

**SOMMERSET VILLAS AT LEXINGTON  
CONDOMINIUM ASSOCIATION, INC.  
FORT MYERS, FLORIDA  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2022**

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Somerset Villas at Lexington  
Condominium Association, Inc.  
Fort Myers, Florida

We have audited the accompanying financial statements of Somerset Villas at Lexington Condominium Association, Inc., a Florida not-for-profit corporation, which comprise the balance sheet, as of December 31, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Somerset Villas at Lexington Condominium Association, Inc. as of December 31, 2022, 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.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Somerset Villas at Lexington Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Somerset Villas at Lexington Condominium Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Somerset Villas at Lexington Condominium Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Somerset Villas at Lexington Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The schedule of operating fund revenues and expenses – budget to actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, as a whole.

The Board of Directors  
Somerset Villas at Lexington  
Condominium Association, Inc.  
Fort Myers, Florida  
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### **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 on pages 18-19 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.

*The Davis Group Audit & Attestation Services LLC*

THE DAVIS GROUP  
AUDIT & ATTESTATION SERVICES, LLC

October 27, 2023

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2022

	FUNDS		
	Operating	Replacement	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,227,904	\$ 382,953	\$ 9,610,857
Accounts receivable - members	1,248	-	1,248
Prepaid insurance	335,974	-	335,974
Prepaid expense	1,300,000	-	1,300,000
Total assets	<u>\$ 10,865,126</u>	<u>\$ 382,953</u>	<u>\$ 11,248,079</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable - trade	\$ 529	\$ -	\$ 529
Note payable - insurance	96,024	-	96,024
Assessments received in advance	14,216	-	14,216
Deferred income - hurricane	10,610,913	-	10,610,913
Contract liabilities (assessments received in advance - replacement)	-	382,491	382,491
Total liabilities	10,721,682	382,491	11,104,173
FUND BALANCES	143,444	462	143,906
Total liabilities and fund balances	<u>\$ 10,865,126</u>	<u>\$ 382,953</u>	<u>\$ 11,248,079</u>

Read Independent Auditors' Report.  
The accompanying notes are an integral  
part of the financial statements.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	FUNDS		
	Operating	Replacement	Total
REVENUES			
Maintenance fees	\$ 869,040	\$ -	\$ 869,040
Interest income	429	462	891
Finance charges	721	-	721
	870,190	462	870,652
Total revenues			
EXPENSES			
Administrative	14,920	-	14,920
Insurance	660,278	-	660,278
Maintenance	240,087	-	240,087
Hurricane	15,423	-	15,423
	930,708	-	930,708
Total expenses			
(Deficiency) excess of revenues over expenses	(60,518)	462	(60,056)
FUND BALANCES			
Beginning balance - January 1, 2022	193,762	-	193,762
Ending balance - December 31, 2022	133,244	462	133,706
Working Capital - December 31, 2022	10,200	-	10,200
FUND BALANCES - December 31, 2022	\$ 143,444	\$ 462	\$ 143,906

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SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	FUNDS		
	Operating	Replacement	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Maintenance fees received	\$ 875,863	\$ 134,640	\$ 1,010,503
Interest income received	429	462	891
Finance charges received	721	-	721
Insurance proceeds received	10,610,913	-	10,610,913
Cash paid for operating expenditures	<u>(2,327,148)</u>	<u>-</u>	<u>(2,327,148)</u>
Net cash provided by operating activities	<u>9,160,778</u>	<u>135,102</u>	<u>9,295,880</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from note payable - insurance	352,089	-	352,089
Payments on note payable - insurance	<u>(292,389)</u>	<u>-</u>	<u>(292,389)</u>
Net cash provided by investing activities	<u>59,700</u>	<u>-</u>	<u>59,700</u>
Net increase in cash	9,220,478	135,102	9,355,580
<b>CASH AND CASH EQUIVALENTS - January 1, 2022</b>	<u>7,426</u>	<u>247,851</u>	<u>255,277</u>
<b>CASH AND CASH EQUIVALENTS - December 31, 2022</b>	<u>\$ 9,227,904</u>	<u>\$ 382,953</u>	<u>\$ 9,610,857</u>

