



**FLORENCE GARDENS MOBILE
HOME ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
AND FOR THE YEAR THEN ENDED



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FLORENCE GARDENS MOBILE HOME ASSOCIATION

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
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 – 12
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements	13

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Florence Gardens Mobile Home Association

Report on Financial Statements

We have audited the accompanying financial statements of Florence Gardens Mobile Home Association (an Arizona 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.

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 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 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 Florence Gardens Mobile Home Association as of December 31, 2020, and the results of its operations and its cash flows, for the year then ended in conformity 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 information on future major repairs and replacements of common property, on page 13, 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.

Butler Hansen, PLC

Gilbert, Arizona
June 25, 2021

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2020**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>RV/KITCHEN ACTIVITIES FUND</u>	<u>CAPITAL IMPROVEMENT FUND</u>	<u>TOTAL</u>
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 55,990	\$ 75,053	\$ 48,628	\$ 2,002	\$ 181,673
Certificates of Deposit	253,173	308,162	-	-	561,335
Accounts Receivable, Net of Allowance of \$262,148	20,128	-	4,265	-	24,393
Prepaid Insurance	33,100	-	2,521	-	35,621
TOTAL CURRENT ASSETS	<u>362,391</u>	<u>383,215</u>	<u>55,414</u>	<u>2,002</u>	<u>803,022</u>
Property, Plant and Equipment, Net of Accumulated Depreciation of \$998,488	810,587	-	-	-	810,587
TOTAL ASSETS	<u>\$ 1,172,978</u>	<u>\$ 383,215</u>	<u>\$ 55,414</u>	<u>\$ 2,002</u>	<u>\$ 1,613,609</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 3,853	\$ -	\$ 364	\$ -	\$ 4,217
Accrued Expenses	3,812	-	58	-	3,870
Sales Tax Payable	-	-	1,103	-	1,103
Deferred/Prepaid Revenue	5,681	-	-	-	5,681
Transfer Fees Payable	300	-	-	-	300
Refundable Deposits	-	-	7,775	-	7,775
TOTAL LIABILITIES	<u>13,646</u>	<u>-</u>	<u>9,300</u>	<u>-</u>	<u>22,946</u>
FUND BALANCES	<u>1,159,332</u>	<u>383,215</u>	<u>46,114</u>	<u>2,002</u>	<u>1,590,663</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,172,978</u>	<u>\$ 383,215</u>	<u>\$ 55,414</u>	<u>\$ 2,002</u>	<u>\$ 1,613,609</u>

See accompanying notes to financial statements.

FLORENCE GARDENS MOBILE HOME ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2020

	OPERATING FUND	REPLACEMENT FUND	RV/KITCHEN ACTIVITIES FUND	CAPITAL IMPROVEMENT FUND	TOTAL
REVENUES					
Association Revenue	\$ 639,947	\$ -	\$ -	\$ -	\$ 639,947
Business Office Activity	9,013	-	-	-	9,013
Activity Revenue, Clubhouse and Kitchen	-	-	29,017	-	29,017
RV Storage Rental	-	-	51,380	-	51,380
Vending Machine Revenue	-	-	3,114	-	3,114
Bingo Proceeds	-	-	3,783	-	3,783
Capital Improvement	-	-	-	2,000	2,000
Interest Income	3,689	6,662	23	2	10,376
TOTAL REVENUES	<u>652,649</u>	<u>6,662</u>	<u>87,317</u>	<u>2,002</u>	<u>748,630</u>
EXPENSES					
Administrative Expenses	161,133	-	-	-	161,133
Salaries, Wages and Employee Benefits	224,606	-	35,047	-	259,653
Business Office Activity	2,175	-	-	-	2,175
Common Area	31,983	-	-	-	31,983
Utilities	51,889	-	-	-	51,889
Taxes/Other Expenses	66,919	-	-	-	66,919
Replacement Fund Expenses	-	9,030	-	-	9,030
Activity Expenses, Clubhouse and Kitchen	-	-	17,541	-	17,541
Vending Machine Expenses	-	-	851	-	851
RV Storage Expenses	-	-	27,793	-	27,793
Bingo Expenses	-	-	3,717	-	3,717
TOTAL EXPENSES	<u>538,705</u>	<u>9,030</u>	<u>84,949</u>	<u>-</u>	<u>632,684</u>
EXCESS REVENUES (EXPENSES)	113,944	(2,368)	2,368	2,002	115,946
FUND BALANCES					
BEGINNING OF YEAR	1,182,658	287,994	4,065	-	1,474,717
TRANSFERS BETWEEN FUNDS					
Budgeted Transfers	(120,000)	120,000	-	-	-
Capitalized Fixed Asset Transfers	22,411	(22,411)	-	-	-
Additional Transfers Between Funds	(39,681)	-	39,681	-	-
TOTAL TRANSFERS BETWEEN FUNDS	<u>(137,270)</u>	<u>97,589</u>	<u>39,681</u>	<u>-</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,159,332</u>	<u>\$ 383,215</u>	<u>\$ 46,114</u>	<u>\$ 2,002</u>	<u>\$ 1,590,663</u>

