

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019



CLAconnect.com

WEALTH ADVISORY

OUTSOURCING

**AUDIT, TAX, AND
CONSULTING**

**ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2019**

INDEPENDENT AUDITORS' 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 (UNAUDITED)	12



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Arbor Trace Condominium Association, Inc. (the Association), which comprise the balance sheet 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 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.

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 from 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, 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

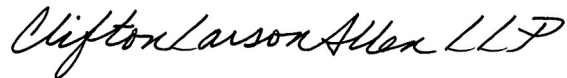
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019, and the changes in its fund balances and its cash flows for the year then ended in accordance with accounting principles generally accepted 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 page 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 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2019, the Association adopted new accounting guidance for recognizing revenue from contracts with customers. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Naples, Florida
December 9, 2020

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2019

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 272,146	\$ 199,465	\$ 471,611
Investments - Certificates of Deposit	-	230,000	230,000
Investments in Tower Trace	1,685,190	-	1,685,190
Prepaid Expenses and Other Assets	44,309	-	44,309
	<u>\$ 2,001,645</u>	<u>\$ 429,465</u>	<u>\$ 2,431,110</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 40,692	\$ -	\$ 40,692
Prepaid Assessments	3,310	-	3,310
Deferred Reserve Funds	-	429,465	429,465
Total Liabilities	<u>44,002</u>	<u>429,465</u>	<u>473,467</u>
FUND BALANCES			
Fund Balance - Investment in Tower Trace, LLC	1,685,190	-	1,685,190
Fund Balance - Other	272,453	-	272,453
Total Fund Balances	<u>1,957,643</u>	<u>-</u>	<u>1,957,643</u>
Total Liabilities and Fund Balances	<u>\$ 2,001,645</u>	<u>\$ 429,465</u>	<u>\$ 2,431,110</u>

See accompanying Notes to Financial Statements.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Replacement Fund	Total
REVENUES			
Unit Owner Assessments	\$ 903,708	\$ 86,871	\$ 990,579
Interest Income	1,041	6,365	7,406
Total Revenues	<u>904,749</u>	<u>93,236</u>	<u>997,985</u>
EXPENSES			
Salaries and Benefits	280,461	-	280,461
Utilities	220,523	-	220,523
Grounds Maintenance	96,218	-	96,218
Insurance	133,192	-	133,192
Repairs and Maintenance	68,909	-	68,909
Cable	48,511	-	48,511
Office and Administrative	10,997	-	10,997
Trash	12,101	-	12,101
Professional Fees	21,148	-	21,148
Replacement Fund Expenditures	-	93,236	93,236
Total Expenses	<u>892,060</u>	<u>93,236</u>	<u>985,296</u>
REVENUES IN EXCESS OF EXPENSES BEFORE NONOPERATING ITEMS	12,689	-	12,689
Equity in Income of Tower Trace, LLC	<u>9,024</u>	<u>-</u>	<u>9,024</u>
REVENUES IN EXCESS OF EXPENSES	21,713	-	21,713
Cumulative Effect of Adopting New Accounting Principle	-	(396,084)	(396,084)
Fund Balances - Beginning of Year	<u>1,935,930</u>	<u>396,084</u>	<u>2,332,014</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 1,957,643</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,957,643</u></u>

See accompanying Notes to Financial Statements.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Member Assessments	\$ 909,839	\$ 120,252	\$ 1,030,091
Cash Paid to Suppliers	(889,829)	(93,236)	(983,065)
Cash Received from Interest Income	1,041	6,365	7,406
Net Cash Provided by Operating Activities	<u>21,051</u>	<u>33,381</u>	<u>54,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Certificates of Deposit	-	(230,000)	(230,000)
Proceeds from Certificates of Deposit	-	235,000	235,000
Net Cash Provided by Investing Activities	<u>-</u>	<u>5,000</u>	<u>5,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,051	38,381	59,432
Cash and Cash Equivalents - Beginning of Year	<u>251,095</u>	<u>161,084</u>	<u>412,179</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 272,146</u></u>	<u><u>\$ 199,465</u></u>	<u><u>\$ 471,611</u></u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Excess of Revenues over Expenses	\$ 21,713	\$ -	\$ 21,713
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Equity in income of Tower Trace, LLC	(9,024)	-	(9,024)
(Increase) Decrease In:			
Assessments Receivable	2,821	-	2,821
Prepaid Expenses and Other Assets	(14,847)	-	(14,847)
Increase (Decrease) In:			
Prepaid Assessments	3,310		3,310
Deferred Reserve Funds	-	33,381	33,381
Accounts Payable and Accrued	17,078	-	17,078
Net Cash Provided by Operating Activities	<u><u>\$ 21,051</u></u>	<u><u>\$ 33,381</u></u>	<u><u>\$ 54,432</u></u>

See accompanying Notes to Financial Statements.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Arbor Trace Condominium Association, Inc., hereinafter referred to as the Association, is a nonprofit organization incorporated on January 7, 1991 in the state of Florida as a condominium association for the purposes of preserving, operating, and maintaining the common property of the Association. The Association consists of 91 residential units occupying a site approximating 34 acres located in Naples, Florida.

