

Arbor Trace
Condominium Association,
Inc.

Financial
Statements
and
Required
Supplementary
Information

Year Ended
December 31,
2020

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

TABLE OF CONTENTS	PAGE
Independent Auditors' Report	1
Financial Statements as of and for the Year Ended December 31, 2020	
Balance Sheet	3
Statements of Revenues, Expenses and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Required Supplementary Information	14
Required Supplementary Schedule of Future Major Repairs and Replacements (Unaudited)	15

INDEPENDENT AUDITORS' REPORT

July 26, 2021

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, 2020, 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, 2020, 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 Schedule of Future major Repairs and Replacements on page 15 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.

More & Company, LLC

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

Balance Sheet December 31, 2020

ASSETS	Operating Fund	Replacement Fund	Total
Current assets			
Cash and cash equivalents	\$ 285,246	\$ 433,797	\$ 719,043
Investments - certificates of deposit	-	100,649	100,649
Assessment receivables	1,209	-	1,209
Prepaid expenses	55,721	-	55,721
Total current assets	342,176	534,446	876,622
Investment in Tower Trace, LLC	1,645,005	-	1,645,005
Total assets	\$ 1,987,181	\$ 534,446	\$ 2,521,627
LIABILITIES AND FUND BALANCES			
Current liabilities			
Accounts payable and accrued expenses	\$ 44,858	\$ 1,500	\$ 46,358
Prepaid owner assessments	2,301	-	2,301
Contract liabilities - assessments received in advance	-	532,946	532,946
Total liabilities (all current)	47,159	534,446	581,605
Fund balances			
Fund balance - Investment in Tower Trace, LLC	1,645,005	-	1,645,005
Fund balances	295,017	-	295,017
Fund balances	1,940,022	-	1,940,022
Total liabilities and fund balances	\$ 1,987,181	\$ 534,446	\$ 2,521,627

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, 2020

	Operating Fund	Replacement Fund	Total
Revenues			
Unit owner assessments	\$ 942,240	\$ 21,836	\$ 964,076
Interest income	836	5,430	6,266
Total revenues	943,076	27,266	970,342
Expenses			
Salaries and benefits	278,044	-	278,044
Utilities	210,822	-	210,822
Insurance	159,498	-	159,498
Grounds maintenance	111,465	-	111,465
Maintenance and repairs	79,329	-	79,329
Cable	50,001	-	50,001
Office and administrative	13,406	-	13,406
Trash	12,134	-	12,134
Professional fees	9,733	-	9,733
Replacement fund expenditures	-	27,266	27,266
Total expenses	924,432	27,266	951,698
Revenues in excess of (less than) expenses before non-operating items	18,644	-	18,644
Equity in income of Tower Trace, LLC	(40,186)	-	(40,186)
Revenues less than expenses	(21,542)	-	(21,542)
Fund balances, December 31, 2019	1,957,642	-	1,957,642
Prior period adjustment - income taxes	3,922	-	3,922
Fund balances, restated, December 31, 2019	1,961,564	-	1,961,564
Fund balances, December 31, 2020	\$ 1,940,022	\$ -	\$ 1,940,022

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

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

Statement of Cash Flows

Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Owner member assessments	\$ 940,022	\$ 125,316	\$ 1,065,338
Cash paid for expenses	(927,756)	(25,766)	(953,522)
Interest and other income	836	5,430	6,266
Net cash provided by (used in) operating activities	13,102	104,980	118,082
Cash flows from investing activities			
Matured certificates of deposit	-	230,000	230,000
Certificates of deposit purchased	-	(100,649)	(100,649)
Net cash provided by investing activities	-	129,351	129,351
Net increase (decrease) in cash and cash equivalents	13,102	234,331	247,433
Cash and cash equivalents, beginning of year	272,144	199,466	471,610
Cash and cash equivalents, end of year	\$ 285,246	\$ 433,797	\$ 719,043
Reconciliation of revenues less than expenses to net cash provided by (used in) operating activities			
Revenues less than expenses	\$ (21,542)	\$ -	\$ (21,542)
Adjustments to reconcile revenues less than expenses to net cash provided by (used in) operating activities			
Equity in income of Tower Trace, LLC	40,186	-	40,186
Changes in operating assets and liabilities which provided (used) cash:			
Assessments receivables	(1,209)	-	(1,209)
Prepaid expenses	(7,490)	-	(7,490)
Accounts payable and accrued expenses	4,166	1,500	5,666
Prepaid owner assessments	(1,009)	-	(1,009)
Contract liabilities (assessments received in advance)	-	103,480	103,480
Net cash provided by (used in) operating activities	\$ 13,102	\$ 104,980	\$ 118,082

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 residential condominium units occupying a site of approximately 34 acres located 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 using the accrual basis of accounting in accordance with accounting principles 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

Members' assessments, including operating fund and replacement fund assessments, are billed monthly and 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 is 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 purpose. 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 for an equal proportionate share of common expense. 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. Prepaid owner assessments, where recorded, represents fees from unit owners paid in advance.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Assessment Receivable

Assessments receivable, which consist principally of assessments and fees due from residents, are stated at the amounts expected to be collected from outstanding assessments from unit owners. 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. The Association treats uncollectible assessments as variable consideration. Methods inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside of the Association's control.