See accompanying notes to financial statements.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>RV/KITCHEN ACTIVITIES FUND</u>	<u>CAPITAL IMPROVEMENT FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Excess Revenues (Expenses)	\$ 113,944	\$ (2,368)	\$ 2,368	\$ 2,002	\$ 115,946
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities					
Bad Debt Expense	12,619	-	3,990	-	16,609
Depreciation Expense	65,026	-	-	-	65,026
Loss on Fixed Asset Disposal	1,996	-	-	-	1,996
(Increase)/Decrease In					
Accounts Receivable	(20,800)	-	(8,255)	-	(29,055)
Prepaid Insurance	(19,732)	-	(2,521)	-	(22,253)
Increase/(Decrease) In					
Accounts Payable	(101)	-	364	-	263
Accrued Expenses	417	-	58	-	475
Income Taxes Payable	(50)	-	-	-	(50)
Sales Tax Payable	(4,395)	-	1,103	-	(3,292)
Deferred/Prepaid Revenue	1,035	-	-	-	1,035
Transfer Fees Payable	300	-	-	-	300
Refundable Deposits	(7,825)	-	7,775	-	(50)
Net Cash Provided (Used) by Operating Activities	<u>142,434</u>	<u>(2,368)</u>	<u>4,882</u>	<u>2,002</u>	<u>146,950</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Redemptions of Certificates of Deposit	-	51,160	-	-	51,160
Purchases of Certificates of Deposit	(250,000)	(150,000)	-	-	(400,000)
Reinvested Interest Earned	(3,173)	(6,455)	-	-	(9,628)
Purchases of Capital Assets	(22,411)	-	-	-	(22,411)
Net Cash Provided (Used) by Investing Activities	<u>(275,584)</u>	<u>(105,295)</u>	<u>-</u>	<u>-</u>	<u>(380,879)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Budgeted Transfers	(120,000)	120,000	-	-	-
Capitalized Fixed Asset Transfers	22,411	(22,411)	-	-	-
Additional Transfers Between Funds	(39,681)	-	39,681	-	-
Payments Made on Capital Lease Obligation	(4,522)	-	-	-	(4,522)
Net Cash Provided (Used) by Financing Activities	<u>(141,792)</u>	<u>97,589</u>	<u>39,681</u>	<u>-</u>	<u>(4,522)</u>
NET INCREASE (DECREASE) IN CASH	(274,942)	(10,074)	44,563	2,002	(238,451)
CASH BALANCE, BEGINNING OF YEAR	330,932	85,127	4,065	-	420,124
CASH BALANCE, END OF YEAR	\$ 55,990	\$ 75,053	\$ 48,628	\$ 2,002	\$ 181,673
<u>SUPPLEMENTARY INFORMATION</u>					
Income Taxes Paid	\$ 50				
Interest Expense	\$ -				

See accompanying notes to financial statements.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – NATURE OF OPERATIONS

Florence Gardens Mobile Home Association (the “Association”), a non-stock homeowners association, was incorporated on July 27, 1971, under the general nonprofit laws of the State of Arizona for the purpose of providing for the management, maintenance and care of the common areas and other property owned by the Association. The Association, located in Florence, Arizona, consists of 1,339 total lots, of which 1,278 are considered “full lots”, 33 are considered “half lots” and 28 are considered “non-billable” lots. There is a Board of Directors elected by the member homeowners. The Board of Directors has engaged HOAMCO, as the managing agent for the Association.

Periodically throughout the year, the Association hosts numerous dances, events, and social activities for its members and guests. Revenue resulting from ticket sales, and expenses incurred for facilitating and providing these events, are recorded as activity income and activity expense, respectively.

