

# Arbor Trace Condominium Association, Inc.

Year Ended  
December 31,  
2017

Financial  
Statements  
and  
Required  
Supplementary  
Information

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

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## INDEPENDENT AUDITORS' REPORT

November 27, 2018

Board of Directors  
Arbor Trace Condominium Association, Inc.  
Naples, Florida

We have audited the accompanying financial statements of *Arbor Trace Condominium Association, Inc.* (the "Association") a Florida corporation, which comprise the balance sheet as of December 31, 2017, 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.

### *Independent Auditors' 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 auditor judgment, including the assessment of the risks of material misstatements 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Arbor Trace Condominium Association, Inc.* as of December 31, 2017, 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.

### *Other 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 (Note 5) are adequate to meet such future costs because that determination is outside the scope of our audit.

### *Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Required Supplemental Schedule of Future Major Repairs and Replacements on page 14 be presented by the Association 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.

*Rehmann Robson LLC*

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Balance Sheet

December 31, 2017

ASSETS	Operating Fund	Replacement Fund	Total
<b>Current assets</b>			
Cash and cash equivalents	\$ 220,017	\$ 212,570	\$ 432,587
Assessments receivable	2,319	-	2,319
Other receivables	3,713	-	3,713
Prepaid insurance	36,827	-	36,827
<b>Total current assets</b>	<b>262,876</b>	<b>212,570</b>	<b>475,446</b>
Investments - certificate of deposit	-	235,000	235,000
Investment in Tower Trace, LLC	1,598,181	-	1,598,181
<b>Total assets (all current)</b>	<b>\$ 1,861,057</b>	<b>\$ 447,570</b>	<b>\$ 2,308,627</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	\$ 37,496	\$ 13,480	\$ 50,976
<b>Total liabilities (all current)</b>	<b>37,496</b>	<b>13,480</b>	<b>50,976</b>
<b>Fund balances</b>			
Fund balance - Investment of Tower Trace, LLC	1,598,181	-	1,598,181
Fund balances	225,380	434,090	659,470
<b>Total fund balances</b>	<b>1,823,561</b>	<b>434,090</b>	<b>2,257,651</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,861,057</b>	<b>\$ 447,570</b>	<b>\$ 2,308,627</b>

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

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Statements of Revenues, Expenses and Changes in Fund Balances

Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Operating member assessments	\$ 791,316	\$ 125,448	\$ 916,764
Operating - cable	45,360	-	45,360
Interest income	2,002	4,878	6,880
Other income	4,039	-	4,039
<b>Total revenues</b>	<b>842,717</b>	<b>130,326</b>	<b>973,043</b>
<b>Expenses</b>			
Salaries and benefits	257,036	-	257,036
Utilities	217,276	-	217,276
Insurance	125,864	-	125,864
Common area maintenance	111,349	-	111,349
Maintenance and repair	82,466	-	82,466
Cable	45,467	-	45,467
Office and administrative	12,252	-	12,252
Trash removal	11,569	-	11,569
Professional fees	11,109	-	11,109
Replacement Fund expenditures	-	44,775	44,775
<b>Total expenses</b>	<b>874,388</b>	<b>44,775</b>	<b>919,163</b>
Revenues (less than) in excess of expenses before non-operating items	(31,671)	85,551	53,880
Equity in income of Tower Trace, LLC	45,541	-	45,541
<b>Revenues in excess of expenses</b>	<b>13,870</b>	<b>85,551</b>	<b>99,421</b>
Fund balances, beginning of year	1,809,691	348,539	2,158,230
<b>Fund balances, end of year</b>	<b>\$ 1,823,561</b>	<b>\$ 434,090</b>	<b>\$ 2,257,651</b>

