

CAMELOT TOWNHOMES ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

AND INDEPENDENT AUDITORS' REPORT

SBNG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Camelot Townhomes Association, Inc.

We have audited the accompanying financial statements of Camelot Townhomes Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2020 and the related statement of revenues, expenses, and changes in fund balance 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 auditors' 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 qualified audit opinion.

To the Board of Directors and Members of
Camelot Townhomes Association, Inc.

Basis for Qualified Opinion

Camelot Townhomes Association, Inc. has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the information regarding future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements. Camelot Townhomes Association, Inc. computes depreciation in accordance with the Modified Accelerated Cost Recovery System (MACRS) required for federal income tax purposes, which does not allocate depreciation expense over their estimated useful lives to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effect of not estimating the information regarding future major repairs and replacements and the effects of computing depreciation, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances of Camelot Townhomes Association, Inc. as of December 31, 2020, and its revenues, expenses, and other changes in fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

SBNG, PC

El Paso, Texas
May 7, 2021

CAMELOT TOWNHOMES ASSOCIATION, INC.

BALANCE SHEET

December 31, 2020

ASSETS

Current assets:	
Cash	\$ 190,994
Restricted cash	377,113
Accounts receivable	20,568
Prepaid insurance	<u>76,650</u>
Total current assets	665,325
Property and equipment, net	<u>43,602</u>
Total assets	<u>\$ 708,927</u>

LIABILITIES AND FUND BALANCES

Current liabilities:	
Accounts payable	\$ 8,658
Contract liabilities (assessments received in advance - replacement fund)	370,866
Prepaid assessments	<u>15,392</u>
Total current liabilities	394,916
Fund balances	<u>314,011</u>
Total liabilities and fund balances	<u>\$ 708,927</u>

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

CAMELOT TOWNHOMES ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2020

Revenues:	
Assessments	\$ 922,012
Restricted income	124,718
Vending income	6,985
Interest income	619
Other income	<u>1,010</u>
Total revenues	<u>1,055,344</u>
Expenses:	
Repairs and maintenance	342,180
Payroll and related expenses	194,438
Utilities	194,308
Insurance	83,753
Cable fee	71,736
Professional fees	71,203
Management fee	33,767
Trash removal	19,644
Supplies	17,840
Depreciation	9,434
Pest control	6,044
Telephone	4,037
Payroll service fees	1,790
Parking lot	1,040
Miscellaneous expenses	<u>5,712</u>
	<u>1,056,926</u>
Excess of expenses over revenues	(1,582)
Fund balance, beginning of year	<u>315,593</u>
Fund balance, end of year	<u><u>\$ 314,011</u></u>

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

CAMELOT TOWNHOMES ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2020

Cash flows from operating activities:	
Excess of expenses over revenues	\$ (1,582)
Adjustments to reconcile excess of expenses over revenues to net cash used in operating activities:	
Depreciation	9,434
(Increase) decrease in:	
Accounts receivable	640
Prepaid insurance	(64,546)
Increase (decrease) in:	
Accounts payable	(8,086)
Contract liabilities	37,769
Prepaid assessments	<u>3,888</u>
Net cash used in operating activities	<u>(22,483)</u>
Net decrease in cash and restricted cash	(22,483)
Cash and restricted cash, at beginning of year	<u>590,590</u>
Cash and restricted cash, at end of year	<u>\$ 568,107</u>

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

CAMELOT TOWNHOMES ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Camelot Townhomes Association, Inc. (“the Association”) is presented to assist in understanding the Association's financial statements. The financial statements and notes are the representations of the Association's management, which is responsible for their integrity and objectivity.

Nature of Activities - Camelot Townhomes Association, Inc. is a non-stock corporation, organized for the purpose of administering and maintaining the common area of the homes known as Camelot Townhomes Association, Inc. in El Paso, Texas. The Association is comprised of 203 homes. The Corporation does not issue stock; however, each owner of a home automatically becomes a member of the Association at the time of purchase. The sole qualification for membership is ownership of a home in the project, and all homeowners must be members of the Association. The articles of incorporation state that no part of the Association’s earnings or assets shall inure to the benefit of any member.

Accounts Receivable - Individual accounts are maintained for each homeowner to account for any unpaid charges. No allowance for bad debts is maintained as accounts are written off when they are determined to be uncollectible. Generally accepted accounting principles require that an allowance for uncollectible accounts be maintained in lieu of the direct charge-off method. However, the Board has determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

Compensated Absences - Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Association's policy is to recognize these costs when actually paid.

Property and Equipment, Net - Property and equipment, net is stated at cost. Depreciation is computed using the modified accelerated cost recovery method over the useful lives of the assets, which range from 7 to 31.5 years. Expenditures for repairs and maintenance are charged to expense as incurred. For assets retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the change in fund balance for the period.

Income Taxes - The Association qualifies as a tax-exempt Condominium Management Association under Internal Revenue Code Section 528 for the year ended December 31, 2020. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the preservation and maintenance of the Camelot Townhomes condominium’s common facilities. The Association is taxed on non-exempt income including interest income.