	FUNDS		
	<u>Operating</u>	<u>Replacement</u>	<u>Total</u>
RECONCILIATION OF (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
(Deficiency) excess of revenues over expenses	<u>\$ (60,518)</u>	<u>\$ 462</u>	<u>\$ (60,056)</u>
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities:			
Decrease in accounts receivable - members	2,981	-	2,981
(Increase) in prepaid insurance	(73,086)	-	(73,086)
(Increase) in prepaid expenses	(1,300,000)	-	(1,300,000)
(Decrease) in accounts payable - trade	(23,354)	-	(23,354)
Increase in assessments received in advance	3,842	-	3,842
Increase in deferred income - hurricane	10,610,913	-	10,610,913
Increase in contract liabilities (assessments received in advance - replacement)	<u>-</u>	<u>134,640</u>	<u>134,640</u>
Total adjustments	<u>9,221,296</u>	<u>134,640</u>	<u>9,355,936</u>
Net cash provided by operating activities	<u>\$ 9,160,778</u>	<u>\$ 135,102</u>	<u>\$ 9,295,880</u>

Read Independent Auditors' Report.  
The accompanying notes are an integral  
part of the financial statements.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF OPERATING FUND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Condominium Number		
	One	Two	Three
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	104	152	68
Legal	-	-	-
Accounting	-	-	-
Bank charges	-	-	-
Interest expense	-	-	-
Postage	-	-	-
	<u>104</u>	<u>152</u>	<u>68</u>
Total administrative			
	<u>104</u>	<u>152</u>	<u>68</u>
INSURANCE	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
MAINTENANCE			
Landscaping/irrigation	18,333	26,794	11,987
Plant/tree replacement	3,746	4,843	2,047
Tree trimming condo #6	2,700	3,000	1,500
Maintenance - buildings	1,472	2,216	1,044
Pest control	2,822	3,869	1,724
	<u>29,073</u>	<u>40,722</u>	<u>18,302</u>
Total maintenance			
	<u>29,073</u>	<u>40,722</u>	<u>18,302</u>
HURRICANE	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses before allocation	29,177	40,874	18,370
Allocation of Association expenses	<u>87,950</u>	<u>128,511</u>	<u>57,461</u>
Total expenses	<u>\$ 117,127</u>	<u>\$ 169,385</u>	<u>\$ 75,831</u>

<u>Condominium Number</u>				
<u>Four</u>	<u>Five</u>	<u>Six</u>	<u>Neighborhood</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 1,091	1,091
136	148	208	61	877
-	-	-	6,946	6,946
-	-	-	4,930	4,930
-	-	-	384	384
-	-	-	-	-
-	-	-	692	692
<u>136</u>	<u>148</u>	<u>208</u>	<u>14,104</u>	<u>14,920</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>660,278</u>	<u>660,278</u>
23,973	26,089	36,665	-	143,841
1,338	13,703	9,142	-	34,819
300	-	6,900	-	14,400
2,638	1,948	15,096	-	24,414
<u>5,188</u>	<u>3,958</u>	<u>5,052</u>	<u>-</u>	<u>22,613</u>
<u>33,437</u>	<u>45,698</u>	<u>72,855</u>	<u>-</u>	<u>240,087</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>15,423</u>	<u>15,423</u>
33,573	45,846	73,063	689,805	930,708
<u>114,990</u>	<u>125,131</u>	<u>175,762</u>	<u>(689,805)</u>	<u>-</u>
<u>\$ 148,563</u>	<u>\$ 170,977</u>	<u>\$ 248,825</u>	<u>\$ -</u>	<u>\$ 930,708</u>

Read Independent Auditors' Report.  
The accompanying notes are an integral  
part of the financial statements.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

**NOTE 1 - THE ASSOCIATION**

Sommerset Villas at Lexington Condominium Association, Inc. ("Association") was incorporated on November 19, 1996, under the laws of Florida as a corporation not-for-profit, to operate and manage Sommerset Villas at Lexington Condominium, a whole ownership condominium consisting of six separate condominiums in 72 buildings containing 204 residential units, located in the development of Lexington Country Club in Fort Myers, Florida. The owners of all units in the condominium are the only members.

**NOTE 2 - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 27, 2023; the date that the financial statements were available to be issued.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General Accounting

The Association prepares its financial statements on the accrual basis and presents them as separate funds based on its different funding policies for operations and replacement expenditures.

Property and Equipment

Ownership of commonly owned real property and certain common personal property is vested directly or indirectly in the unit owners and those assets are not deemed to be severable. As a result, commonly owned assets are not presented in the Association's financial statements.

Member Assessments and Revenue Recognition

Association members are subject to periodic assessments to provide funds for the Association's operating expenses and major repairs and replacements. 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 are satisfied over time and recognized as collected. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. 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.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Funds

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. The assets of the Association are maintained and classified into separate funds to account for daily operations, deferred maintenance, or capital replacements.