The Association leases a neighboring parcel of land for its members to store recreational vehicles. Members choosing to store their recreational vehicles on this parcel of land pay a nonrefundable, seasonal use fee to the Association.

The Association’s members have established and actively participate in numerous activity clubs within the Association. On occasion, the clubs will make contributions to the Association to assist in or fully fund the cost of capital expenditures that benefit the respective club, or the Association as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified, for accounting and reporting purposes, using the following funds established according to their nature and purpose:

Operating Fund

The Operating Fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

The Replacement Fund is used to account for the accumulation of funds for future major repairs and replacements.

RV/Kitchen Activities Fund

The RV/Kitchen Activities Fund is used to account for the Association’s RV, kitchen and activities operations.

Capital Improvement Fund

The Capital Improvement Fund to account for future capital improvements in the common area.

Cash and Cash Equivalents

For statement of cash flows purposes, the Association considers cash in operating bank accounts, money market accounts, and certificates of deposit, with maturities at date of purchase of three months or less, as cash and cash equivalents. Certificates of deposit and financial instruments, with maturities at date of purchase, of more than three months, are classified as certificates of deposit.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

The Association invests in certificates of deposit that generally mature in three years or less. The Association intends to hold certificates of deposit until maturity. Certificates of deposit are recorded at cost.

Accounts Receivable

The annual budget and member assessments are approved by the Board of Directors. Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and future replacements. Accounts receivable at December 31, 2020, represent fees due from unit owners. The Association accounts for receivables on the cost basis. Annual assessments are due on or before February 10th of each year, and are considered delinquent on March 1 of each year. At its option and within its sole discretion, the Association may send notices for overdue assessment amounts at 60 and 90 days from the delinquency date. The 90 day notice may include a 10 day collection demand letter for payment in full of all outstanding assessments and late penalty/penalties. If payment in full is not received within 15 days of such notice being sent, the Board of Directors may decide a course of legal remedies. Receivables are reviewed regularly and the Association establishes an allowance for doubtful accounts on receivables based on an estimate of accounts which will not be fully collected. Accounts are written-off when a homeowner enters bankruptcy or foreclosure. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Prepaid Assessments and Revenue Recognition

Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Association and are classified as Prepaid Assessments. Revenue from assessments, allocated to either the operating or reserve fund, is recognized as the performance obligation to maintain the community and to provide ongoing services is considered completed, generally on a monthly basis.

Property and Equipment

In accordance with American Institute of Certified Public Accountants guidelines, the Association capitalizes all common real property to which it has title or other evidence of ownership and either:

- (1) can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash and it can retain the proceeds,

– or –

- (2) the property is used to generate significant cash flows from the members on the basis of usage.

The Association capitalizes all personal property it acquires with a value greater than or equal to \$500. Purchased property and equipment is recorded at cost and is depreciated utilizing the straight-line depreciation method over the useful lives of the property and equipment.

Common Property

The common areas within the Association consist of pools, various sports courts, administrative offices, recreational facilities and meeting rooms, which can never be sold or subdivided.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of Management’s Review

Subsequent events have been evaluated through June 25, 2021, which is the date the financial statements were available to be issued.

Interest Income

The Association allocates interest income earned on cash and cash equivalents to the operating and replacement funds in proportion to the interest-bearing deposits of each fund. The Association allocates interest income earned on certificates of deposit exclusively to the replacement fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to manage the Association’s affairs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2020:

	<u>Total Due</u>	<u>Over 90 Days</u>
Assessments Receivable	\$ 15,344	\$ 15,344
Late Fees/Interest	1,915	1,829
RV/Kitchen Activities Fund Receivables	4,265	-
Violation Fines	23,892	23,892
Late Fees	1,916	1,916
Collection Fees	<u>1,934</u>	<u>1,834</u>
Total Receivables, Unit F Excluded	49,266	44,815
Assessments Receivable, Unit F	215,705	215,705
Other Receivables, Unit F	<u>21,570</u>	<u>21,570</u>
Total Receivables, Unit F	<u>237,275</u>	<u>237,275</u>
Total Receivables, Gross	286,541	282,090
Less: Allowance for Doubtful Accounts, Unit F Excluded	(24,873)	(24,873)
Less: Allowance for Doubtful Accounts, Unit F	<u>(237,275)</u>	<u>(237,275)</u>
Less: Allowance for Doubtful Accounts, Total	<u>(262,148)</u>	<u>(262,148)</u>
Total Receivables, Net	<u>\$ 24,393</u>	<u>\$ 19,942</u>