Fund Accounting

The financial statements of the Association are prepared on the accrual basis of accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

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 financial statements have been prepared 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.

Liquidity

Assets are presented in the accompanying balance sheet according to their nearness to conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid accounts with an original maturity date of three months or less to be cash equivalents. The Association maintains bank accounts with balances which, at times, may exceed federally insured limits.

Commonly Owned Assets

Real common property acquired by the Association is not capitalized because those properties are owned by the individual unit owners in common and not by the Association. Common property not capitalized includes pool and spa, walkways, elevators, lobbies, storage areas, a manager's unit, various recreational and maintenance rooms and parking areas. Replacement and major repairs are not capitalized: rather these costs are accounted for as expenditures in the replacement fund.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Condominium associations may be taxed either as homeowners' associations or as regular corporations. The financial statements have been prepared under the assumption the Association will elect to be taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. The Association has income tax expense of \$3,922 for the year ended December 31, 2019.

The Association follows the income tax standard for uncertain tax positions and as a result, evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2019.

Unit Owners Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses. In accordance with the Association's bylaws, quarterly assessments are imposed on each member on the first day of each quarter. Each unit owner is assessed based on their proportional share of ownership in the common elements.

The Association's policy is to place liens on the units of members whose assessments are delinquent. Management has evaluated the assessments receivable and has determined that an allowance for uncollectible accounts is unnecessary.

The Association recognizes revenue from unit owner assessments over the assessment period, which is generally one year, during which time members have continuous access to common areas, architectural control and covenant enforcement, other services, and certain community events. The assessments are used to cover the costs of operating the Association, maintaining the common elements and improvements, and providing for facility repair and replacement.

Unit owner assessments paid in advance are deferred to the assessment period to which they relate. All other amounts paid in advance are deferred to the period in which the underlying event takes place. Due to the nature and timing of the performance and/or transfer of services and products, substantially all deferred revenue at December 31 of each year is recognized in the following year.

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 reporting period. Actual results could differ from those estimates.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Association follows a policy related to the fair value of financial instruments that applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The Association currently does not measure any of its assets or liabilities at fair value and is not required under generally accepted accounting principles to disclose the fair value of its financial instruments.

The Association also follows the standard related to the fair value option for financial assets and liabilities. This allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Association has not elected to measure any newly acquired financial instruments at fair value. However, the Association may elect to measure newly acquired financial instruments at fair value in the future.

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 on the investment.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 9, 2020, the date the financial statements were available to be issued.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer.

The Association adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. As a result, the Association recorded a cumulative adjustment to fund balance as of January 1, 2019, to reflect the effect of the new guidance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the accounting policies for revenue recognition, and contract liabilities to the replacement fund, as previously described.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

The adoption of the new revenue recognition guidance resulted in a decrease in 2019 revenues of \$33,381 for the replacement fund. The modified retrospective method requires the Association to disclose the effect of applying the new guidance on each item included in the 2019 financial statements. Following are the line items from the balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance for the replacement fund:

	Amounts that Would Have Been Reported	Effect of Applying the New Guidance	As Reported
Deferred Replacement Funds	<u>\$ -</u>	<u>\$ 429,465</u>	<u>\$ 429,465</u>
Fund Balance	<u>\$ 429,465</u>	<u>\$ (429,465)</u>	<u>\$ -</u>

The following are the line items from the statement of income and statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts that Would Have Been Reported	Effect of Applying the New Guidance	As Reported
Member Assessments	<u>\$ 120,252</u>	<u>\$ (33,381)</u>	<u>\$ 86,871</u>
Excess (Deficit) of Revenues over Expenses	<u>\$ 33,381</u>	<u>\$ (33,381)</u>	<u>\$ -</u>
Cash Flows:			
Excess of Revenues over Expenses	<u>\$ 33,381</u>	<u>\$ (33,381)</u>	<u>\$ -</u>

NOTE 3 CERTIFICATES OF DEPOSIT

The certificates of deposit at December 31, 2019 mature as follows:

