

**LANAI
CONDOMINIUM
ASSOCIATION,
INC.**

Financial Statements

December 31, 2022

CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1 – 3
<u>Financial Statements</u>	
Balance Sheets	4
Statements of Revenues, Expenses and Changes in Fund Balances	5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 10
<u>Supplemental Information</u>	
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	11 - 14

R W & Associates, P.C.
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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Lanai Condominium Association, Inc.

Opinion

We have audited the accompanying financial statements of Lanai Condominium Association, Inc., which comprise the balance sheet as of December 31, 2022, 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 Lanai Condominium Association, Inc. as of December 31, 2022, and the results of its operations and 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 Lanai Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related 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 Lanai Condominium Association, Inc.'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

Lanai Condominium Association, Inc.

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 Lanai Condominium Association, Inc.'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 Lanai Condominium Association, Inc.'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.

Board of Directors

Lanai Condominium Association, Inc.

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 11-14 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 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.

Report on Summarized Comparative Information

We have previously audited Lanai Condominium Association, Inc.'s December 31, 2021 financial statements, and our report dated June 27, 2022 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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

July 3, 2023

LANAI CONDOMINIUM ASSOCIATION, INC.

Balance Sheets
December 31, 2022 and 2021

	Operating Fund	Replacement Fund	2022 Total	Summarized 2021 Total
Assets				
Cash and cash equivalents	\$ 255,379	\$ 330,980	\$ 586,359	\$ 343,060
Assessments receivable	9,873	-	9,873	8,419
Due from operating fund	-	10,760	10,760	-
Insurance claim receivable	1,416	-	1,416	-
Condominium, less accumulated depreciation of \$20,000 in 2020 and 2021	-	-	-	-
Prepaid expenses	3,309	-	3,309	-
Prepaid insurance	-	-	-	7,984
	<u>\$ 269,977</u>	<u>\$ 341,740</u>	<u>\$ 611,717</u>	<u>\$ 359,463</u>
Liabilities and Homeowners' Equity				
Liabilities				
Accounts payable	\$ 21,502	\$ -	\$ 21,502	\$ 32,266
Due to replacement fund	10,760	-	10,760	-
Deferred special assessment revenue	-	-	-	61,630
Assessments received in advance - operating fund	8,772	-	8,772	14,795
Contract liabilities (assessments received in advance - replacement fund)	-	341,740	341,740	149,102
	<u>41,034</u>	<u>341,740</u>	<u>382,774</u>	<u>257,793</u>
Homeowners' equity				
Contributed capital	10,100	-	10,100	10,100
Fund balances	218,843	-	218,843	91,570
Total homeowners' equity	<u>228,943</u>	<u>-</u>	<u>228,943</u>	<u>101,670</u>
Total liabilities and homeowners' equity	<u>\$ 269,977</u>	<u>\$ 341,740</u>	<u>\$ 611,717</u>	<u>\$ 359,463</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, 2022 and 2021

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>2022</u> <u>Total</u>	<u>Summarized</u> <u>2021</u> <u>Total</u>
Revenues				
Assessments	\$ 527,642	\$ 129,112	\$ 656,754	\$ 599,477
Transfer to contract liabilities	-	(192,638)	(192,638)	(10,443)
Special assessment revenue recognized	-	61,630	61,630	157,414
Interest income	-	1,921	1,921	455
Rental income	20,050	-	20,050	18,700
Insurance settlement/warranty claim	250,000	-	250,000	49,666
Other income	17,406	-	17,406	15,123
Total revenues	<u>815,098</u>	<u>25</u>	<u>815,123</u>	<u>830,392</u>
Expenses				
Administrative expenses	7,227	25	7,252	3,581
Boiler repairs and maintenance	40,413	67,700	108,113	91,430
Building repairs and maintenance	193,557	-	193,557	264,200
Cable	54,147	-	54,147	40,979
Cleaning and extermination	34,204	-	34,204	35,422
Gas and electricity	64,795	-	64,795	68,732
Grounds maintenance	1,267	-	1,267	1,828
Insurance	96,007	-	96,007	77,728
Pool repairs and maintenance	6,368	-	6,368	21,017
Professional fees	30,863	-	30,863	68,945
Management fee	41,896	-	41,896	44,339
Snow removal	8,192	-	8,192	5,488
Telephone	7,187	-	7,187	6,677
Trash removal	9,255	-	9,255	8,755
Water and sewer	24,747	-	24,747	31,655
Total expenses	<u>620,125</u>	<u>67,725</u>	<u>687,850</u>	<u>770,776</u>
Excess (deficiency) of revenues over expenses	194,973	(67,700)	127,273	59,616
Interfund transfers	(67,700)	67,700	-	-
Fund balances - beginning of year	<u>91,570</u>	<u>-</u>	<u>91,570</u>	<u>31,954</u>
Fund balances - end of year	<u>\$ 218,843</u>	<u>\$ -</u>	<u>\$ 218,843</u>	<u>\$ 91,570</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, 2022 and 2021