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

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Statement of Cash Flows

Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
<b>Cash flows from operating activities</b>			
Owner assessments collected	\$ 847,749	\$ 125,448	\$ 973,197
Cash paid for expenses	(865,031)	(173,595)	(1,038,626)
Interest and other income	6,041	6,887	12,928
<b>Net cash used by operating activities</b>	<b>(11,241)</b>	<b>(41,260)</b>	<b>(52,501)</b>
<b>Cash flows from investing activities</b>			
Redemption of certificates of deposit	-	210,000	210,000
Purchase of certificates of deposit	-	(235,000)	(235,000)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(25,000)</b>	<b>(25,000)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(11,241)</b>	<b>(66,260)</b>	<b>(77,501)</b>
Cash and cash equivalents, beginning of year	231,258	278,830	510,088
<b>Cash and cash equivalents, end of year</b>	<b>\$ 220,017</b>	<b>\$ 212,570</b>	<b>\$ 432,587</b>
<b>Reconciliation of revenues in excess of expenses to net cash used by operating activities</b>			
Revenues in excess of expenses	\$ 13,870	\$ 85,551	\$ 99,421
Adjustments to reconcile revenues in excess of expenses to net cash used by operating activities			
Equity in income of Tower Trace, LLC	(45,541)	-	(45,541)
Changes in operating assets and liabilities which (used) provided cash:			
Assessments receivable	11,073	-	11,073
Other receivables	(3,713)	-	(3,713)
Accrued interest receivable	-	2,009	2,009
Prepaid insurance	(1,556)	-	(1,556)
Accounts payable and accrued expenses	14,626	(128,820)	(114,194)
<b>Net cash used by operating activities</b>	<b>\$ (11,241)</b>	<b>\$ (41,260)</b>	<b>\$ (52,501)</b>

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

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Business*

*Arbor Trace Condominium Association, Inc.* (the "Association") is a common interest realty association consisting of 91 condominium units occupying a site of approximately 34 acres located in the Arbor Trace Development in Naples, Florida. The Association was incorporated under the laws of the State of Florida as a not-for-profit organization in July 1991 for the purpose of administering and operating the property in accordance with the terms of Florida Statute Chapter 718 and the provisions of the Declaration of Condominium filed in the official records of Collier County.

#### *Basis of Presentation*

The Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in funds established according to their nature and purpose. The operating fund is used to account for financial resources available for the general operations. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

The Association prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") using accounting practices and methods commonly applied to common interest realty associations. The provisions of applicable Florida statutes are also considered.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 year. Accordingly, actual results could differ from those estimates.

#### *Revenue Recognition*

Assessments are determined by the annual budget approved by the Association's Board of Directors. Each unit owner is an Association member and is assessed regular, and when applicable, special fees based on square footage of the unit. Members' assessments, including operating fund and replacement fund assessments, are billed monthly and recognized as revenue over the period covered by the billing. Amounts billed in the current year for future periods but not received by year end are not recorded as assessments receivable because the services the assessments relate to have not been rendered. Deferred assessment revenue, where recorded, represents fees from unit owners remitted in advance.

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### *Assessments Receivable*

Assessments receivable, which consist principally of assessments and fees due from residents, are stated at the original charge amount less an estimate made for doubtful receivables, if any, based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Assessments receivable are written off when deemed uncollectible. Recoveries of assessments receivable previously written off are recorded when received.

An assessment receivable is considered to be past due if any portion of the receivable balance is outstanding for more than ten days. A late fee is charged on assessments receivable that are outstanding for more than ten days and is recognized as income as it is charged.

Management believes assessments receivable are fully collectable, therefore no allowance for doubtful accounts has been recorded.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash in operating and replacement fund bank accounts, money market accounts, certificate of deposits in banks, as well as cash on hand. For purposes of reporting cash flows, the Association considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### *Marketable Securities - Investments*

Debt securities are classified as "held-to-maturity" and carried at cost.

### *Interest Earned*

Interest income earned in the operating fund or the replacement fund is recorded in its respective fund.

### *Property and Equipment*

Real property and related improvements are not reflected in the Association's financial statements since such properties are owned by the individual unit owners in common and not by the Association.

The Association's policy is to expense personal property in the year purchased. Such property is generally of insignificant unit value and is acquired on behalf of the unit owners in common by the Association acting as an agent.