For the year ended December 31, 2020, an allowance for doubtful homeowner accounts in the amount of \$262,148 was established using the Allowance Method. Bad debt expense for the year ended December 31, 2020, was \$16,609.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4 – CERTIFICATES OF DEPOSIT

Certificates of deposit held directly with financial institutions are classified as certificates of deposit on the balance sheet. At December 31, 2020, the Association had \$561,335 in certificates of deposit. The certificates of deposit outstanding at December 31, 2020, mature at various dates throughout 2021 and 2022, and earn interest at rates ranging from 1.50% to 2.71%.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following for the year ended December 31, 2020:

Furniture and Equipment	\$	393,641
Buildings and Improvements		1,287,375
Leasehold Improvements		45,261
Recreation Equipment		23,703
Software		1,895
Bingo Equipment		7,855
Land		49,345
		1,809,075
Accumulated Depreciation		(998,488)
Total	\$	810,587

For the year ended December 31, 2020, depreciation expense was \$65,026, which was only related to the operating fund, as the bingo fund assets have been fully depreciated.

NOTE 6 – UNIT F

There are approximately 93 lots located within an undeveloped parcel designated “Unit F” which are currently viewed by the Association as delinquent in their payment of assessments and other applicable fees to the Association. At December 31, 2020, delinquent assessments and other fees due to the Association were \$237,275. Due to the results of foreclosure proceedings in prior years, 93 lots located within the undeveloped parcel designated “Unit F” were under ownership of the Town of Florence at December 31, 2020.

NOTE 7 – CONCENTRATION OF CREDIT RISK

The Association’s primary source of revenue is member assessments, which are earned on assessable lots or parcels located within a small geographic area. Member assessments and related receivables are subject to significant concentration of credit risk, given that they are primarily from a small geographical area, which can be impacted by similar economic conditions. Member assessments may be secured by liens upon a member’s property or legal judgements. The Association monitors the collectability of these receivables and pursues collection as needed. Should the Association’s collection efforts be unsuccessful, the Association could incur losses up to the full amount due. Management routinely assesses the collectability of these receivables and provides for an allowance for doubtful accounts.

**FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – CONCENTRATION OF CREDIT RISK (CONTINUED)

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), or other types of insurance programs.

NOTE 8 – CAPITAL LEASE

In June 2016, the Association entered into a lease for copier equipment. Under the terms of the lease, the Association will pay \$323, plus applicable taxes, for 60 months. Total lease payments for the year ended December 31, 2020, were \$1,707. During the year ended December 31, 2020, the Association entered into a new lease agreement for copier equipment. The Board has determined that this new lease will be reported as an operating lease.

NOTE 9 – OPERATING LEASE AGREEMENTS

Land Lease

The Association has entered into a 120 month operating lease agreement with the Arizona State Land Department (ASLD) for approximately 7.54 acres of land neighboring the Association. The lease has an effective date of September 20, 2017, and will expire on September 19, 2027. The lease requires annual payments of \$15,000 for the duration of the lease agreement.

Copier Equipment

In December 2020, the Association entered into a lease for copier equipment. Under the terms of the lease, the Association will pay \$296.66 per month for 60 months, after a 90 day deferral. The Association did not make any payments on this lease during the current year.

Future minimum future payments for both operating lease agreements are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 17,670
2022	18,560
2023	18,560
2024	18,560
2025	18,560
Thereafter	<u>15,890</u>
Total	<u>\$ 107,800</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Association enters into various contracts for management, landscape and other services. Generally all contracts are for one year terms and can be canceled by either party with 30 to 90 day notifications.

FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 11 – MEMBER ASSESSMENTS

Association members are subject to annual assessments, billed on a periodic basis, to provide funds for the Association's operating expenses and major repairs and replacements. Total annual assessments for the year ended December 31, 2020, were \$448 per lot, payable in a single installment of \$448. Of the Association's 1,339 total lots, each owner of the 1,278 lots designated as "full lots" pays a full rate of assessment, each partial owner of the 33 lots designated as "half lots" pays 50% of the full rate of assessment, and 28 lots are considered to be "non-billable" lots for assessment purposes. Assessment revenue allocated to the operating and reserve funds is recognized as the related performance obligation is satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its annual assessments billed on a periodic basis is satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. There is no maximum annual assessment defined in the Association's governing documents.

