be deferred and used to

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

reduce assessments in the subsequent year or refunded to owners. The annual budget and member assessments are determined by the Board of Directors and approved at the annual meeting. For 2021, the monthly assessment per unit was \$186 for operations. The monthly assessments per unit for replacement reserves was \$117, which includes \$43 for repayment of the Association's note payable that was executed in order to partially fund roofing renovations.

The Declaration of Covenants also provides that in addition to the annual assessments, the Association may levy, in any assessment year, a special assessment applicable to that year only for the purpose of defraying, in whole or in part, the cost of the construction, reconstruction, repair or replacement of a capital improvement upon the common area, including fixtures and personal property related thereto, provided that any such assessment shall have the assent of two-thirds of the votes of its members.

Assessments 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, which are comprised of the management of the Community, are satisfied over time on a daily pro-rata basis using the input method. The Association's performance obligations related to its replacement fund assessments, which are comprised of providing for future major repairs and replacements, are satisfied when these funds are expended for their designated purpose. The Association's performance obligations related to its termite fund assessments, which are comprised of providing for future repairs for termite damage on common and privately owned assets, are satisfied when these funds are expended for their designated purpose.

Assessments receivable are stated at the amounts expected to be collected from outstanding assessments. The Association treats uncollectible assessments as variable consideration. The determination of uncollectible assessments is based upon specific identification of uncollectible accounts and the Association's historical collection experience. 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. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to assessments receivable.

The Association has the right to retain legal counsel and place liens on the units of members whose assessments are past due. Based on management's evaluation of assessments receivable, no allowance for doubtful accounts was considered necessary at June 30, 2021. Assessments receivable as of the beginning and end of the six months ended June 30, 2021, were \$6,435 and \$1,179, respectively.

Property, Equipment, and Depreciation

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. However, the obligation to maintain, manage, repair, and replace these assets is the responsibility of the Association throughout their useful lives.

Assessments Received in Advance

Assessments received in advance are maintenance fees that relate to the period after June 30, 2021, and were received by the Association prior to July 1, 2021.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the term of the related debt which approximates the effective interest method. Total debt issuance costs are \$16,659 with accumulated amortization of \$555 at June 30, 2021. Amortization of debt issuance costs is included in interest expense in the accompanying statement of revenues, expenses and changes in fund balance and totaled \$555 for the six months ended June 30, 2021. Upon the extinguishment of the related debt, any unamortized debt issuance costs are immediately expensed and included in current earnings. Debt issuance costs are presented net against the related note payable on the accompanying balance sheet.

Contract Liabilities

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 replacement reserve and termite fund assessments. The balance of contract liabilities as of the beginning and end of the six months ended June 30, 2021, are \$4,454,746 and \$2,926,284, respectively.

Taxes on Income

The Association is subject to federal and state income taxes. In determining the amount of income tax liability, the Association must annually decide between two methods of taxation. Under the first method (Form 1120), the excess of revenues from members over related expenses is subject to taxation unless the excess of revenues over expenses is either refunded to members, applied against future assessments or transferred to the replacement fund. Under the second method (Form 1120H), taxation is based on non-exempt function income, which generally consists of income from sources other than member assessments. Under either method, the Association may be subject to taxation on investments and other non-exempt income, but at different tax rates.

As of June 30, 2021, the Association expects to file Form 1120H for the year ended December 31, 2021. The Association also files a Florida corporate income/franchise and emergency excise tax return. The Association's federal and state income tax returns remain subject to examination by the Internal Revenue Service for three years from the date of filing.

The Association identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Association has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Association would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Fair Value of Financial Instruments

The Association accounts for financial instruments in accordance with Financial Accounting Standards Board *Accounting Standards Codification* (ASC) Topic 820 – *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

market for the asset or liability in an orderly transaction between market participants on the measurement date. The Association applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, assessments receivable, accounts payable and accrued expenses.

The fair value of the Association's note payable is estimated based on current rates that would be available for debt of similar terms, which is not significantly different from its stated value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events

The Association has evaluated events and transactions occurring subsequent to June 30, 2021, as of August 19, 2021, which is the date the financial statements were available to be issued. Subsequent events occurring after August 19, 2021, have not been evaluated by management. No material events have occurred since June 30, 2021, that require recognition or disclosure in the financial statements.

Note 2 - Replacement Fund

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements. Accumulated funds from maintenance fees assessed for replacement reserves, net of amounts due to the operating fund, are presented on the accompanying balance sheet as contract liabilities at June 30, 2021, and are held in separate interest-bearing cash, money market accounts, and certificates of deposits, and are not available to expend for normal operations.