### *Investment in Tower Trace, LLC*

The Association's Investment in Tower Trace, LLC is accounted for using the equity method, noting the original investment is recorded at cost and subsequently adjusted annually to reflect the Association's share of the net profit or loss of the investment.

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### *Income Taxes*

The Association is incorporated as a not-for-profit corporation under the laws of the State of Florida, as contained in Chapter 718 of the Florida Statutes. Condominium associations may elect to be taxed as regular corporations or as homeowners' associations, and the Association elected to be taxed as a homeowners' association for the year.

The Association is taxed under Internal Revenue Code 528. Under that section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. However, the Association is taxed on nonexempt function income, which includes interest, less a portion of allocated Association expenses. As of and for the year ended December 31, 2017, no such income tax was due.

### *Uncertain Tax Positions*

The Association analyzes its income tax filing positions in the federal jurisdictions where it is required to file income tax returns, as well as all open tax years in the jurisdiction, to identify potential uncertain tax positions. The Association reports interest and penalties attributable to income taxes, to the extent they arise, as a component of its operating expenses.

The Association has evaluated its income tax filing positions for 2014 through 2017, the years which remain subject to examination as of December 31, 2017. The Association concluded that there are no significant uncertain tax positions requiring recognition in the Association's financial statements. The Association does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Association does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2017, and is not aware of any claims for such amounts by federal income tax authorities.

### *Subsequent Events*

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent balance sheet presented herein, through November 27, 2018, the date these financial statements were available to be issued. In late November 2018 the Association was notified by one of their insurance carriers that updates to their policies related to terrain exposure resulted in both a credit and rating change which was applied to the last 3 policy terms. The amount of the refunds to be received total \$53,755. No other significant such events or transactions were identified, except as disclosed in Note 8.

## 2. MANAGEMENT SERVICES AND RELATED PARTY TRANSACTIONS

The Association entered into agreement with Arbor Pointe Management, LLC for its management and administrative services. The Association is billed a fixed rate each month for administration, maintenance, housekeeping, transportation personnel, and concierge services. At the end of each quarter the expenses are calculated and billings adjusted to actual costs. The management fee for the year ended December 31, 2017 was \$257,036.

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### 3. MEMBER ASSESSMENTS AND FEES

Association members are assessed monthly to provide funds for the Association's operating and future major repairs and replacements. Assessments are recognized as revenue in the period in which they are earned. Assessments received before the date due are reflected as deferred assessment revenue. Assessments are determined by the Board of Directors and approved by the members as part of the annual budget. For the year ended December 31, 2017, the regular monthly were as follows:

Unit Type	Operating Fund	Operating Fund - Cable	Replacement Fund	Total
"A" Unit	\$ 434	\$ 42	\$ 69	\$ 545
"B" Unit	\$ 555	\$ 42	\$ 88	\$ 685
"C" Unit	\$ 748	\$ 42	\$ 119	\$ 909
"D" Unit	\$ 688	\$ 42	\$ 109	\$ 839
"E" Unit	\$ 985	\$ 42	\$ 156	\$ 1,183
"F" Unit	\$ 904	\$ 42	\$ 143	\$ 1,089
"G" Unit	\$ 1,033	\$ 42	\$ 164	\$ 1,239

The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

### 4. INVESTMENTS - CERTIFICATES OF DEPOSIT

The Association primarily invests in certificates of deposit classified as held-to-maturity. The Association categorizes its fair value measurements within a fair value hierarchy. The Hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The carrying amounts of the certificates of deposit approximate their fair values and are categorized as Level 1 as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Association has the ability to access.

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Certificates of deposit by Maturity date:				
3/15/2019	\$ 235,000	\$ -	\$ -	\$ 235,000

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### 5. REPLACEMENT FUND

Florida statutes require the Association to accumulate funds for future major repairs and replacements, unless funding is waived or modified by the unit owners. These funds are held in separate accounts and are generally not available for expenditures for normal operations. The Association uses the pooled method for funding and maintaining its future major repairs and replacements.