Maturity Date	Value	Rate
September, 2020	<u>\$ 230,000</u>	2.50%
Total	<u>\$ 230,000</u>	

NOTE 4 DEFERRED RESERVE FUNDS

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (deferred replacement fund assessments) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement fund assessments. The balance of the deferred replacement funds at December 31, 2019 are \$429,465 for the replacement fund.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 DEFERRED RESERVE FUNDS (CONTINUED)

The table below summarizes deferred revenue activity for the year ended December 31, 2019:

Deferred Revenue - Beginning of Year	\$ -
Cumulative Effect of Adopting New Accounting Principle	396,084
Collection of Reserve Revenues	120,252
Reserve Revenues Recognized	<u>(86,871)</u>
Deferred Revenue - End of Year	<u>\$ 429,465</u>

NOTE 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes and the Association's bylaws require that the annual budget include reserve amounts for capital expenditures and deferred maintenance. These include, but are not limited to, roof replacement, building painting, and pavement resurfacing. The Association has elected to fund reserves using the cash flow method. Reserves are funded unless the members subsequently determine by majority vote of those present at a duly called meeting to fund no reserves or less than adequate reserves for the year.

The cash flow method is a form of calculating reserve requirements whereby contributions to the reserve funds are designed to offset the variable annual expenditures from the reserve fund. This method calculates the current replacement cost for reserve components when they are due for replacement. Funds from the beginning balances are pooled together and a yearly contribution rate is calculated to arrive at a positive cash flow and reserve account balance to adequately fund the future projected expenditures throughout the period.

During the year ended December 31, 2019, the Association calculated the funding for future major repairs and replacements based on a 2019 reserve study, of remaining useful lives and current replacement, in accordance with Florida Statutes. The budgeted funding for 2020 is \$125,316, and the statutory funding is \$120,252 for the replacement fund, as shown in the unaudited supplementary information. The components' actual replacement costs, useful lives, and investment income may vary from estimated amounts, and the variation may be material. Because funds are not accumulated by component, amounts accumulated in the fund may not be adequate to meet all future needs for major repairs and replacements. In addition, the timing and amount of actual expenditures will vary and these variations may be material. When funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay the repair or replacement until funds are available.

NOTE 6 MANAGEMENT SERVICES AND RELATED PARTY TRANSACTION

The Association entered into an agreement with Arbor Pointe Management, LLC for its management and administrative services. The Association is billed a fixed rate each month for administration, maintenance, and housekeeping. At the end of the quarter the expenses are calculated and billings adjusted to actual costs. The fee for the year ended December 31, 2019 was \$280,461.

**ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 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 interests of 43.128% and 56.872% respectively, and purchased the clubhouse and assisted living facility. In 2012 Tower Trace, LLC added an additional wholly owned subsidiary Tower Trace Realty, LLC.

The Association's investment in Tower Trace, LLC at December 31, 2019 was value at \$1,685,190 as follows:

Total Assets	\$ 4,307,185
Total Liabilities	(474,772)
Capital Contributed to Tower Trace LLC	75,000
Net Assets	<u>\$ 3,907,413</u>
Revenues	\$ 5,989,262
Expenses	5,968,339
Net Income	<u>\$ 20,923</u>

Management annually reviews this investment for impairment. No indications of impairment were present at December 31, 2019.

NOTE 8 SHARED FACILITIES

The Association in 2000, while under the control of the Developer, entered into an agreement with Arbor Trace Condominium Association, Inc., Naples Development Group (the Developer) Arbor Trace Services Center, Inc. and Arbor Trace Management Corporation. The agreement provides for certain rights to cross 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 age, guardhouse, front wall, security personal, utility lines, water management facilities, and irrigation system.

Monthly shared facilities expense is calculated as a percentage based on the number of Association 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, 2019 was \$45,094.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

The following table represents a study (cash flow analysis) performed in 2019 by an independent specialist. The analysis calculates the minimum annual contributions necessary to fund reserve components under a set of stated parameters. The table presents significant information about the components of common property. The study assumes a 1.71% rate of inflation and a 0.71% rate of return on investments. At December 31, 2019, the Association had \$429,465 for future major repairs and replacements.

<u>Components</u>	<u>Estimated Useful Lives (Years)</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>2020 Statutory Funding</u>
Roofing		6 - 18	\$ 1,573,074	
Painting and Waterproofing		5	155,245	
Site Features		4 - 30	208,104	
Common Area Interiors		3 - 12	180,600	
Mechanical/Electrical		4 - 34	<u>647,000</u>	
Total			<u>\$ 2,764,023</u>	<u>\$ 120,252</u>

The 2020 budgeted funding is \$125,316 for the replacements.