

Sunpointe at Lakewood Estates II Condominium Association, Inc.



Financial Statements and Supplementary Information

For the Years Ended December 31, 2018, and 2017

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Independent Auditor's Report

To the Board of Directors of
Sunpointe at Lakewood Estates II Condominium Association, Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of Sunpointe at Lakewood Estates II Condominium Association, Inc. (the "Association") which comprises 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. Information for the year ended December 31, 2017, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which I expressed an unmodified opinion in my report dated November 8, 2018.

Management's Responsibility for the Financial Statements

The Association's Board of Directors 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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 Association'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 Association's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunpointe at Lakewood Estates II Condominium Association, Inc. as of December 31, 2018, 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.

Other Matters

Supplementary Schedule of Operating Fund Revenues and Expenses – Budget and Actual

My audit was performed for the purpose of forming an opinion on the financial statements as a whole. The *Supplemental Schedule of Operating Fund Revenues and Expenses – Budget and Actual* is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information on Future Major Repairs and Replacements

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Ryan E. Lee, CPA



Principal
Lee Public Accounting, LLC

October 22, 2019
Littleton, Colorado

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Balance Sheet
As of December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>2017 Total (comparative purposes only)</u>
Assets				
Cash	\$ 71,964	\$ 227,965	\$ 299,929	\$ 129,514
Assessments receivable	1,411	-	1,411	5,102
Prepaid expenses	20,245	-	20,245	22,413
Interfund balance	8,894	(8,894)	-	-
Total Assets	<u>\$ 102,514</u>	<u>\$ 219,071</u>	<u>\$ 321,585</u>	<u>\$ 157,029</u>
Liabilities and Fund Balances				
Accounts payable	\$ 11,889	\$ -	\$ 11,889	\$ 6,843
Assessments received in advance	9,963	-	9,963	5,910
Income taxes payable	687	-	687	692
Deferred revenue - Comcast easement	-	8,748	8,748	11,664
Total Liabilities	22,539	8,748	31,287	25,109
Fund balances	79,975	210,323	290,298	131,920
Total Liabilities and Fund Balances	<u>\$ 102,514</u>	<u>\$ 219,071</u>	<u>\$ 321,585</u>	<u>\$ 157,029</u>

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Statement of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total	2017 Total (comparative purposes only)
Revenues				
Assessments	\$ 404,536	\$ 185,000	\$ 589,536	\$ 583,704
Late fees and collection	2,898	-	2,898	2,341
Other income	1,711	-	1,711	1,649
Comcast easement income	-	2,916	2,916	2,916
Interest	-	115	115	95
Total Revenues	\$ 409,145	\$ 188,031	\$ 597,176	\$ 590,705
Expenses				
Insurance	\$ 79,513	\$ -	\$ 79,513	\$ 80,890
Water and sewer	71,923	-	71,923	71,230
Management fees	46,257	-	46,257	44,478
Grounds maintenance and improvements	39,219	-	39,219	60,327
Master association assessments	24,780	-	24,780	24,780
Trash removal	23,747	-	23,747	22,254
Tree and shrub maintenance	13,482	-	13,482	12,145
Building repairs and maintenance	12,810	6,010	18,820	192,625
Office and administrative	9,275	-	9,275	8,593
Snow removal	8,670	-	8,670	7,937
Legal and professional fees	8,375	-	8,375	7,327
Pool	8,174	-	8,174	10,903
Gutter cleaning	5,860	-	5,860	5,460
Gas and electricity	5,289	-	5,289	5,634
Security	4,320	-	4,320	4,320
Water feature	3,744	-	3,744	2,390
Income taxes	687	-	687	681
Lighting repair and maintenance	391	-	391	548
Tennis court	4	-	4	142
Painting	-	55,100	55,100	69,063
Other reserve expenditures	-	11,168	11,168	13,954
Driveway repair	-	-	-	3,300
Bad debt expense	-	-	-	1,804
Total Expenses	366,520	72,278	438,798	650,785
Excess (Deficiency) of Revenues Over Expenses	\$ 42,625	\$ 115,753	\$ 158,378	\$ (60,080)
Changes in Fund Balances				
Fund transfer	(50,000)	50,000	-	-
Beginning Fund Balances	87,350	44,570	131,920	192,000
Ending Fund Balance	\$ 79,975	\$ 210,323	\$ 290,298	\$ 131,920

