

**LANAI
CONDOMINIUM
ASSOCIATION, INC.**

Financial Statements

December 31, 2019

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Independent Auditor's Report

To the Board of Directors
Lanai Condominium Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Lanai Condominium Association, Inc., which comprise the balance sheet as of December 31, 2019, 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 of 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 judgement, 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Lanai Condominium Association, Inc.

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 Lanai Condominium Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on pages 10 - 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information.

Report on Summarized Comparative Information

We have previously audited Lanai Condominium Association, Inc.'s December 31, 2018 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RW & Associates, P.C.

R W & Associates, P.C.
Englewood, Colorado
May 5, 2020

LANAI CONDOMINIUM ASSOCIATION, INC.

Balance Sheets
December 31, 2019 and 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2019 Total</u>	<u>Summarized 2018 Total</u>
Assets				
Cash and cash equivalents	\$ 116,316	\$ 32,334	\$ 148,650	\$ 629,607
Assessments receivable, net of allowance for doubtful accounts of \$0 in 2019 and 2018	2,461	-	2,461	5,823
Insurance claim receivable	-	-	-	114,423
Condominium, less accumulated depreciation of \$20,000 in 2019 and 2018	-	-	-	-
Prepaid insurance	<u>13,755</u>	<u>-</u>	<u>13,755</u>	<u>404</u>
 Total assets	 <u>\$ 132,532</u>	 <u>\$ 32,334</u>	 <u>\$ 164,866</u>	 <u>\$ 750,257</u>
 Liabilities and Homeowners' Equity				
Liabilities				
Accounts payable	\$ 10,701	\$ -	\$ 10,701	\$ 240,047
Prepaid assessments	<u>11,174</u>	<u>-</u>	<u>11,174</u>	<u>2,968</u>
Total liabilities	<u>21,875</u>	<u>-</u>	<u>21,875</u>	<u>243,015</u>
 Homeowners' equity				
Contributed capital	10,100	-	10,100	10,100
Fund balances	<u>100,557</u>	<u>32,334</u>	<u>132,891</u>	<u>497,142</u>
Total homeowners' equity	<u>110,657</u>	<u>32,334</u>	<u>142,991</u>	<u>507,242</u>
 Total liabilities and homeowners' equity	 <u>\$ 132,532</u>	 <u>\$ 32,334</u>	 <u>\$ 164,866</u>	 <u>\$ 750,257</u>

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

LANAI CONDOMINIUM ASSOCIATION, INC.

Statements of Revenues, Expenses and Changes in Fund Balances
For the Years Ended December 31, 2019 and 2018

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>2019</u> <u>Total</u>	<u>Summarized</u> <u>2018</u> <u>Total</u>
Revenues				
Assessments	\$ 485,242	\$ -	\$ 485,242	\$ 426,757
Special assessments	-	-	-	2,585,703
Interest income	-	1,108	1,108	2,899
Rental income	13,500	-	13,500	-
Other income	23,102	-	23,102	30,055
Total revenues	<u>521,844</u>	<u>1,108</u>	<u>522,952</u>	<u>3,045,414</u>
Expenses				
Bad debts	-	-	-	304
Building exterior maintenance	8,802	-	8,802	5,488
Building interior maintenance	35,416	547,570	582,986	2,627,916
Cleaning and extermination	35,967	-	35,967	17,589
Gas and electricity	55,818	-	55,818	40,241
Cable	39,973	-	39,973	39,205
Insurance	51,606	-	51,606	50,428
Professional fees	3,480	-	3,480	14,631
Management fee	11,594	-	11,594	11,594
Administrative expenses	8,452	-	8,452	13,158
Salaries and related expenses	50,922	-	50,922	71,635
Social activities	501	-	501	572
Telephone	2,100	-	2,100	2,114
Trash removal	8,100	-	8,100	8,450
Water and sewer	26,902	-	26,902	29,591
Total expenses	<u>339,633</u>	<u>547,570</u>	<u>887,203</u>	<u>2,932,916</u>
Excess (deficiency) of revenues over expenses	182,211	(546,462)	(364,251)	112,498
Interfund transfers	(116,730)	116,730	-	-
Fund balances - beginning of year	<u>35,076</u>	<u>462,066</u>	<u>497,142</u>	<u>384,644</u>
Fund balances - end of year	<u>\$ 100,557</u>	<u>\$ 32,334</u>	<u>\$ 132,891</u>	<u>\$ 497,142</u>

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

LANAI CONDOMINIUM ASSOCIATION, INC.