	Operating Fund	Replacement Fund	2022 Total	Summarized 2021 Total
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 127,273	\$ -	\$ 127,273	\$ 59,616
Adjustments to reconcile to cash provided (used) by operating activities:				
Decrease (increase) in:				
Assessments receivable	(1,454)	-	(1,454)	(6,482)
Due from operating fund	-	(10,760)	(10,760)	-
Special assessments receivable	-	-	-	265,934
Insurance claim receivable	(1,416)	-	(1,416)	-
Prepaid expenses	(3,309)	-	(3,309)	-
Prepaid insurance	7,984	-	7,984	7,024
Increase (decrease) in:				
Accounts payable	(10,764)	-	(10,764)	19,262
Due to replacement fund	10,760	-	10,760	-
Deferred special assessment revenue	-	(61,630)	(61,630)	(152,338)
Assessments received in advance - operating fund	(6,023)	-	(6,023)	8,746
Contract liabilities (assessments received in advance - replacement fund)	-	192,638	192,638	10,443
Cash provided by operating activities	<u>123,051</u>	<u>120,248</u>	<u>243,299</u>	<u>212,205</u>
Increase in cash and cash equivalents	123,051	120,248	243,299	212,205
Cash and cash equivalents - beginning	<u>132,328</u>	<u>210,732</u>	<u>343,060</u>	<u>130,855</u>
Cash and cash equivalents - ending	<u>\$ 255,379</u>	<u>\$ 330,980</u>	<u>\$ 586,359</u>	<u>\$ 343,060</u>
Supplemental disclosure:				
Income tax and interest payments			\$ -	\$ -

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

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022

NOTE 1: NATURE OF OPERATIONS

Lanai Condominium Association, Inc. was incorporated in the State of Colorado on December 9, 1974. The Association, which consists of 101 residential units located in Denver, Colorado, is responsible for the operation and maintenance of the common property.

NOTE 2: DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 3, 2023, the date that the financial statements were available to be issued.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Recognition of Assets Policy

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.

Interest Income

The Association recognizes interest income on the operating fund and the replacement fund when earned. The Association's policy is to account for fund expenditures using fund interest income before fund assessment income.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment 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 are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purposes.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association has the right to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. No allowance for uncollectible accounts is deemed necessary. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. The balance of assessments receivable as of the beginning and end of the year are \$8,419 and \$9,873, respectively.

Contract Liabilities (Assessments Received in Advance – Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balance of contract liabilities (assessments received in advance – replacement fund) as of the beginning and end of the year are \$149,102 and \$341,740, respectively.

Estimates

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as 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.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2022, no interest or penalties were paid or accrued.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022

NOTE 4: 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, 2022, the condominium unit is fully depreciated.

NOTE 5: INCOME TAXES

The Association qualifies as a tax-exempt homeowner's association under Internal Revenue Code Section 528 for the year ended December 31, 2022. 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 at 4.4% 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, 2022, 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.

NOTE 6: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$341,740, and are presented on the accompanying balance sheet as a contract liability (assessments received in advance – replacement fund) at December 31, 2022, are held in separate accounts and are generally not available for operating purposes.

The Association contracted with an engineer who conducted a study in August 2022 to estimate the remaining useful lives and 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.

LANAI CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2022

NOTE 7: CONTINGENCIES

The Association may be 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.