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total	2017 Total (comparative purposes only)
Cash Flows From Operating Activities				
Excess (Deficiency) of Revenues Over Expenses	\$ 42,625	\$ 115,753	\$ 158,378	\$ (60,080)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments receivable	3,691		3,691	4,443
Prepaid expenses	2,168		2,168	347
Increase (decrease) in:				
Accounts payable	5,046		5,046	(5,480)
Assessments received in advance	4,053		4,053	2,325
Income taxes payable	(5)		(5)	(17)
Deferred revenue - Comcast easement		(2,916)	(2,916)	(2,916)
Net cash provided (used) by operating activities	57,578	112,837	170,415	(61,378)
Cash Flows From Financing Activities				
Interfund activities	(2,978)	2,978	-	-
Net cash (used) provided by financing activities	(2,978)	2,978	-	-
Net increase (decrease) in cash	\$ 54,600	\$ 115,815	\$ 170,415	\$ (61,378)
Cash, beginning of year	67,364	62,150	129,514	190,892
Cash, end of year	\$ 121,964	\$ 177,965	\$ 299,929	\$ 129,514
Supplemental Cash Disclosures				
Cash paid for income taxes	\$ 686	\$ -	\$ 686	\$ 722

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2018, and 2017

Note 1 – Nature of the Association

Sunpointe at Lakewood Estates II Condominium Association, Inc. (the “Association”) is a nonprofit corporation organized in the State of Colorado in 1984. The purpose of the Association is to provide for the administration, maintenance, preservation, and architectural review of the units and common elements within the Sunpointe at Lakewood Estates Condominiums II community as defined in the *Amended and Restated Declaration of Covenants, Conditions and Restrictions of Sunpointe at Lakewood Estates Condominiums II* (the “Declaration”); and to promote the health, safety, welfare and recreation of the Owners within the community. The Association consists of the Owners of 162 residential town home style condominiums located in Lakewood, Colorado.

The Association pays dues to the Sunpointe at Lakewood Estates Common Maintenance Association (the “CMA”) which was formed to maintain certain amenities that are common to both Sunpointe at Lakewood Estates I Condominium Association, Inc. and to the Association, including entry surfaces, curbs and gutters, the loop road, and traffic control signage.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared using the accrual method of accounting.

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash

The Association considers all highly liquid investments with an original maturity of three months or less to be cash. The Association continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of December 31, 2018, the Association had no cash equivalents.

Common Area Property

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 effectively owned by the individual unit Owners in common.

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2018, and 2017

Note 2 – Summary of Significant Accounting Policies (continued)

Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements of common property. Assessments receivable at the balance sheet date represent fees due from unit Owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Monthly assessments vary based on the size of each unit and ranged from \$286 to \$324 and \$283 to \$321 for the years ended December 31, 2018, and 2017, respectively.

In December of 2015, the Board resolved to revise the method for calculating monthly assessments. All Operating Fund budgeted items, with the exception of amounts designated for the Replacement Fund, will be allocated equally between all unit Owners, and assessments designated for the Replacement Fund will be allocated based on the current ownership percentages as defined in the Declaration. This amendment passed a vote by the membership during 2016.

Deferred Revenue

In 2012, the Association entered into a services agreement which grants Comcast an easement to service the broadband communications network installed in the buildings and on the common property. The compensation paid to the Association under this agreement is recorded as deferred revenue on the accompanying balance sheet and is being amortized on a straight line basis over the 10-year term of the agreement.

Use of 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 reporting period. Actual results could differ from those estimates.

Note 3 – Income Taxes

The Association elects to file its federal income tax return as a homeowners' association under section 528 of the Internal Revenue Code. Under that code 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 non-exempt function income, which includes interest earned, is taxed at the federal and state levels at 30% and 4.63%, respectively.

The Association's tax filings may be subject to examination by various taxing authorities. The Association's federal income tax returns beginning with the 2016 tax year remain open to potential examination by the Internal Revenue Service; state income tax returns beginning with the 2015 tax year are open to potential examination.

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2018, and 2017

Note 4 – Future Major Repairs and Replacements

The Association's Declaration requires funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

In 2017, the Association engaged a third party to conduct a study to estimate the remaining useful lives and 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 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 the Declaration, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 5 – Related Party Transactions

The Association is contracted with Precision Management to provide monthly management, maintenance, accounting, and administrative services to the Association. Precision Management is wholly owned by a member of the Association. For the years ended December 31, 2018, and 2017, disbursements to Precision Management for services performed and administrative expense reimbursements totaled \$56,030 and \$54,352, respectively.