The operating fund reflects the operating portion of quarterly assessments paid by the owners to meet various day-to-day expenditures incurred in the administration, maintenance, and operation of the condominium and recreational facilities.

The replacement fund is composed of the portion of the quarterly assessments designated in the budget to fund future major repairs and replacements, as further discussed in Note 11.

The working capital fund reflects contributions received from unit owners at closing, in the amount of fifty dollars per owner. This contribution is required upon the initial sale of all units and is to be used as working capital for operating purposes.

Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Association made no cash payments for federal or state income taxes during the year ended December 31, 2022.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 4 - CASH AND CASH EQUIVALENTS**

The Association maintains its cash and cash equivalent balances at financial institutions located in Southwest Florida. Accounts at the commercial banking institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of December 31, 2022, all of these balances were insured based on bank statement balances less FDIC insurance. The reconciled book balance, as of December 31, 2022, was \$9,610,857.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

**NOTE 5 - ACCOUNTS RECEIVABLE - MEMBERS**

Accounts receivable - members consists of maintenance fees billed, which have not been collected by the Association, as of December 31, 2022.

**NOTE 6 - FAIR VALUE MEASUREMENTS**

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements for fair value measurements.

The Association measures the fair value of assets and liabilities, as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2:* Inputs other than quoted market prices included with Level 1 that are observable for an asset or liability, either directly or indirectly.

*Level 3:* Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable level 1 or 2 inputs are not available.

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Association's significant financial instruments are cash, accounts receivable, accounts payable, and other short-term assets and liabilities. For these financial instruments (level 1), carrying values approximate fair value, because of the short maturity of these instruments.

**NOTE 7 - INCOME TAXES**

The Association files its income tax return, as a condominium association, in accordance with Internal Revenue Code Section 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. The Association is taxed at the rate of 30% on its investment income and other non-exempt function income. The Association incurred no federal and no state income tax expense for the year ended December 31, 2022.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in its filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Association's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2022

**NOTE 8 - LINE OF CREDIT**

The Association has a \$200,000 line of credit with Bank OZK, due August 30, 2022, at a current interest rate of 3.50%. On October 26, 2022, modified the promissory note and extended the due date to January 30, 2023. The balance, as of December 31, 2022, was \$0.

**NOTE 9 - ASSESSMENTS RECEIVED IN ADVANCE**

Assessments received in advance consist of unbilled maintenance fees, which were received by the Association, as of December 31, 2022.

**NOTE 10 - DEFERRED HURRICANE REVENUE**

Deferred hurricane revenue consists of insurance proceeds received for hurricane flood damages. No amounts have been expensed as of December 31, 2022.

**NOTE 11 - REPLACEMENT FUND**

The Association's replacement fund is utilized to accumulate funds for future major repairs and replacements, by an allocation of the maintenance fees charged to each owner specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs, as incurred, which are determined by the Board, to meet the objective for which the fund was established.

The following is a table of the activity in the replacement fund:

Components	Balance January 1, 2022	Additions To Fund	Interest Allocation	Charges To Fund	Balance December 31, 2022
<u>Condominium 1</u>					
Painting	\$ 11,476	\$ 3,718	\$ 18	\$ -	\$ 15,212
Roof replacement	21,610	10,192	41	-	31,843
Concrete repair	-	1,118	-	-	1,118
Landscaping	-	2,132	-	-	2,132
Interest	-	59	(59)	-	-
	<u>33,086</u>	<u>17,219</u>	<u>-</u>	<u>-</u>	<u>50,305</u>
<u>Condominium 2</u>					
Painting	15,359	5,434	29	-	20,822
Roof replacement	29,838	14,896	56	-	44,790
Concrete repair	-	1,634	-	-	1,634
Landscaping	-	3,116	-	-	3,116
Interest	-	85	(85)	-	-
	<u>45,197</u>	<u>25,165</u>	<u>-</u>	<u>-</u>	<u>70,362</u>

