2023

Sandpointe Townhouses Owners Association, Inc.

Financial Statements, Supplementary Information and Independent Auditor's Report

December 31, 2023

PURVIS GRAY
CERTIFIED PUBLIC ACCOUNTANTS

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2023

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sandpointe Townhouses Owners Association, Inc.

Opinion

We have audited the accompanying financial statements of Sandpointe Townhouses Owners Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2023, 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.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Board of Directors
Sandpointe Townhouses Owners Association, Inc.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 13, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

INDEPENDENT AUDITOR'S REPORT

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.

Purvis Gray

February 29, 2024
Winter Park, Florida

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Termite Fund	Total
Assets				
Cash and Cash Equivalents	$ 53,805	$ 285,912	$ 101,658	$ 441,375
Investments (Note 1)	-	1,250,000	-	1,250,000
Assessments Receivable (Note 1)	6,496	-	-	6,496
Due from Replacement Fund	171,754	-	-	171,754
Prepaid Expenses and Other Assets	31,461	-	-	31,461
Total Assets	$ 263,516	$ 1,535,912	$ 101,658	$ 1,901,086
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and Accrued Expenses	$ 23,079	$ -	$ -	$ 23,079
Assessments Received in Advance	44,379	-	-	44,379
Note Payable, Net (Note 3)	-	2,902,303	-	2,902,303
Contract Liabilities (Notes 1 and 2)	-	1,377,484	100,000	1,477,484
Due to Operating Fund	-	171,754	-	171,754
Total Liabilities	67,458	4,451,541	100,000	4,618,999
Commitments and Contingencies (Notes 2 and 5)				
Fund Balances	196,058	(2,915,629)	1,658	(2,717,913)
Total Liabilities and Fund Balances	$ 263,516	$ 1,535,912	$ 101,658	$ 1,901,086

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Termite Fund	Total
Revenues				
Maintenance Fee Assessments (Note 1)	$ 928,360	$ 369,440	$ -	$ 1,297,800
Interest Income	15	12,550	1,658	14,223
Late Charges	1,231	-	-	1,231
Other Income	9,118	-	-	9,118
Total Revenues	938,724	381,990	1,658	1,322,372
Expenses				
Grounds	393,287	-	-	393,287
Maintenance and Replacement	145,703	24,117	-	169,820
Utilities	45,954	-	-	45,954
General and Administrative (Note 4)	268,743	-	-	268,743
Interest (Notes 1 and 3)	-	117,342	-	117,342
Total Expenses	853,687	141,459	-	995,146
Excess of Revenues Over Expenses	85,037	240,531	1,658	327,226
Fund Balances, Beginning of Year	112,302	(3,156,160)	(1,281)	(3,045,139)
Transfer from Operating Fund (Note 1)	(1,281)	-	1,281	-
Fund Balances, End of Year	$ 196,058	$ (2,915,629)	$ 1,658	$ (2,717,913)

See accompanying notes.

SANDPOINTE TOWNHOUSES OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Termite Fund	Total
Cash Flows from Operating Activities				
Excess of Revenues Over Expenses	$ 85,037	$ 240,531	$ 1,658	$ 327,226
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:				
Amortization of Debt Issuance Costs	-	1,111	-	1,111
Changes in Assets and Liabilities:				
Assessments Receivable	(3,413)	-	-	(3,413)
Prepaid Expenses and Other Assets	(1,302)	-	-	(1,302)
Accounts Payable and Accrued Expenses	6,594	-	(1,281)	5,313
Assessments Received in Advance	8,917	-	-	8,917
Contract Liabilities	-	181,560	-	181,560
Net Cash Provided by Operating Activities	95,833	423,202	377	519,412
Cash Flows from Investing Activities				
Purchases of Investments	-	(1,250,000)	-	(1,250,000)
Cash Flows from Financing Activities				
Interfund Borrowings, Net	(57,013)	56,423	590	-
Transfer from Operating Fund	(1,281)	-	1,281	-
Payments on Note Payable	-	(240,531)	-	(240,531)
Net Cash Provided by (Used for) Financing Activities	(58,294)	(184,108)	1,871	(240,531)
Net Increase (Decrease) in Cash and Cash Equivalents	37,539	(1,010,906)	2,248	(971,119)
Cash and Cash Equivalents, Beginning of Year	16,266	1,296,818	99,410	1,412,494
Cash and Cash Equivalents, End of Year	$ 53,805	$ 285,912	$ 101,658	$ 441,375

