Sandpointe Townhouses Owners Association, Inc.

Financial Statements and Supplementary Information
Year Ended December 31, 2017

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Sandpointe Townhouses Owners Association, Inc.

Financial Statements and Supplemental Information

Year Ended December 31, 2017

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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 December 31, 2017, 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 Sandpointe Townhouses Owners Association, Inc. as of December 31, 2017, 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.

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 16, 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.

BDO USA, LLP
Certified Public Accountants
DATE

Financial Statements

Sandpointe Townhouses Owners Association, Inc.

Balance Sheet

December 31, 2017	*Operating Fund*	*Replacement Fund*	*Termite Fund*	*Total*
Assets				
Cash and cash equivalents	**$ 51,719**	**$ 1,242,487**	**$ 100,033**	**$ 1,394,239**
Investments (Note 2)	**—**	**2,112,687**	**—**	**2,112,687**
Assessments receivable, net of allowance for doubtful accounts of $5,652 (Note 3)	**2,024**	**—**	**—**	**2,024**
Due from operating fund	**—**	**3,980**	**—**	**3,980**
Prepaid expenses and other assets	**8,253**	**9,792**	**—**	**18,045**
Property and equipment, net (Note 4)	**12,476**	**—**	**—**	**12,476**
	$ 74,472	**$ 3,368,946**	**$ 100,033**	**$ 3,543,451**
Liabilities and Fund Balances				
Accounts payable and accrued expenses	**$ 16,147**	**$ —**	**$ —**	**$ 16,147**
Assessments received in advance	**41,559**	**—**	**—**	**41,559**
Due to replacement fund	**3,980**	**—**	**—**	**3,980**
Total liabilities	**61,686**	**—**	**—**	**61,686**
Commitments and contingencies (Notes 5 and 7)				
Fund balances (Note 5)	**12,786**	**3,368,946**	**100,033**	**3,481,765**
	$ 74,472	**$ 3,368,946**	**$ 100,033**	**$ 3,543,451**

See accompanying notes to financial statements.

Sandpointe Townhouses Owners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances

Year Ended December 31, 2017	*Operating Fund*	*Replacement Fund*	*Termite Fund*	*Total*
Revenues:				
Member assessments (Note 3)	**$ 791,783**	**$ 480,000**	**$ —**	**$ 1,271,783**
Interest income	**41**	**16,535**	**88**	**16,664**
Late charges	**1,230**	**—**	**—**	**1,230**
Other income	**15,502**	**—**	**—**	**15,502**
Insurance proceeds (Note 6)	**—**	**13,443**	**—**	**13,443**
Total revenues	**808,556**	**509,978**	**88**	**1,318,622**
Expenses:				
Grounds	**291,500**	**—**	**—**	**291,500**
Maintenance and replacement	**304,008**	**597,235**	**3,250**	**904,493**
Utilities	**29,989**	**—**	**—**	**29,989**
General and administrative	**212,666**	**—**	**—**	**212,666**
Provision for bad debts	**(14,828)**	**—**	**—**	**(14,828)**
Depreciation	**10,032**	**—**	**—**	**10,032**
Total expenses	**833,367**	**597,235**	**3,250**	**1,433,852**
Deficiency of revenues over expenses	**(24,811)**	**(87,257)**	**(3,162)**	**(115,230)**
Fund balances, beginning of year	**47,999**	**3,456,203**	**92,793**	**3,596,995**
Transfer from operating fund (Note 5)	**(10,402)**	**—**	**10,402**	**—**
Fund balances, end of year	**$ 12,786**	**$ 3,368,946**	**$ 100,033**	**$ 3,481,765**

See accompanying notes to financial statements.

Sandpointe Townhouses Owners Association, Inc.

Statement of Cash Flows

Year Ended December 31, 2017	*Operating Fund*	*Replacement Fund*	*Termite Fund*	*Total*
Cash flows from operating activities:				
Deficiency of revenues over expenses	**$ (24,811)**	**$ (87,257)**	**$ (3,162)**	**$ (115,230)**
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by (used for) operating activities:				
Transfer from operating fund	**(10,402)**	**—**	**10,402**	**—**
Depreciation	**10,032**	**—**	**—**	**10,032**
Provision for bad debts	**(14,828)**	**—**	**—**	**(14,828)**
Cash provided by (used for):				
Assessments receivable	**16,741**	**—**	**—**	**16,741**
Prepaid expenses and other assets	**12,649**	**(6,895)**	**—**	**5,754**
Accounts payable and accrued expenses	**8,498**	**—**	**—**	**8,498**
Assessments received in advance	**6,128**	**—**	**—**	**6,128**
Net cash provided by (used for) operating activities	**4,007**	**(94,152)**	**7,240**	**(82,905)**
Cash flows from investing activities:				
Purchases of investments	**—**	**(5,929)**	**—**	**(5,929)**
Cash flows from financing activities:				
Interfund borrowings, net	**(49,972)**	**49,972**	**—**	**—**
Net increase (decrease) in cash and cash equivalents	**(45,965)**	**(50,109)**	**7,240**	**(88,834)**
Cash and cash equivalents, beginning of year	**97,684**	**1,292,596**	**92,793**	**1,483,073**
Cash and cash equivalents, end of year	**$ 51,719**	**$ 1,242,487**	**$ 100,033**	**$ 1,394,239**

See accompanying notes to financial statements.