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CAMELOT TOWNHOMES ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at December 31, 2020 represent fees due from unit owners. The Association obtains legal counsel and places liens on the properties of homeowners whose assessments are delinquent. Accounts are considered to be delinquent when they are 30 days past due. However, liens are not placed on the properties until the account is at least 90 days past due. Any excess assessments at year-end are retained by the Association for use in future years.

Revenue Recognition - Substantially all Association revenues are recognized from member assessments. Revenue is recognized when the performance obligation under the terms of a contract with members are satisfied. The Association's main performance obligation is to manage common areas for the well-being of the owners which may include general repairs and maintenance, trash services, management fees, etc. All these services are considered to be a single performance obligation.

Contract Liabilities - Assessments Received in Advance, Replacement Fund - The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessment 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.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk - Financial instruments that potentially subject the Association to credit risk are primarily assessments receivable. The Association extends secured credit to homeowners. Realization is dependent on various individual economic conditions. Credit risk for assessments receivable is concentrated because substantially all of the balances are receivable from individuals located in the same geographic region. Substantially all cash is maintained at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, the amount of cash exceeds the amounts insured by the FDIC. Management regularly monitors the financial condition of the institution and does not believe the Association is exposed to any significant credit risk.

Impairment of Long-Lived Assets - Long lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. An impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets are less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and the fair value. Fair values are determined based on internal and external appraisals, discounted cash flows or other valuation techniques. No impairment loss has been recognized at December 31, 2020.

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CAMELOT TOWNHOMES ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CASH AND RESTRICTED CASH

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 by holding a restricted cash fund. This fund is used to accumulate financial resources designated for unanticipated major expenditures and for future major repairs and replacements.

The following table provides a reconciliation of cash and restricted cash reported within the balance sheet that sums to the totals of the same such amounts presented in the statement of cash flows at December 31, 2020:

Cash	\$190,994
Restricted cash	<u>377,113</u>
Total cash and restricted cash presented in the statement of cash flows	<u>\$568,107</u>

PROPERTY AND EQUIPMENT, NET

Property and equipment, net is recorded at cost and consists of the following at December 31, 2020:

Furniture and fixtures	\$153,880
Improvements	7,280
Machinery and equipment	<u>3,464</u>
	164,624
Less accumulated depreciation	<u>121,022</u>
Property and equipment, net	<u>\$ 43,602</u>

Depreciation expense for the year ended December 31, 2020 was \$9,434.

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CAMELOT TOWNHOMES ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

INCOME TAXES

A reconciliation of pre-tax excess revenues to taxable income is as follows for the year ended December 31, 2020:

Net loss before income tax	\$ (1,582)
Excess membership income carried over from prior years under provisions of Revenue Ruling 70-604	339,974
Excess membership deduction carried over to future years under provisions of Revenue Ruling 70-604	<u>(338,392)</u>
Taxable income	\$ _____

The Association has available at December 31, 2020, excess membership deduction carryovers, which will be used to offset future net membership income, totaling \$333,926.

Effective January 1, 2009, the Association adopted FASB ASC 740-10-50-15 (formerly FIN 48), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB ASC 740-10-50-14" (formerly SFAS No. 109, par. 47) which was issued in July 2006. FASB ASC 740-10-50-15 prescribes measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. As of December 31, 2020, the Association has not taken any tax position in a tax return which would require disclosure under FASB ASC 740-10-50-15.

The Association's tax returns are subject to examination by federal taxing authorities. The tax laws, rules and regulations governing these returns are complex, technical and subject to varying interpretations. If an examination required the Association to make adjustments, the profits or losses allocated to the owners would be adjusted accordingly. No examination is currently in process. The Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before December 31, 2017.

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CAMELOT TOWNHOMES ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CONTRACT LIABILITIES (ASSESSMENTS RECEIVED IN ADVANCE-REPLACEMENT FUND)

The activity in contract liabilities (assessments received in advance-replacement fund) during 2020 is as follows:

Contract liabilities, beginning of year	\$333,097
Assessments revenue recognized	124,718
Assessments collections	<u>(86,949)</u>
Contract liabilities, end of year	<u>\$370,866</u>

COMMITMENTS AND CONTINGENCIES

From time to time, the Association is involved in routine litigation that arises in the ordinary course of business. Currently, the Association is a defendant in a lawsuit filed against the Association. The Association is still in the process of completing discovery. At this time, it is the intention of the Association and its insurance carrier to vigorously defend this lawsuit. The plaintiffs cannot provide an assessment as to whether or not an adverse outcome in this litigation will impair the financial viability of the Association.

RISKS AND UNCERTAINTIES

In early 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. As a result, events have occurred domestically in the United States, including mandates from federal, state, and local authorities, leading to an overall decline in economic activity and various operational disruptions for the Company and its Members. The ultimate impact of COVID-19 on the Company’s financial performance and operations cannot be reasonably estimated.

SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 7, 2021, the date which financial statements were available to be issued.