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

**NOTE 11 - REPLACEMENT FUND(CONTINUED)**

Components	Balance January 1, 2022	Additions To Fund	Interest Allocation	Charges To Fund	Balance December 31, 2022
<u>Condominium 3</u>					
Painting	7,666	2,431	16	-	10,113
Roof replacement	10,712	6,664	23	-	17,399
Concrete repair	-	731	-	-	731
Landscaping	-	1,394	-	-	1,394
Interest	-	39	(39)	-	-
	<u>18,378</u>	<u>11,259</u>	<u>-</u>	<u>-</u>	<u>29,637</u>
<u>Condominium 4</u>					
Painting	14,882	4,862	27	-	19,771
Roof replacement	27,716	13,328	51	-	41,095
Concrete repair	-	1,462	-	-	1,462
Landscaping	-	2,788	-	-	2,788
Interest	-	78	(78)	-	-
	<u>42,598</u>	<u>22,518</u>	<u>-</u>	<u>-</u>	<u>65,116</u>
<u>Condominium 5</u>					
Painting	16,456	5,291	29	-	21,776
Roof replacement	30,629	14,504	55	-	45,188
Concrete repair	-	1,591	-	-	1,591
Landscaping	-	3,034	-	-	3,034
Interest	-	84	(84)	-	-
	<u>47,085</u>	<u>24,504</u>	<u>-</u>	<u>-</u>	<u>71,589</u>
<u>Condominium 6</u>					
Painting	24,641	7,436	47	-	32,124
Roof replacement	36,866	20,384	70	-	57,320
Concrete repair	-	2,236	-	-	2,236
Landscaping	-	4,264	-	-	4,264
Interest	-	117	(117)	-	-
	<u>61,507</u>	<u>34,437</u>	<u>-</u>	<u>-</u>	<u>95,944</u>
Totals	247,851	135,102	-	-	382,953
ASC 606 adjustment	<u>(247,851)</u>	<u>(134,640)</u>	<u>-</u>	<u>-</u>	<u>(382,491)</u>
ASC 606 adjusted balance	<u>\$ -</u>	<u>\$ 462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462</u>

Additions to the fund include \$462 of interest income. The Association's policy for allocating interest to the components is based on funding.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

**NOTE 11 - REPLACEMENT FUND (Continued)**

During the year ended December 31, 2022, the Association funded major repairs and replacements based on the Board's estimates of current replacement costs. The 2023 statutory funding requirement is \$133,788 and the approved budgeted funding is \$134,640, as shown in the unaudited supplementary information. The components' actual replacement cost, useful lives, and investment income may vary from estimated amounts and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association, through its Board, has the power to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. At the annual membership meeting, the members voted to waive full funding of roofs.

**NOTE 12 - COMMITMENTS**

The Association currently has various contracts with vendors, including a management agreement with Lexington Community Association. The agreement automatically renews for a one year term unless cancelled by either party with 90 days notice.

**NOTE 13 - SUBSEQUENT EVENT**

On February 7, 2023, the Association renewed the \$200,000 line of credit with Bank OZK at a rate of 8%.

**SUPPLEMENTARY INFORMATION**

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON  
 FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2022  
 (Unaudited)

The following table is based on estimates provided by the Board of Directors and management during 2022, using replacement costs and estimates from vendors, and presents significant information about the components of common property:

Components	Estimated Useful Lives	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2023 Statutory Funding	2023 Approved Budgeted Funding
<u>Condominium 1</u>					
Painting	7 years	3 years	\$ 24,800	\$ 3,657	\$ -
Roof	25 years	13 years	529,200	10,113	-
Concrete	5 years	4 years	5,200	1,020	-
Landscape	10 years	9 years	20,800	2,073	-
			580,000	16,863	17,166
<u>Condominium 2</u>					
Painting	7 years	3 years	35,700	5,674	-
Roof	25 years	23 years	774,000	14,868	-
Concrete	5 years	4 years	7,600	1,490	-
Landscape	10 years	9 years	30,400	3,030	-
			847,700	25,062	25,080
<u>Condominium 3</u>					
Painting	7 years	3 years	16,500	2,401	-
Roof	25 years	23 years	345,600	6,770	-
Concrete	5 years	4 years	3,400	667	-
Landscape	10 years	9 years	13,600	1,355	-
			379,100	11,193	11,220

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON  
 FUTURE MAJOR REPAIRS AND REPLACEMENTS - Continued  
 DECEMBER 31, 2022  
 (Unaudited)