Note 6 – Concentration Risk

The Association maintains its cash balances in bank deposit accounts which, at times throughout the year, may exceed federally insured limits. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2018, uninsured cash balances totaled \$60,391.

Note 7 – Contingencies

The Association may be a party to various legal actions throughout the year normally associated with homeowners' associations, including, but not limited to, the collection of delinquent assessments and covenant compliance matters. The aggregate of which, in management's opinion, would not be material to the future financial condition of the Association.

Note 8 – Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 22, 2019, the date the financial statements were available to be issued.

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Schedule of Operating Fund Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2018

	<u>Actual</u>	<u>Budget</u> <u>(compiled)</u>	<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
Operating Fund Revenues			
Assessments	\$ 404,536	\$ 404,536	\$ -
Late fees and collection	2,898	3,000	(102)
Other income	1,711	-	1,711
Total Operating Fund Revenues	\$ 409,145	\$ 407,536	\$ 1,609
Operating Fund Expenses			
Insurance	\$ 79,513	\$ 86,000	\$ 6,487
Water and sewer	71,923	78,500	6,577
Management fees	46,257	46,257	-
Grounds maintenance and improvements	39,219	47,269	8,050
Master association assessments	24,780	24,780	-
Trash removal	23,747	24,000	253
Tree and shrub maintenance	13,482	9,100	(4,382)
Building repairs and maintenance	12,810	5,000	(7,810)
Office and administrative	9,275	8,550	(725)
Snow removal	8,670	30,000	21,330
Legal and professional fees	8,375	6,440	(1,935)
Pool	8,174	9,150	976
Gutter cleaning	5,860	5,460	(400)
Gas and electricity	5,289	7,000	1,711
Security	4,320	4,320	-
Water feature	3,744	3,000	(744)
Income taxes	687	710	23
Lighting repair and maintenance	391	2,000	1,609
Tennis court	4	1,000	996
Driveway repair	-	6,000	6,000
Bad debt expense	-	3,000	3,000
Total Operating Fund Expenses	366,520	407,536	41,016
Excess of Revenues Over Expenses	\$ 42,625	\$ -	\$ 42,625

Sunpointe at Lakewood Estates II Condominium Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
December 31, 2018
Unaudited

In 2017, the Association engaged a third party to conduct a study to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The study includes an estimate for inflation and an investment yield of 3.75% and 1.00%, respectively.

Information on the following pages was extracted from the study and presents significant information about the components of common property.

Funding Summary For SunPointe at Lakewood Estates II CA Inc.

Beginning Assumptions

Financial Information Source	Research With Client
# of units	162
Fiscal Year End	January 1, 2018
Monthly Dues from 2017 budget	\$48,626.67
Monthly Reserve Allocation from 2017 Budget	\$15,416.67
Projected Starting Reserve Balance (as of 1/1/2018)	\$189,138
Reserve Balance: Average Per Unit	\$1,168
Ideal Starting Reserve Balance (as of 1/1/2018)	\$1,571,271
Ideal Reserve Balance: Average Per Unit	\$9,699

Economic Factors

Past 20 year Average Inflation Rate (Based on CCI)	3.75%
Current Average Interest Rate	1.00%

Current Reserve Status

Current Balance as a % of Ideal Balance	12%
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Recommendations for 2018 Fiscal Year

Monthly Reserve Allocation	\$29,000
Per Unit	\$179.01
Minimum Monthly Reserve Allocation	\$28,300
Per Unit	\$174.69
Primary Annual Increases	2.75%
# of Years	12
Secondary Annual Increases	2.00%
# of Years	18
Special Assessment	\$0
Per Unit	\$0

Changes From Prior Year (2017 to 2018)

Increase/Decrease to Reserve Allocation	\$13,583
as Percentage	88%
Average Per Unit	\$83.85

Significant Components For SunPointe at Lakewood Estates II CA Inc.