NOTE 8: COVID-19

Whereas most state and local governments have begun to ease restrictions on commercial retail activity, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions in certain areas of the country. Furthermore, the economic recession brought on by the pandemic may have a continuing adverse impact on the Association. Therefore, significant uncertainty remains regarding the ongoing impact of the COVID-19 outbreak upon the financial condition of the Association, as well as upon the significant estimates and assumptions used in reporting certain assets and liabilities.

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2022

(Unaudited)

The Association contracted with an engineer who conducted a study in August 2022 to estimate the remaining useful lives and the 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. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>
Site and Grounds:		
Concrete parking deck – coat/repair	2	\$ 27,500
Garage concrete – recoat	0	14,500
Asphalt – seal/repair	0	6,750
Asphalt – resurface	4	38,000
Courtyard planters - waterproof	5	3,400
Site rail: metal – repair/paint	0	2,150
Site rail: metal – replace	8	18,500
Block walls – repair	4	3,650
Metal lettering – refurbish/replace	3	3,050
Rooftop furniture – replace – 10%	9	3,050
Grills/BBQs – replace	3	4,000
Building Exteriors:		
Rooftop exterior lights – replace	2	2,200
Entry awning – replace	0	7,400
Metal awning - replace	8	1,650
Rooftop deck - recoat	8	46,000
Balcony rails – paint	0	52,000

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2022

(Unaudited)

<u>Components</u>	<u>Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>
Balcony rails – replace	8	330,000
Stucco/EIFS – seal/paint	8	16,200
Windows (common) – replace – 25%	6	6,750
Sliding doors – replace	5	20,000
Flat roof - recoat	8	15,350
Building Interiors:		
Interior surfaces – repaint	0	26,000
Interior lights – replace	4	8,950
Stairwells – refurbish	4	3,400
Mailboxes – replace	18	10,950
Tile flooring – replace	45	21,350
Carpeting – replace	5	25,450
Composite wood flooring – replace	7	3,800
Bathrooms – remodel	0	13,000
Lobby – remodel	10	6,150
Office – remodel	5	3,050
Laundry room – remodel	10	1,550
Rental unit – remodeling allowance	1	7,100
Mechanical:		
Laundry machines – replace	6	20,000
Intercom/entry system – replace	0	8,000
Fob reader system – replace	0	16,500
Gate operators – replace	7	7,500
Garage door – replace	8	7,400
Traction elevator – modernize	0	312,900

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2022

(Unaudited)

<u>Components</u>	<u>Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>
Elevator cab – remodel	0	38,700
Swamp cooler – replace	0	4,600
Supply/Exhaust fans - allowance	0	3,050
Chiller – replace	9	300,000
Cooling tower - replace	0	100,000
Boiler pumps – replace	14	44,000
Circulation pumps – repair/replace	8	40,000
Cooling tower pump – replace	0	4,000
Sump pump – replace	5	2,500
Variable frequency drives – replace	10	18,000
Surveillance system – upgrade/replace	11	25,000
Fire panel system – update	5	107,000
Exit/emergency fixtures - replace	8	7,850
Boilers – replace	24	250,000
Water storage tanks – replace	25	30,000
Heat exchanger - replace	15	25,000
Expansion tank – replace	22	8,500
Community Rooms:		
Fitness equipment – replace	1	3,550
Fitness flooring/room - remodel	5	7,450
Library room furniture – replace	0	6,450
Ohana room furniture – replace	5	10,650
Ohana/library – remodel	5	15,700
Pool:		
Pool fence – repair/repaint	4	1,850

LANAI CONDOMINIUM ASSOCIATION, INC.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2022

(Unaudited)

<u>Components</u>	Remaining Useful <u>Life (Years)</u>	Estimated Replacement <u>Cost</u>
Pool fence – replace	8	16,000
Pool deck furniture – replace	9	10,450
Deck – repair – 5%	0	1,600
Coping stones - repair	2	7,850
Pool – re-tile	2	6,200
Pool – resurface	2	13,500
Pool cover – replace	2	4,000
Pool filter – replace	2	2,450
Pool pump - replace	2	<u>2,000</u>
		<u>\$ 2,243,050</u>