

**LANAI
CONDOMINIUM
ASSOCIATION, INC.**

Financial Statements

December 31, 2018

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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, 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 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, 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.

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, 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

R W & Associates, P.C.

R W & Associates, P.C.
Englewood, Colorado
August 4, 2019

LANAI CONDOMINIUM ASSOCIATION, INC.

Balance Sheets
December 31, 2018 and 2017

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>2018</u> <u>Total</u>	<u>Summarized</u> <u>2017</u> <u>Total</u>
Assets				
Cash and cash equivalents	\$ 46,864	\$ 582,743	\$ 629,607	\$ 648,356
Assessments receivable, net of allowance for doubtful accounts of \$0 in 2018 and 2017	5,823	-	5,823	6,318
Special assessments receivable, net of allowance for doubtful accounts of \$0 in 2017	-	-	-	2,349,962
Insurance claim receivable	-	114,423	114,423	-
Due from operating fund	-	-	-	277,814
Condominium, less accumulated depreciation of \$20,000 in 2018 and 2017	-	-	-	-
Prepaid insurance	404	-	404	-
Total assets	<u>\$ 53,091</u>	<u>\$ 697,166</u>	<u>\$ 750,257</u>	<u>\$ 3,282,450</u>
Liabilities and Homeowners' Equity				
Liabilities				
Accounts payable	\$ 4,947	\$ 235,100	\$ 240,047	\$ 17,926
Due to replacement fund	-	-	-	277,814
Deferred special assessment revenue	-	-	-	2,586,401
Prepaid assessments	2,968	-	2,968	5,565
Total liabilities	<u>7,915</u>	<u>235,100</u>	<u>243,015</u>	<u>2,887,706</u>
Homeowners' equity				
Contributed capital	10,100	-	10,100	10,100
Fund balances	35,076	462,066	497,142	384,644
Total homeowners' equity	<u>45,176</u>	<u>462,066</u>	<u>507,242</u>	<u>394,744</u>
Total liabilities and homeowners' equity	<u>\$ 53,091</u>	<u>\$ 697,166</u>	<u>\$ 750,257</u>	<u>\$ 3,282,450</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, 2018 and 2017

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>2018</u> <u>Total</u>	<u>Summarized</u> <u>2017</u> <u>Total</u>
Revenues				
Assessments	\$ 426,757	\$ -	\$ 426,757	\$ 411,536
Special assessments	-	2,585,703	2,585,703	2,715
Interest income	-	2,899	2,899	359
Other income	30,055	-	30,055	26,776
Total revenues	<u>456,812</u>	<u>2,588,602</u>	<u>3,045,414</u>	<u>441,386</u>
Expenses				
Bad debts	304	-	304	293
Building exterior maintenance	3,380	2,108	5,488	5,365
Building interior maintenance	47,798	2,580,118	2,627,916	96,923
Cleaning and extermination	17,589	-	17,589	17,794
Gas and electricity	40,241	-	40,241	61,163
Cable	39,205	-	39,205	38,861
Insurance	50,428	-	50,428	40,289
Professional fees	14,631	-	14,631	9,740
Management fee	11,594	-	11,594	13,148
Administrative expenses	13,158	-	13,158	9,420
Salaries and related expenses	71,635	-	71,635	66,301
Social activities	572	-	572	643
Telephone	2,114	-	2,114	1,897
Trash removal	8,450	-	8,450	7,182
Water and sewer	29,591	-	29,591	26,748
Total expenses	<u>350,690</u>	<u>2,582,226</u>	<u>2,932,916</u>	<u>395,767</u>
Excess of revenues over expenses	106,122	6,376	112,498	45,619
Interfund transfers	(173,861)	173,861	-	-
Fund balances - beginning of year	<u>102,815</u>	<u>281,829</u>	<u>384,644</u>	<u>339,025</u>
Fund balances - end of year	<u>\$ 35,076</u>	<u>\$ 462,066</u>	<u>\$ 497,142</u>	<u>\$ 384,644</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, 2018 and 2017

	Operating Fund	Replacement Fund	2018 Total	Summarized 2017 Total
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 106,122	\$ 6,376	\$ 112,498	\$ 45,619
Adjustments to reconcile to cash provided (used) by operating activities:				
Interfund transfers	(173,861)	173,861	-	-
Decrease (increase) in:				
Assessments receivable	495	-	495	2,445
Special assessments receivable	-	2,349,962	2,349,962	(2,349,962)
Insurance claim receivable	-	(114,423)	(114,423)	-
Due to/from funds	(277,814)	277,814	-	-
Prepaid income taxes	-	-	-	313
Prepaid insurance	(404)	-	(404)	394
Increase (decrease) in:				
Accounts payable	(12,979)	235,100	222,121	(2,377)
Deferred special assessment revenue	-	(2,586,401)	(2,586,401)	2,586,401
Prepaid assessments	(2,597)	-	(2,597)	(3,532)
Other liabilities	-	-	-	(532)
Cash provided (used) by operating activities	<u>(361,038)</u>	<u>342,289</u>	<u>(18,749)</u>	<u>278,769</u>
Increase (decrease) in cash and cash equivalents	(361,038)	342,289	(18,749)	278,769
Cash and cash equivalents - beginning	<u>407,902</u>	<u>240,454</u>	<u>648,356</u>	<u>369,587</u>
Cash and cash equivalents - ending	<u>\$ 46,864</u>	<u>\$ 582,743</u>	<u>\$ 629,607</u>	<u>\$ 648,356</u>

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

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2018

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 August 4, 2019, 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, 2018

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, 2018, the condominium unit is fully depreciated.

Note 4: Supplemental Cash Flow Information

For the year ended December 31, 2018 the Association made no income tax payments or interest payments. There were no non-cash investing or financing cash flow activities during 2018.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2018

Note 5: Members' Assessments

The following summarizes the monthly installments of the 2018 assessments:

<u># of Units</u>	<u>Monthly Assessment</u>
37	\$ 450.97
28	\$ 303.81
19	\$ 273.15
10	\$ 311.88
1	\$ 690.10
1	\$ 573.60
1	\$ 416.94
1	\$ 381.26

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

Note 6: Special Assessments

In October 2017, a special assessment totaling \$2,589,116 was charged to all owners. The special assessment was recognized as revenue in 2017 and 2018 as the major repairs were incurred. The assessment was used to fund major repairs to the pipes and ducts, asbestos mitigation and boiler replacement.

Note 7: 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, 2018. 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 4.63% by the State of Colorado.

The Association adopted the new accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2018

Note 8: 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 \$582,743 at December 31, 2018, 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 9: Expense Classifications

Building exterior maintenance includes: snow removal, environmental care, landscape supplies, painting and other minor exterior repairs.

Building interior maintenance includes: elevator service contract, appliance and equipment repair, electrical parts and repairs, elevator repair, garage door repairs, hardware supplies, plumbing repairs and general building repairs.

Note 10: 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, 2018
(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, 2018
(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, 2018
(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>