ID	Asset Name	Useful Life	Remaining Useful Life	Ave Curr Cost	Significance:	
					(Curr Cost/UL)	
					As \$	As %
105	Comp Shingle Roof - Replace (1)	20	11	\$772,275	\$38,614	12.8635%
106	Comp Shingle Roof - Replace (2)	20	13	\$772,275	\$38,614	12.8635%
107	Comp Shingle Roof - Replace (3)	20	0	\$44,625	\$2,231	0.7433%
116	Skylights - Replace (1)	20	11	\$43,200	\$2,160	0.7196%
117	Skylights - Replace (2)	20	13	\$43,200	\$2,160	0.7196%
119	Skylights - Replace (3)	20	18	\$8,100	\$405	0.1349%
120	Gutters/Downspouts - Replace (1)	20	11	\$68,025	\$3,401	1.1331%
121	Gutters/Downspouts - Replace (2)	20	13	\$68,025	\$3,401	1.1331%
122	Gutters/Downspouts - Replace (3)	20	0	\$6,490	\$325	0.1081%
204	Building Ext Surfaces - Repaint (2017)	7	6	\$51,625	\$7,375	2.4569%
205	Building Ext Surfaces - Repaint (2018)	7	0	\$39,563	\$5,652	1.8828%
206	Building Ext Surfaces - Repaint (2019)	7	1	\$62,530	\$8,933	2.9758%
207	Building Ext Surfaces - Repaint (2020)	7	2	\$72,000	\$10,286	3.4265%
208	Building Ext Surfaces - Repaint (2021)	7	3	\$50,050	\$7,150	2.3819%
209	Wood Fencing - Restain	4	2	\$3,023	\$756	0.2517%
301	Siding - Major Repairs (2017)	7	6	\$21,000	\$3,000	0.9994%
302	Siding - Major Repairs (2018)	7	0	\$16,000	\$2,286	0.7614%
303	Siding - Major Repairs (2019)	7	1	\$25,160	\$3,594	1.1974%
304	Siding - Major Repairs (2020)	7	2	\$29,200	\$4,171	1.3896%
305	Siding - Major Repairs (2021)	7	3	\$20,150	\$2,879	0.9589%
401	Asphalt - Major Overlay	28	8	\$155,275	\$5,546	1.8474%
402	Asphalt - Surface Application	4	0	\$13,863	\$3,466	1.1545%
406	Concrete Drain Swales - Partial Replace	4	0	\$7,988	\$1,997	0.6652%
407	Curb and Gutters - Partial Replace	4	0	\$4,620	\$1,155	0.3848%
503	Utility doors - Replace	20	10	\$4,900	\$245	0.0816%
601	Concrete Flatwork - Partial Replace	4	0	\$16,825	\$4,206	1.4012%
606	Patios - Replace (Remaining)	1	0	\$105,000	\$105,000	34.9789%
801	Monument - Replace	15	10	\$5,750	\$383	0.1277%
1001	Wood Fencing - Replace	24	10	\$14,555	\$606	0.2020%
1002	Iron Fencing - Replace	26	16	\$6,938	\$267	0.0889%
1011	Timber Wall - Replace	22	0	\$69,000	\$3,136	1.0448%
1101	Fiberglass Pool - Refurbish	10	6	\$12,705	\$1,271	0.4232%
1101	Fiberglass Pool - Replace	30	26	\$60,000	\$2,000	0.6663%
1102	Spa - Replace	30	15	\$7,250	\$242	0.0805%
1105	Pool Heater - Replace	15	10	\$4,000	\$267	0.0888%
1106	Spa Heater - Replace	15	14	\$3,500	\$233	0.0777%
1108	Pool Filter - Replace	12	2	\$1,500	\$125	0.0416%
1109	Spa Filter - Replace	12	5	\$1,500	\$125	0.0416%
1111	Pool/Spa Pumps - Replace	4	2	\$1,250	\$313	0.1041%
1113	Pool Cover - Replace	8	2	\$2,900	\$363	0.1208%
1121	Pool Furniture - Replace	8	2	\$9,200	\$1,150	0.3831%
1201	Tennis Court - Replace	24	4	\$124,000	\$5,167	1.7212%
1210	Pergola - Replace	15	8	\$12,420	\$828	0.2758%
1413	Restroom - Remodel	20	8	\$14,000	\$700	0.2332%
1602	Exterior Wall Mount - Replace	20	5	\$28,000	\$1,400	0.4664%
1604	Pole Lights - Replace	4	3	\$4,800	\$1,200	0.3998%
1701	Irrigation System - Major Repairs	5	2	\$22,500	\$4,500	1.4991%
1703	Irrigation Controllers - Replace	4	0	\$2,100	\$525	0.1749%
1801	Groundcover - Replenish	3	2	\$15,000	\$5,000	1.6657%
1807	Waterscape - Refurbish	20	3	\$27,500	\$1,375	0.4581%