The Association commissioned an outside study in 2017. The Association is accumulating funding for such major repairs and replacements over the estimated useful lives of the components of the pooled replacement fund based on the study's estimates of current replacement costs, anticipated earnings, future projected cash outflows and amounts previously accumulated in the replacement fund. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$125,448, based on a full funding plan, has been included in the 2018 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. 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, the Association has the right to increase regular assessments, levy special assessments, or delay repairs and replacement until funds are available.

The changes in the replacement fund during 2017 are as follows:

Beginning Fund Balance	Additions To Fund*	Expenditures	Ending Fund Balance
\$ 348,539	\$ 130,326	\$ (44,775)	\$ 434,090

\* Includes interest income of \$4,878

Pooled expenditures:	
Mechanical/electrical	\$ 29,598
Painting and waterproofing	10,870
Roofing	2,610
Pavement and roadways	1,557
Bank service charge	140
	<u>44,775</u>
	\$ <u>44,775</u>

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### 6. INVESTMENT IN TOWER TRACE, LLC

In 2007 the Association and Tower Pointe at Arbor Trace Condominium Association, Inc. formed two limited liability companies, Tower Trace, LLC and its wholly owned subsidiary Arbor Pointe Management, LLC with equity interest of 56.872% and 43.128%, respectively, and purchased the clubhouse and assisted living facility.

The Association's investment in Tower Trace, LLC at December 31, 2017 was valued at \$1,598,181 as follows:

Total assets	\$ 4,032,128
Total liabilities	<u>326,458</u>
Net assets	<u>\$ 3,705,670</u>
Revenues	<u>\$ 5,760,072</u>
Net income (loss)	<u>\$ 105,595</u>

Management annually reviews this investment for impairment. No indications of impairment was present at December 31, 2017.

### 7. SHARED FACILITIES

The Association, in 2000, while under control of the Developer, entered into an agreement with Arbor Trace Condominium Association, Inc., Naples Development Group (Developer), Arbor Trace Services Center, Inc. and Arbor Trace Management Corporation. The agreement provides for certain rights to cross and for mutual use of certain roads, easements, and facilities among the parties.

This agreement lists shared facilities as Arbor Lake Drive, the Vanderbilt Drive access gate, guardhouse, front wall, security personnel, utility lines, water management facilities, and irrigation system.

Monthly shared facilities expense is calculated as a percentage based on the number of Association's units, and the total number of units in the Arbor Trace Development. The total amount of shared facilities reimbursements for the year ended December 31, 2017 was \$53,993.

### 8. HURRICANE IRMA

On September 10, 2017 Hurricane Irma, a category 4 hurricane made landfall in Southwest Florida. For the year ended December 31, 2017 the Association recognized hurricane expenses in the operating fund of \$20,663 and replacement fund expenses of \$2,610. Subsequent to year end the Association recognized approximately \$20,459 of replacement fund expenditures related to the hurricane.

# ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements

### 9. INSURANCE DEDUCTIBLE

The Association maintains insurance policies subject to a 5% a hurricane deductible per calendar year per structure. It is expected that the potential deductible would be funded through replacement funds and assessments.

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## REQUIRED SUPPLEMENTARY INFORMATION

## ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

### Required Supplementary Schedule of Future Major Repairs and Replacements (Unaudited)

The Association commissioned an outside study in 2017 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.

Common Area Components	Estimated Remaining Useful Life (years)	Estimated Current Replacement Cost	Estimated 2018 Funding Requirement	Fund Balance December 31, 2017
Roofing	3 - 25	\$ 1,104,300		
Painting and waterproofing	1	243,655		
Pavement and roadways	1 - 22	226,843		
Common area interiors	4 - 14	165,800		
Mechanical/electrical	0 - 25	873,880		
		<u>\$ 2,614,478</u>	<u>\$ 125,448</u>	<u>\$ 434,090</u>

See independent auditors' report on supplementary information.