1. 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 2017, the Board of Directors approved the transfer of $10,402 from the operating fund to the termite 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's discretion.

Member Assessments and Revenue Recognition

The Association derives revenue principally through owner assessments. Annual assessments are billed to owners monthly and are recorded as receivables when billed. 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 reduce assessments in the subsequent year or refunded to owners.

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.

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 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.

Investments

Investments consist of certificates of deposit which are carried at amortized cost. The Association intends to hold these securities to maturity.

Assessments Receivable

Assessments receivable represent fees due from townhouse unit owners and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. 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, an allowance for doubtful accounts of $5,652 was recorded at December 31, 2017.

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. The Association capitalizes personal property at cost and depreciates it over the estimated useful lives of the assets, which range from three to seven years, using the straight-line method.

Assessments Received in Advance

Assessments received in advance are 2018 maintenance fees received by the Association prior to January 1, 2018.

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 investment and other non-exempt income, but at different tax rates.

For the year ended December 31, 2017, the Association elected to file Form 1120. 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. 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.

The Association did not have any unrecognized tax benefits as of December 31, 2017, and does not expect this to change significantly over the next 12 months. As of December 31, 2017, the Association has not accrued any interest or penalties related to uncertain tax positions.

Fair Value of Financial Instruments

The Association reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to adjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities.

Level 2 – Valuation based on quoted market prices for similar assets and liabilities in active markets.

Level 3 – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management's best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2017. 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. Investments are valued based on the methodology as further described in the investment policy above.

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.

Recent Accounting Pronouncement Not Yet Adopted

Revenue

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The new standard allows for early adoption for annual periods beginning after December 15, 2016. The Association is currently evaluating the impact of its pending adoption of ASU 2014-09 on its financial statements and has not yet determined the method by which it will adopt the standard.

Subsequent Events

The Association has evaluated events and transactions occurring subsequent to December 31, 2017 as of DATE, which is the date the financial statements were available to be issued. Subsequent events occurring after DATE have not been evaluated by management. No material events have occurred since December 31, 2017, that require recognition or disclosure in the financial statements.

2. Investments

The Association invests cash balances in certificates of deposit held at various banks, which are insured by the FDIC up to $250,000 and may from time to time exceed insured limits. These investments are maintained to provide funds for future repairs and replacements of common property.

Replacement fund investments, set forth by level within the fair value hierarchy, held to maturity as of December 31, 2017, are as follows:

	Maturity Date	*Level 1*	*Fair Market Value*	*Unrealized Gain (Loss)*	*Amortized Cost of Investment*
Certificates of deposit	04/2018 - 07/2018	**$ 2,112,687**	**$ 2,112,687**	**$ —**	**$ 2,112,687**

3. Member Assessments

Association members are subject to annual assessments to provide funds for operating expenses and future major repairs and replacements. The annual budget and member assessments are determined by the Board of Directors and approved at the annual meeting. For 2017, the monthly assessment per unit was $179 for operations and $109 for replacement reserves.

4. Property and Equipment

Property and equipment consists of the following:

December 31, 2017	
Furniture and equipment	**$ 56,616**
Less: accumulated depreciation	**(44,140)**
Property and equipment, net	**$ 12,476**

5. Replacement Fund

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements. Accumulated funds 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 within the replacement fund is as follows:

	Balance, January 1, 2017	*Member Assessments*	*Interest Income*	*Insurance Proceeds*	*Expenses*	*Balance, December 31, 2017*
Roofing					$ (264,813)	
Paving					(246,120)	
Exterior painting					(38,679)	
Exterior wall, fencing and security gate					(6,132)	
Clubhouse/pool					(8,315)	
Tennis court					—	
Signage					—	
Maintenance and irrigation equipment					(4,497)	
General					(2,616)	
Hurricane					(26,063)	
Total pooled elements	$ 3,456,203	$ 480,000	$ 16,535	$ 13,443	$ (597,235)	**$3,368,946**

6. Hurricane

During 2017, the Association received $13,443 of insurance proceeds for hurricane damage to the Community's common properties. The Association incurred repair expenses of $26,063 as of December 31, 2017, which are included in major repairs and replacement expenses on the accompanying statement of revenues, expenses and changes in fund balance. Expenses incurred in excess of insurance proceeds received were paid for with reserve funds. The Association does not expect any further significant insurance proceeds or repair expenses in 2018 as a result of the 2017 hurricane.

7. 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.

Supplementary Information

The Association's Board of Directors internally conducted a study during 2017, 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 Future Replacement Costs*	*Replacement Fund Balance, December 31, 2017*	*Next Year Funding Requirement*
Roofing				
Paving				
Exterior painting				
Exterior wall, fencing and security gate				
Clubhouse/pool				
Tennis court				
Signage				
Maintenance and irrigation equipment				
General				
Total pooled elements	1-32 years	$ 4,921,213	$ 3,368,946	$ 420,000

The calculated 2018 funding requirement of $420,000 was adopted in the Association's 2018 budget.