

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Sierra Los Pinos
Property Owners' Association, Inc.

Financial Statements, Supplementary Information
and
Independent Auditor's Report

December 31, 2019

Sierra Los Pinos Property Owners' Association, Inc.

Table of Contents

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Revenues, Expenses, and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements (Compiled).....	10

Independent Auditor's Report

To the Board of Directors
Sierra Los Pinos Property Owners' Association, Inc.
Jemez Springs, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Sierra Los Pinos Property Owners' Association, Inc. which comprise the balance sheet of 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 (for this report Management is defined as those charged with governance, which is the Board of Directors and not the management company) 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 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 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 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Sierra Los Pinos Property Owners' Association, Inc.
Jemez Springs, New Mexico

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra Los Pinos Property Owners' Association, Inc. as of December 31, 2019, 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.

Emphasis of a Matter

For this report, and the remainder of the financial statements, Management is defined as those charged with governance, which is the Board of Directors and not the management company.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on Page 10 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. 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.

Porch & Associates LLC

Albuquerque, New Mexico
May 15, 2020

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
BALANCE SHEET
December 31, 2019

	Operating Fund	Reserve Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents, undesignated	\$ 145,890	-	145,890
Cash and cash equivalents, designated for future repairs and replacements	-	111,605	111,605
Assessments and other receivables, net	3,919	-	3,919
Prepaid expenses	3,137	-	3,137
Total assets	\$ 152,946	111,605	264,551
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,825	-	2,825
Accrued expenses	45	-	45
Assessments received in advance	48,097	-	48,097
Total liabilities	50,967	-	50,967
FUND BALANCES			
Unreserved, undesignated	101,979	-	101,979
Unreserved, designated for future repairs and replacements	-	111,605	111,605
Total fund balances	101,979	111,605	213,584
Total liabilities and fund balances	\$ 152,946	111,605	264,551

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

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2019

	Operating Fund	Reserve Fund	Total
Revenues			
Assessments	\$ 119,646	8,000	127,646
Other:			
Late fees, fines, other fees, and charges	330	-	330
Assessment interest charges	863	-	863
Interest income	164	256	420
Other income	2,448	-	2,448
Total revenues	123,451	8,256	131,707
Expenses			
Repairs and maintenance	72,636	-	72,636
Insurance	9,349	-	9,349
Utilities	8,949	-	8,949
Other	6,327	-	6,327
Management fees	4,997	-	4,997
Professional services	3,737	-	3,737
Office	1,207	-	1,207
Bad debt	859	-	859
Postage and Printing	854	-	854
Licenses, taxes, and fees	476	-	476
Reserve expenses	-	8,045	8,045
Total expenses	109,391	8,045	117,436
Net change in fund balances	14,060	211	14,271
Fund balance, beginning of year	87,919	111,394	199,313
Fund balance, end of year	\$ 101,979	111,605	213,584

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

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

	Operating Fund	Reserve Fund	Total
Cash Flows From Operating Activities			
Net change in fund balances	\$ 14,060	211	14,271
Adjustments to reconcile the net change in fund balances to net cash provided by operating activities:			
Allowance for bad debts	859	-	859
Changes in assets and liabilities:			
Assessments and other receivables	(2,670)	-	(2,670)
Prepaid expenses	(62)	-	(62)
Accounts payable	1,989	-	1,989
Accrued expenses	(1,433)	-	(1,433)
Assessments received in advance	(4,810)	-	(4,810)
Net cash provided by operating activities	7,933	211	8,144
Cash and cash equivalents, beginning of year	137,957	111,394	249,351
Cash and cash equivalents, end of year	\$ 145,890	111,605	257,495
Supplemental Disclosures of Cash Flow Information			
Cash payments for income taxes	\$ 50	-	50

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

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1. BACKGROUND INFORMATION

Sierra Los Pinos Property Owners' Association, Inc. (Association) is the governing body for the Sierra Los Pinos Subdivision, consisting of approximately 155 dwelling units. The Association is located in the north-central Jemez mountains of New Mexico. The Association was incorporated on June 25, 1973 in the state of New Mexico, and is responsible for the operation and maintenance of common areas within the development. Common areas consist of roads, the water system, and parks. All of the residential property in the Association is subject to Restricted Covenants Unit 1, Unit 2, Unit 3, and Unit 4 - 10 (Covenants).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representations of the Association's management who is responsible for their integrity and objectivity.

The Financial Accounting Standards Board (FASB) has issued the Accounting Standards Codification (ASC or the Codification) as the source of authoritative accounting principles recognized by the FASB to be used by nongovernmental entities when preparing financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Codification essentially reduces the GAAP hierarchy to two levels: authoritative and non-authoritative, with the Codification being authoritative GAAP.

Fund Accounting. The Association's governing documents provide certain guidelines governing its financial activities. In order 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 general operations of the Association.

Reserve Fund – These funds are used to accumulate financial resources designated for future major repairs and replacements within the Association. Reserve funds are not co-mingled with operating funds.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents. The Association considers all currency on hand and demand deposits to be cash and cash equivalents.