At December 31, 2020, the Association had delinquent assessments of \$15,344. It is the opinion of the Board of Directors that the Association will ultimately prevail against the majority of the homeowners with delinquent assessments.

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 the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$19,391 and \$15,344, respectively.

NOTE 12 – ANCILLARY OPERATIONS

Activity Revenue and Expense

The Association operates an activity office that hosts numerous dances, events, and social activities for its members and guests throughout the year. For the year ended December 31, 2020, revenue resulting from activities and special events amounted to \$29,017, while expenses incurred for organization and providing events, amounted to \$17,541.

Indirect Expenses of Ancillary Operations

Ancillary operations are performed as benefits to the members of the Association, and may or may not operate at a positive net income in a given year. Management has opted to not allocate a number of the indirect expenses (e.g. main office accounting and management functions, payroll and related expenses, etc.) of these ancillary operations due to the difficulty in determining an accurate allocation methodology.

Had an allocation been made and these indirect expenses been included in the expenses of their respective ancillary operations, the resulting increase in expenses could cause an ancillary operation that had previously appeared to be operating at a positive net income to instead operate at a net deficit.

NOTE 13 – COVID-19 PANDEMIC

During the year ended December 31, 2020, a pandemic caused by the coronavirus (COVID-19) has had a significant detrimental impact on the United States economy. As a result, economic uncertainties have arisen which could negatively impact revenue for the Association. Other financial impacts such as bad debt losses, contract modifications, inadequate reserve funding, or other unforeseen circumstances could occur.

FLORENCE GARDENS MOBILE HOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 14 – INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2020. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

For federal and state income tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has a tax rate of 21% applied to net taxable income. The state tax rate that is applied to net taxable income is 4.9%. The Association had a federal and state tax liability of \$632 and \$155, respectively, for the year ended December 31, 2020. Federal and state income taxes disbursed in the current year for the prior year were \$0 and \$50, respectively.

NOTE 15 – UNCERTAIN TAX POSITIONS

The Association accounts for uncertain tax positions, if any, in accordance with FASB ASC 740, *Income Taxes*. In accordance with these professional standards, the Association recognizes tax positions only to the extent that Management believes it is “more likely than not” that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax position for the year ending December 31, 2020.

The Association believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association’s financial condition, net income or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2020.

The Association is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Association believes it is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2018, or by Arizona state tax authorities for years before 2017.

NOTE 16 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association accumulates funds for future major repairs and replacements. At December 31, 2020, funds accumulated for this purpose are \$383,215 and are held in separate accounts and are generally not available for operating purposes.

The Association’s Board of Directors conducted an internal study to estimate the remaining useful lives and replacement costs of the common property components. The internal study applicable to the year ended December 31, 2020, was completed on January 3, 2019. The Association is funding major repairs and replacements based on the estimates of current replacement costs. Funding considerations include amounts previously designated for future major repairs and replacements. Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may or may not be adequate to meet future needs. If additional funds are ultimately needed, however, the Association may increase regular assessments, up to the maximum annual assessment, levy special assessments, subject to member approval, borrow the funds necessary, subject to member approval, or may delay major repairs and replacements until funds are available.



**FLORENCE GARDENS MOBILE
HOME ASSOCIATION**

SUPPLEMENTARY
INFORMATION



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**FLORENCE GARDENS MOBILE HOME ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020**

The Association's Board of Directors conducted an internal study to estimate the replacement costs of certain common property components. The study was completed on January 3, 2019. 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 table is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Remaining Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance December 31, 2020</u>
Access Control	0 to 45	\$ 94,820	\$ -
Annex	1 to 33	74,080	-
Clubhouse	0 to 25	180,896	-
Clubhouse Hall & Kitchen	1 to 24	94,990	-
Grounds	0 to 29	234,800	-
Office & Entry	0 to 19	63,100	-
Pool & Recreation	0 to 35	136,368	-
RV Storage	0 to 26	51,900	-
Unallocated		<u>-</u>	<u>383,215</u>
Total		<u>\$ 930,954</u>	<u>\$ 383,215</u>

See independent auditor's report.