The Board of Directors has reviewed the major components of common property and, as a part of this review, evaluated the estimated useful lives and the estimated current replacement costs of the pooled components of the replacement fund. Where applicable, licensed contractors were consulted regarding useful lives and current replacement costs.

The Board of Directors intends to fund for major repairs and replacements over the estimated useful lives of the pooled components based on estimates of current replacement costs. 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, subject to membership approval, to increase regular assessments, to pass special assessments or delay major repairs and replacements until funds are available.

The activity of the individual replacement account categories included in contract liabilities is as follows:

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2021	Additions	Interest Income	Expenditures	Balance June 30, 2021
Roofing	\$ -	\$ -	\$ -	\$ (1,783,607)	\$ -
Paving	-	-	-	-	-
Exterior Painting	-	-	-	-	-
Exterior Wall, Fencing, and Security Gate	-	-	-	-	-
Clubhouse/Pool	-	-	-	-	-
Tennis Court	-	-	-	-	-
Signage	-	-	-	-	-
Maintenance and Irrigation Equipment	-	-	-	(3,275)	-
General	-	-	-	-	-
Total Pooled Elements	<u>\$ 4,354,745</u>	<u>\$ 258,000</u>	<u>\$ 420</u>	<u>\$ (1,786,882)</u>	<u>\$ 2,826,283</u>

Note 3 - Note Payable

On January 18, 2021, the Association entered into a loan and security agreement with a bank for \$3,500,000 to finance roof renovations in the Community. The loan bears interest at 3.75% per annum and is payable in monthly principal and interest installments equal to \$25,564 beginning February 22, 2021 through December 22, 2035. Any remaining principal and interest is due on January 22, 2036. The loan is collateralized by all of the Association's rights, title and interest in and to all past, present and future assessments and special assessments that are not related to funding reserves. At June 30, 2021, \$3,427,877 is outstanding on this note, and unamortized debt issuance costs totaled \$16,104.

Aggregate maturities of the Association's note payable are summarized as follows:

	<u>Amount</u>
For the 6 months ended December 31, 2021	\$ 88,361
For the 12 months ended December 31, 2022	182,964
For the 12 months ended December 31, 2023	190,043
For the 12 months ended December 31, 2024	197,082
For the 12 months ended December 31, 2025	205,021
For the 12 months ended December 31, 2026	212,954
Thereafter	<u>2,351,452</u>
Total	<u>\$ 3,427,877</u>

Note 4 - Employee Benefit Plan

The Association sponsors a defined contribution employee benefit plan (the Plan) under Section 401(k) of the Internal Revenue Code for employees meeting certain age requirements. The Plan allows eligible employees to contribute up to 90% of their eligible compensation up to statutory limits and allows for an employer matching contribution of 100% of elective deferrals up to a maximum of 3% of eligible compensation. For the six months ended June 30, 2021, the Association contributed \$2,766 to the Plan, which is included in general and administrative expenses in the accompanying statement of revenues, expenses and changes in fund balances.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 5 - Contingencies – Legal

In the normal course of conducting its business, the Association may be involved in litigation. The Association is not a party to any litigation which management believes could result in any judgments that would have a material adverse effect on its financial position, liquidity, or results of future operations.

Note 6 - Commitments – Roofing Contract

On November 2, 2020, the Association entered into a construction contract for roofing renovations in the Community, with a contract sum of \$6,077,242, exclusive of any approved change orders. Under the terms of the contract, the Association may terminate the contract for cause, as defined, or for convenience at any time. If terminated without cause, the Association must pay the contractor a termination fee of 3% of the contract sum.

As of June 30, 2021, approximately \$4,889,000 has been incurred under the contract.

SUPPLEMENTARY INFORMATION

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)

The Association's Board of Directors internally conducted a study during 2021 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs are based on the estimated costs to repair or replace common property components at the date of the study. Estimated current replacement costs do not take into account the effects of interest earned or inflation between the date of the study and the date that the components will require repair or replacement. Effective January 1, 2014, the Association's members voted to pool the components of the replacement fund.

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

	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	Replacement Fund Contract Liabilities at June 30, 2021	2021 Funding Budget
Roofing				
Paving				
Exterior Painting				
Exterior Wall, Fencing and Security Gate				
Clubhouse/Pool				
Tennis Court				
Signage				
Maintenance and Irrigation Equipment				
General				
Total Pooled Elements	.5 - 39.5 Years	\$ 8,369,479	\$ 2,826,283	\$ 516,000

The calculated 2021 funding requirement of \$516,000 was adopted in the Association's 2021 budget, and includes \$324,000 for repayment of the note payable discussed in Note 3.