SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' 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, 2018, 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 the Association as of December 31, 2018, 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.

Certified Public Accountants
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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Sandpointe Townhouses Owners Association, Inc.

INDEPENDENT AUDITORS' REPORT
(Concluded)

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.

Purvis, Gray and Company, LLP

March 4, 2019
Winter Park, Florida

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2018

	Operating Fund	Replacement Fund	Termite Fund	Total
Assets				
Cash and Cash Equivalents	$ 15,680	$ 897,926	$ 100,043	$ 1,013,649
Investments (Note 2)	-	2,918,664	-	2,918,664
Assessments Receivable	3,124	-	-	3,124
Due from Replacement Fund	48,636	-	-	48,636
Prepaid Expenses and Other Assets	8,213	-	-	8,213
Property and Equipment, Net (Note 4)	2,444	-	-	2,444
Total Assets	78,097	3,816,590	100,043	3,994,730
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and Accrued Expenses	12,562	-	-	12,562
Assessments Received in Advance	23,204	-	-	23,204
Due to Operating Fund	-	48,636	-	48,636
Total Liabilities	35,766	48,636	-	84,402
Commitments and Contingencies (Notes 5 and 7)				
Fund Balances (Note 5)	42,331	3,767,954	100,043	3,910,328
Total Liabilities and Fund Balances	$ 78,097	$ 3,816,590	$ 100,043	$ 3,994,730

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Replacement Fund	Termite Fund	Total
Revenues				
Maintenance Fee Assessments (Note 3)	$ 869,460	$ 420,000	$ -	$ 1,289,460
Interest Income	19	37,418	76	37,513
Late Charges	996	-	-	996
Other Income	14,051	-	-	14,051
Total Revenues	884,526	457,418	76	1,342,020
Expenses				
Grounds	376,880	-	-	376,880
Maintenance and Replacement	208,634	58,410	4,848	271,892
Utilities	34,866	-	-	34,866
General and Administrative	216,726	-	-	216,726
Bad Debts	3,061	-	-	3,061
Depreciation	10,032	-	-	10,032
Total Expenses	850,199	58,410	4,848	913,457
Excess (Deficiency) of Revenues Over Expenses	34,327	399,008	(4,772)	428,563
Fund Balances, Beginning of Year	12,786	3,368,946	100,033	3,481,765
Transfer from Operating Fund (Note 1)	(4,782)	-	4,782	-
Fund Balances, End of Year	$ 42,331	$ 3,767,954	$ 100,043	$ 3,910,328

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Replacement Fund	Termite Fund	Total
Cash Flows from Operating Activities				
Excess (Deficiency) of Revenues over Expenses	$ 34,327	$ 399,008	$ (4,772)	$ 428,563
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash Provided by Operating Activities:				
Transfer from Operating Fund	(4,782)	-	4,782	-
Depreciation	10,032	-	-	10,032
Provision for Bad Debts	(5,652)	-	-	(5,652)
Cash Provided by (Used for):				
Assessments Receivable	4,552	-	-	4,552
Prepaid Expenses and Other Assets	40	-	-	40
Accounts Payable and Accrued Expenses	(3,585)	-	-	(3,585)
Assessments Received in Advance	(18,355)	-	-	(18,355)
Net Cash Provided by Operating Activities	16,577	399,008	10	415,595
Cash Flows from Investing Activities				
Proceeds from Maturities of Investments	-	2,112,687	-	2,112,687
Purchases of Investments	-	(2,908,872)	-	(2,908,872)
Net Cash Used for Investing Activities	-	(796,185)	-	(796,185)
Cash Flows from Financing Activities				
Interfund Borrowings, Net	(52,616)	52,616	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(36,039)	(344,561)	10	(380,590)
Cash and Cash Equivalents, Beginning of Year	51,719	1,242,487	100,033	1,394,239
Cash and Cash Equivalents, End of Year	$ 15,680	$ 897,926	$ 100,043	$ 1,013,649

Supplemental Cash Flow Information

	Operating Fund	Replacement Fund	Termite Fund	Total
Cash Paid for Income Taxes	$ 3,175	$ -	$ -	$ 3,175

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 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 2018, the Association transferred $4,782 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 and revenue 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.

Note 1 - Summary of Significant Accounting Policies *(Continued)*

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, no allowance for doubtful accounts was considered necessary at December 31, 2018.

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 2019 maintenance fees received by the Association prior to January 1, 2019.

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.

Note 1 - <u>Summary of Significant Accounting Policies</u> *(Continued)*

Taxes on Income *(Concluded)*

For the year ended December 31, 2018, 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. 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 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, 2018. 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.

Note 1 - Summary of Significant Accounting Policies *(Concluded)*

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, 2018, as of March 4, 2019, which is the date the financial statements were available to be issued. Subsequent events occurring after March 4, 2019, have not been evaluated by management. No material events have occurred since December 31, 2018, that require recognition or disclosure in the financial statements.

Note 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.

	Maturity Date	Fair Market Value	Unrealized Gain (Loss)	Amortized Cost of Investment
Certificates of Deposit	07/5/2019 – 2/2/2020	$ 2,918,664	$ -	$ 2,918,664

Note 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 2018, the monthly assessment per units was $197 for operations and $95 for replacement reserves.

Note 4 - Property and Equipment

Property and equipment consist of the following:

December 31, 2018		
Furniture and Equipment	$	36,543
Less: Accumulated Depreciation		(34,099)
Property and Equipment, Net	$	2,444

Note 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, 2018	Maintenance Fee Assessments	Interest Income	Expenses	Balance December 31, 2018
Roofing				$ -	
Paving				(30,203)	
Exterior Painting				-	
Exterior Wall, Fencing and and Security Gate				(5,023)	
Clubhouse/Pool				(2,500)	
Tennis Court				(6,437)	
Signage				-	
Maintenance and Irrigation Equipment				(2,490)	
General				(11,757)	
Total Pooled Elements	$ 3,368,946	$ 420,000	$ 37,418	$ (58,410)	$ 3,767,954

Note 6 - 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 year ended December 31, 2018, the Association contributed $3,879 to the Plan which is included in general and administrative expenses in the accompanying statement of revenues, expenses and changes in fund balances.

Note 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

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

The Association's Board of Directors internally conducted a study during 2018, 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 Balance at December 31, 2018	2019 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	1-31 Years	$ 8,369,158	$ 3,767,954	$ 420,000

The calculated 2019 funding requirement of $420,000 was adopted in the Association's 2019 budget.