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	Operating Fund	Replacement Fund	2019 Total	Summarized 2018 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:				
Excess (deficiency) of revenues over expenses	\$ 182,211	\$ (546,462)	\$ (364,251)	\$ 112,498
Adjustments to reconcile to cash provided (used) by operating activities:				
Interfund transfers	(116,730)	116,730	-	-
Decrease (increase) in:				
Assessments receivable	3,362	-	3,362	495
Special assessments receivable	-	-	-	2,349,962
Insurance claim receivable	-	114,423	114,423	(114,423)
Prepaid insurance	(13,351)	-	(13,351)	(404)
Increase (decrease) in:				
Accounts payable	5,754	(235,100)	(229,346)	222,121
Deferred special assessment revenue	-	-	-	(2,586,401)
Prepaid assessments	8,206	-	8,206	(2,597)
Cash provided (used) by operating activities	<u>69,452</u>	<u>(550,409)</u>	<u>(480,957)</u>	<u>(18,749)</u>
Increase (decrease) in cash and cash equivalents	69,452	(550,409)	(480,957)	(18,749)
Cash and cash equivalents - beginning	<u>46,864</u>	<u>582,743</u>	<u>629,607</u>	<u>648,356</u>
Cash and cash equivalents - ending	<u>\$ 116,316</u>	<u>\$ 32,334</u>	<u>\$ 148,650</u>	<u>\$ 629,607</u>

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

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2019

Note 1: Organization

The Lanai Condominium Association, Inc. is a statutory condominium association incorporated in the state of Colorado on December 9, 1974. The Association, which has 101 residential units and is located in Denver, Colorado, was formed to maintain and preserve the common property.

Note 2: Date of Managements' Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 5, 2020, the date that the financial statements were available to be issued.

Note 3: Summary of Significant Accounting Policies

Basis of Presentation

The Association uses the fund method of reporting, which requires that funds, such as operating funds and funds for future major repairs and replacements, be classified separately for reporting purposes. Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement fund may be made only for designated purposes.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting. Revenues and expenses are recognized in the period earned or incurred, respectively.

Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less at the date of acquisition, to be cash equivalents. Otherwise, they are classified as investments.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2019

Note 3: Summary of Significant Accounting Policies (Continued)

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported period. Actual results may differ from those estimates which may be material to the financial statements.

Recognition of Assets Policy

Real and personal common property acquired by the original homeowners from the developer is not recognized in the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association's board is restricted. Replacement and improvements to common property are not recognized as assets because their disposition is restricted.

Personal property is capitalized and depreciated over its estimated useful life of five to seven years.

Condominium

Condominium unit #1201 is recorded at the Association's cost of \$20,000 and was depreciated over its estimated useful life of 27.5 years using the straight line method. As of December 31, 2019, the condominium unit is fully depreciated.

Revenue Recognition

Assessment revenue is recognized when assessments are due. Any amounts received in advance of the due date are deferred until due. The Financial Accounting Standards Board issued Accounting Standards Code 606 requiring the deferral of the recognition of income until the services are rendered. The Association has determined ASC 606 does not apply to the Association as no customer relationship exists as it is determined by the Code. The Association does not defer the recognition of any portion of revenue as a Contract Liability.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2019

Note 4: Members' Assessments

The following summarizes the monthly installments of the 2019 assessments:

<u># of Units</u>	<u>Monthly Assessment</u>
38	\$ 513.47
28	\$ 344.31
19	\$ 309.07
10	\$ 353.58
1	\$ 788.35
1	\$ 654.44
1	\$ 433.34

Unit 1201 is owned by the Association. During 2006, this unit was converted into a exercise room for use by the members of the Association.