Concentration of Credit Risk. The Association maintains its cash and cash equivalents in bank deposit accounts. The Association had \$7,495 cash balances in excess of federally insured limits at December 31, 2019. Cash deposits in excess of federally insured limits are insured by a private insurance company. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Interest Income. Operating and replacement funds have individual interest-bearing deposit accounts. Interest income associated with the accounts is reported in the respective funds.

Member Assessments. In order for the Association to preserve and maintain the community, each owner of a residential unit is required to pay base assessments to the Association for the unit's pro rata share of the common expenses incurred by the Association for the general benefit of all units. Base assessments are levied annually, but at the discretion of the Association's board of directors, may be payable in semiannual, quarterly or monthly installments. In addition, the Association is authorized under certain circumstances to levy special assessments.

Base assessments are determined on the basis of a budget prepared annually and approved by the Association's Board of Directors covering the estimated costs of operating the Association during the coming year.

The obligation to pay assessments commences as to each unit on the first day of the first month following the date on which the unit is made subject to the Covenants. All assessments together with interest, late charges, costs, and reasonable attorney's fees are the personal obligation of the owner of the unit and also constitute a lien against the unit prior and superior to all other liens except the lien of a first mortgage and taxes.

Assessments and Other Receivables, Net. The Association had assessments receivable of \$1,221 and other receivables of \$2,698, for a total of \$3,919 at December 31, 2019. Other receivables are comprised of late charges, interest charged to homeowners, fines, lien charges, attorney fees, and returned check charges. Of total receivables, \$3,882 was more than ninety days outstanding.

Management reviews the collectability of its receivables regularly and, when appropriate, records an estimate for uncollectible accounts. The basis for the estimate is the total of accounts in foreclosure and bankruptcy. When an account is determined to be uncollectible by the board of directors, it is charged off against the estimate. Management has determined that the receivables at December 31, 2019 are collectible.

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes. Homeowners' associations may elect to be taxed as regular corporations, subject to the provisions of Internal Revenue Code (IRC) Section 277, or as homeowners' association subject to IRC Section 528. The Association has elected to be taxed as a homeowners' association under IRC 528. Under that election, net income arising from defined exempt function activities is not taxed; however federal income tax is assessed on income derived from nonexempt function activities at a rate of 30%. Exempt function income basically consists of amounts received from Association members solely as a function of their membership in the Association. Non-exempt function income results primarily from revenue from nonmembers and investment income.

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in taxes recognized in financial statements. These standards require recognition and measurement of uncertain income tax positions using a "more likely than not" approach. The Association evaluates its uncertain tax positions, and a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated.

The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The Association classifies interest and penalties with respect to material uncertain tax positions recognized in the financial statements (when applicable) as interest expense and as an operating expense, respectively. The Association has assessed its tax positions for all open tax years (2017 through 2019) and has concluded that there are currently no significant liabilities to be recognized.

Property and Equipment, Common Areas. ASC 972 requires common area property and equipment to be capitalized if the Association has title to the assets and (1) the Association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the Association retaining the proceeds, or (2) the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. The Association does not have any property or equipment to be capitalized at December 31, 2019.

NOTE 3. ECONOMIC DEPENDENCY

Approximately 96% of the Association's revenue for the year ended December 31, 2019 was derived from member assessments.

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. However, the Association has accumulated funds based on a reserve study performed by an independent firm that estimates the remaining useful life and replacement costs of the common property components. The reserve study was prepared using a full funding plan goal.

The Association designated \$8,000 in reserve replacement funds and incurred \$8,045 in reserve fund expenditures for the year ended December 31, 2019. Accumulated reserve funds, which aggregate approximately \$111,605 at December 31, 2019, are held in separate accounts and generally are not available for operating purposes.

The Association is funding 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 for future repairs and replacements and contingency reserves may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement funds and contingency reserve may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 5. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through May 15, 2020 which is the date the financial statements are available to be issued. Subsequent to year-end, the United States and global economies experienced significant declines resulting from uncertainty caused by the world-wide coronavirus pandemic. The effects of the pandemic on the future financial results of the Association are unknown.

SIERRA LOS PINOS PROPERTY OWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (Compiled)
December 31, 2019

An independent firm conducted a reserve study in January 2017 to estimate the remaining useful life and replacement costs of the components of common property for the Association. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study assuming an annual inflation rate of 2.0%. The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life	Estimated Future Replacement Costs
Tank A-1	27	\$ 14,625
Tank A-2	22	14,625
Tank A-3	22	14,625
Tank B-1	12	14,625
Tank B-2	12	14,625
Water meters-phase 1	15	33,624
Water meters-phase 2	16	33,624
Major road repair	0	4,000
Water line replacement	0	4,000
Pump 1	5	1,850
Pump 2	3	1,850
Pump 3	1	1,850
Valve replacement	0	2,000
Pump house 1	7	3,000
Pump house 2	12	3,000
Swing set 1	7	1,342
Swing set 2	7	1,890
Park bench	7	740
Park table	7	1,420
Slide	7	1,245
Monkey bars	7	1,470
		\$ 170,030

See the Independent Auditor's Report.