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

Management believes accounts 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, certificateS 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" as defined by Financial Accounting Standards ASC 320 "*Accounting for certain Investments in Debt and Equity Securities*".

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 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.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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.

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 income, less a portion of allocated Association expenses. As of and for the year ended December 31, 2020, no tax was due. Prepaid expenses at December 31, 2020 include \$7,642 of income taxes receivable.

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 treats 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 years 2017 through 2020, the years which remain subject to examination as of December 31, 2020. 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, 2020, and is not aware of any claims for such amounts by federal income tax authorities.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FASB ASC 606 New Accounting Guidance Implementation

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 972-605, *Real Estate - Common Interest Realty Associations, 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 association expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. 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 our accounting policies for assessments revenue and contract liabilities related to the replacement fund, as previously described.

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, 2020, the most recent balance sheet presented herein, through July 26, 2021, the date these financial statements were available to be issued. No significant such events or transactions were identified.

2. MANAGEMENT SERVICES AND RELATED PARTY TRANSACTIONS

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 management fee for the year ended December 31, 2018 was \$281,958.

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 determined by the Board of Directors and approved by the members as part of the annual budget.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2020, the regular monthly assessments were as follows:

Unit Type	Operating Fund	Cable Assessments	Replacement Fund	Total
"A" unit	\$ 535	\$ 50	\$ 69	\$ 654
"B" unit	\$ 671	\$ 50	\$ 88	\$ 809
"C" unit	\$ 890	\$ 50	\$ 118	\$ 1,058
"D" unit	\$ 822	\$ 50	\$ 109	\$ 981
"E" unit	\$ 1,158	\$ 50	\$ 156	\$ 1,364
"F" unit	\$ 1,066	\$ 50	\$ 143	\$ 1,259
"G" unit	\$ 1,213	\$ 50	\$ 164	\$ 1,427

Amounts received before the date due are reflected as prepaid owner assessments. 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 is 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 purpose. The Association recognized operating fund assessments of \$942,240 and replacement fund assessments of \$21,836 for the year ended December 31, 2020. 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 the fair value hierarchy established by ASC 820 "Fair Value Measurements". 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, 2020:

	Level 1	Level 2	Level 3	Total
Certificates of deposit by				
Maturity Date	4/8/2021	\$ 100,649	\$ -	\$ -
		<u>\$ 100,649</u>	<u>\$ -</u>	<u>\$ 100,649</u>

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. Accumulated funds, which aggregate \$532,946, are presented on the accompanying balance sheet as a contract liability (assessments received in advance - replacement fund) at December 31, 2020. The Association uses the pooled method for funding and maintaining its future major repairs and replacements.

The Association engaged an independent capital reserve analyst to perform an analysis in 2019 of the remaining useful lives and future replacement costs. 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 \$130,200, based on a full funding plan, has been included in the 2021 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 2020 are as follows:

Beginning Fund Balance	Additions To Fund*	Expenditures	Ending Fund Balance
<u>\$ -</u>	<u>\$ 27,266</u>	<u>\$ (27,266)</u>	<u>\$ -</u>

* Includes interest income of \$5,430.

Pooled expenditures:	
Mechanical / electrical	\$ 27,146
Other	120
	<u>\$ 27,266</u>

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Contract Liabilities 12/31/2019	Budgeted Assessments	Less Assessments Recognized	Contract Liabilities 12/31/2020
<u>\$ 429,466</u>	<u>\$ 125,316</u>	<u>\$ (21,836)</u>	<u>\$ 532,946</u>

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 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, 2020 was valued at \$1,645,005 as follows:

Total assets	<u>\$ 4,333,082</u>
Total liabilities	<u>\$ 518,842</u>
Equity:	
Arbor Trace Condominium Association, Inc.	1,645,005
Tower Pointe at Arbor Trace Condominium Association, Inc.	<u>2,169,235</u>
Total equity	<u>3,814,240</u>
Total liabilities and equity	<u>\$ 4,333,082</u>
Revenues	\$ 5,784,259
Expenses	<u>5,877,430</u>
Net Loss	<u>\$ (93,171)</u>

Management annually reviews this investment for impairment. No indications of impairment were present at December 31, 2020.

7. 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.

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 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, 2020 was \$47,310.

8. INSURANCE DEDUCTIBLE

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

9. PRIOR PERIOD ADJUSTMENT

The Association filed an amended tax return for 2019 noting a loss for the current year and requesting that the \$3,922 paid in income taxes, penalties and interest be returned to the Association.

**REQUIRED
SUPPLEMENTARY INFORMATION**

ARBOR TRACE CONDOMINIUM ASSOCIATION, INC.

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

The Association hired an independent capital reserve analyst to conduct a study in 2019 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 2021 Funding Requirement	Contract Liabilities December 31, 2020
Roofing	5 - 17	\$ 1,573,074		
Painting and waterproofing	4	155,245		
Pavement and roadways	3 - 29	208,104		
Common area interiors	2 - 11	180,600		
Mechanical / electrical	3 - 33	647,000		
		<u>\$ 2,764,023</u>	<u>\$ 130,200</u>	<u>\$ 532,946</u>

See independent auditors' report on required supplementary information.