Note 5: Federal and State Income Taxes

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2019. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and 4.5% by the State of Colorado.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2016.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2019

Note 6: Future Major Repair and Replacements

The Association's governing documents require funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$32,334 at December 31, 2019, are held in separate accounts and are generally not available for operating purposes.

The Association contracted with Association Reserves in April 2016 to conduct a study to estimate the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 7: Supplemental Cash Flow Information

For the year ended December 31, 2019 the Association made no income tax payments or interest payments. There were no non-cash investing or financing cash flow activities during 2019.

Note 8: Contingencies

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major
Repairs and Replacements

December 31, 2019

(Unaudited)

In April, 2016, the Board contracted with Association Reserves to conduct a study to estimate the replacement costs of the components of the common property. The following table is based on that study and presents significant information about the components of the common property.

<u>Component</u>	<u>Remaining Useful Life (Years)</u>	<u>Current Cost Estimate</u>
Site and Grounds:		
Concrete parking deck - coat/repair	0	\$ 18,500
Garage doors - replace	15	6,000
Asphalt - seal/repair	1	3,700
Asphalt - resurface	9	31,000
Asphalt - crack fill/repair	0	1,050
Site rail: metal - repair/paint	3	1,800
Site rail: metal - replace	15	15,000
Block walls - repair	11	3,000
Metal lettering - refurbish/replace	10	2,500
Outdoor roof furniture - allowance - 10%	2	2,500
Building Exteriors:		
Rooftop exterior wall lights - replace	7	1,800
Entry awning - replace	0	6,000
Metal awning - replace	15	1,300
Rooftop deck - recoat	0	39,050
Balcony decks - recoat	0	61,000
Balcony rails - paint	3	40,925
Balcony rails - replace	15	267,750
Stucco/EIFS - seal/paint	15	12,900
Windows - replace	0	22,000
Flat roof - replace	0	30,250
Building Interiors:		
Interior surfaces - repaint	0	20,000
Interior lights - replace	11	7,250
Stairwells - refurbish	11	2,750
Tile flooring - replace	10	7,450
Carpet - replace	0	25,900
Vinyl flooring - replace	14	2,250

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major
Repairs and Replacements
December 31, 2019
(Unaudited)

<u>Component</u>	<u>Remaining Useful Life (Years)</u>	<u>Current Cost Estimate</u>
Mailboxes - replace	25	8,750
Bathrooms - remodel	6	10,500
Office - remodel	4	2,500
Lobby - remodel	4	5,000
Manager apartment - remodel	8	5,750
Laundry rooms - remodel	10	1,250
Mechanical:		
Entry access system - replace	4	6,000
Card/fob reader system - replace	4	13,300
Gate operator - replace	0	4,850
Traction elevator - modernize	5	175,000
Elevator cab - remodel	5	11,000
Swamp cooler - replace	5	3,750
Fan coil - replace	9	3,750
Exhaust fans/hoods - allowance	5	2,500
Chiller - replace	16	200,000
Cooling tower - replace	16	100,000
Control panel - replace	16	75,000
Pumps/motors - repair - 50%	4	12,500
Laundry machines - replace	7	15,500
Security system - modernize	9	15,650
Fire control panel - update/replace	17	8,500
Exit/emergency lights - replace	15	6,400
Boiler - replace (1.4 million BTU)	18	87,500
Boiler - replace (6 million BTU)	0	300,000
Water storage tanks - replace	21	5,000
Expansion tank - replace	29	8,000
Amenities:		
Amenity room furniture - partial replace	0	5,500
Amenity rooms/kitchen - remodel	0	10,000
Fitness equipment - replace	2	9,000
Fitness flooring - replace	0	3,900

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major
Repairs and Replacements
December 31, 2019
(Unaudited)

<u>Component</u>	<u>Remaining Useful Life (Years)</u>	<u>Current Cost Estimate</u>
Pool Area:		
Fencing: pool metal - repair/repaint	3	1,500
Fencing: pool metal - replace	15	12,600
Pool/patio furniture - replace	0	2,500
Pool deck - seal/repair	7	7,500
Pool - resurface	9	9,750
Pool cover - replace	0	3,250
Pool heater - replace	0	3,000
Pool filter - replace	9	<u>2,000</u>
		<u>\$ 1,792,075</u>