Supplemental Cash Flow Information

	Operating Fund	Replacement Fund	Termite Fund	Total
Cash Paid for Interest	$ -	$ 116,231	$ -	$ 116,231

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 2023, the Association expended $1,281 from the termite fund that was included in accounts payable and accrued expenses at December 31, 2022. The Association transferred this amount from the operating fund to the termite fund in early 2023 in order to fully fund the termite fund at its $100,000 designated balance. 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 debt 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 various financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. 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

The Association invests in certificates of deposit held at various financial institutions, which are insured by the FDIC up to $250,000 per institution and which may, at times, exceed federally insured limits. These investments are maintained to provide funds for future major repairs and replacements of common property and are carried at amortized cost. The Association intends to hold these securities through their maturity dates which range from February 4, 2024 through December 14, 2026.

Member Assessments and Assessments Receivable

The Association derives revenue principally through owner assessments. 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 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 2023, the monthly assessment per unit was $210 for operations. The monthly assessments per unit for replacement reserves was $125, which includes $69 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 has the right to retain legal counsel and place liens on the units of members whose assessments are past due. Assessments receivable as of the beginning and end of the year ended December 31, 2023, were $3,083 and $6,496, respectively.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate whether an assessment is uncollectible include the close monitoring of individual outstanding assessment balances by management, consideration of member payment history, and susceptibility to factors outside the Association's control such as current and forecasted economic conditions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for credit losses and a credit to assessments receivable. Based on management's evaluation of assessments receivable, no allowance for credit losses was considered necessary at December 31, 2023.

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 2024 maintenance fees received by the Association prior to January 1, 2024.

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 $3,333 at December 31, 2023. Amortization of debt issuance costs is included in interest expense in the accompanying statement of revenues, expenses and changes in fund balances and totaled $1,111 for the year ended December 31, 2023. 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 year ended December 31, 2023, are $1,295,924 and $1,477,484, 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.

For the year ended December 31, 2023, the Association elected to file Form 1120H. 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 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 Association does not have any assets or liabilities that are subject to fair value measurement at December 31, 2023.

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.

Recently Adopted Accounting Standard

Current Expected Credit Losses—In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, *Financial Instruments - Credit Losses*: *Measurement of Credit Losses on Financial Instruments* (Topic 326). Topic 326 introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including assessments receivable. The estimate of expected credit losses requires entities to incorporate considerations of historical information, current information, and reasonable and supportable forecasts, and will generally result in earlier recognition of allowances for losses. The Association adopted the new standard effective January 1, 2023. The adoption of Topic 326 did not have a material impact on the Association's financial statements.

Subsequent Events
The Association has evaluated events and transactions occurring subsequent to December 31, 2023, as of February 29, 2024, which is the date the financial statements were available to be issued. Subsequent events occurring after February 29, 2024, have not been evaluated by management. No material events have occurred since December 31, 2023, 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 December 31, 2023, and are held in separate interest-bearing cash, money market accounts and certificates of deposit, 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 fund categories included in contract liabilities is as follows:

	Balance January 1, 2023	Additions	Interest Income	Expenditures	Balance December 31, 2023
Roofing				$ (357,873)	
Paving				-	
Exterior Painting				-	
Exterior Wall, Fencing, and Security Gate				(8,840)	
Clubhouse/Pool				-	
Tennis Court				-	
Signage				-	
Maintenance and Irrigation Equipment				(11,235)	
General				(4,042)	
Total Pooled Elements	$ 1,195,924	$ 551,000	$ 12,550	$ (381,990)	$ 1,377,484

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 December 31, 2023, $2,915,629 is outstanding on this note, and unamortized debt issuance costs totaled $13,326.

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

Year Ending December 31,	Amount
2024	$ 146,202
2025	205,021
2026	212,954
2027	221,193
2028	229,527
Thereafter	1,900,732
Total	$ 2,915,629

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 year ended December 31, 2023, the Association contributed $7,659 to the Plan, which is included in general and administrative expenses in the accompanying statement of revenues, expenses and changes in fund balances.

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.

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 2023 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 December 31, 2023	2024 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	1-37 Years	$ 8,450,277	$ 1,377,484	$ 609,380

The calculated 2024 funding requirement of $609,380 was adopted in the Association's 2024 budget and includes $364,380 for repayment of the note payable discussed in Note 3.