<u>Components</u>	<u>Estimated Useful Lives</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2023 Statutory Funding</u>	<u>2023 Approved Budgeted Funding</u>
<u>Condominium 4</u>					
Painting	7 years	3 years	33,000	5,045	-
Roof	25 years	23 years	691,200	13,230	-
Concrete	5 years	4 years	6,800	1,334	-
Landscape	10 years	9 years	27,200	2,711	-
			758,200	22,320	22,440
<u>Condominium 5</u>					
Painting	7 years	3 years	35,700	5,300	-
Roof	25 years	23 years	376,200	14,383	-
Concrete	5 years	4 years	7,400	1,451	-
Landscape	10 years	9 years	29,600	2,950	-
			448,900	24,084	24,420
<u>Condominium 6</u>					
Painting	7 years	3 years	52,200	7,656	-
Roof	25 years	23 years	527,400	20,424	-
Concrete	5 years	4 years	10,400	2,040	-
Landscape	10 years	9 years	41,600	4,146	-
			631,600	34,266	34,320
Totals			\$ 3,645,500	\$ 133,788	\$ 134,646

Estimated future replacement costs are based on the assumption that the rate of interest income earned on replacement funds will be equal to the rate of inflation.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 1  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budget</u> <i>(Unaudited)</i>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	104	104	-
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	<u>104</u>	<u>104</u>	<u>-</u>
Total administrative			
	<u>104</u>	<u>104</u>	<u>-</u>
INSURANCE	<u>-</u>	<u>-</u>	<u>-</u>
MAINTENANCE			
Landscaping/irrigation	18,332	18,333	(1)
Plant/tree replacement	3,186	3,746	(560)
Tree trimming condo #1	1,275	2,700	(1,425)
Maintenance - buildings	4,639	1,472	3,167
Pest control	3,186	2,822	364
	<u>30,618</u>	<u>29,073</u>	<u>1,545</u>
Total maintenance			
	<u>30,618</u>	<u>29,073</u>	<u>1,545</u>
Total expenses before allocation	30,722	29,177	1,545
Allocation of Association expenses	<u>80,144</u>	<u>87,950</u>	<u>(7,806)</u>
Total expenses	<u>\$ 110,866</u>	<u>\$ 117,127</u>	<u>\$ (6,261)</u>

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 2  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budget</u> <i>(Unaudited)</i>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	152	152	-
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	<u>152</u>	<u>152</u>	<u>-</u>
Total administrative			
	<u>152</u>	<u>152</u>	<u>-</u>
INSURANCE	<u>-</u>	<u>-</u>	<u>-</u>
MAINTENANCE			
Landscaping/irrigation	26,794	26,794	-
Plant/tree replacement	4,657	4,843	(186)
Tree trimming condo #1	1,863	3,000	(1,137)
Maintenance - buildings	6,780	2,216	4,564
Pest control	4,657	3,869	788
	<u>44,751</u>	<u>40,722</u>	<u>4,029</u>
Total maintenance			
	<u>44,751</u>	<u>40,722</u>	<u>4,029</u>
Total expenses before allocation	44,903	40,874	4,029
Allocation of Association expenses	<u>117,105</u>	<u>128,511</u>	<u>(11,406)</u>
Total expenses	<u>\$ 162,008</u>	<u>\$ 169,385</u>	<u>\$ (7,377)</u>

Read Independent Auditors' Report.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 3  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budget</u> <i>(Unaudited)</i>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	68	68	-
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	<u>68</u>	<u>68</u>	<u>-</u>
Total administrative			
	<u>68</u>	<u>68</u>	<u>-</u>
INSURANCE	<u>-</u>	<u>-</u>	<u>-</u>
MAINTENANCE			
Landscaping/irrigation	11,987	11,987	-
Plant/tree replacement	2,083	2,047	36
Tree trimming condo #3	833	1,500	(667)
Maintenance - buildings	3,033	1,044	1,989
Pest control	2,083	1,724	359
	<u>20,019</u>	<u>18,302</u>	<u>1,717</u>
Total maintenance			
	<u>20,019</u>	<u>18,302</u>	<u>1,717</u>
Total expenses before allocation	20,087	18,370	1,717
Allocation of Association expenses	<u>52,361</u>	<u>57,461</u>	<u>(5,100)</u>
Total expenses	<u>\$ 72,448</u>	<u>\$ 75,831</u>	<u>\$ (3,383)</u>

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 4  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget <i>(Unaudited)</i>	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	136	136	-
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	136	136	-
Total administrative			
INSURANCE	-	-	-
MAINTENANCE			
Landscaping/irrigation	23,973	23,973	-
Plant/tree replacement	4,167	1,338	2,829
Tree trimming condo #4	1,667	300	1,367
Maintenance - buildings	6,066	2,638	3,428
Pest control	4,167	5,188	(1,021)
	40,040	33,437	6,603
Total maintenance			
Total expenses before allocation	40,176	33,573	6,603
Allocation of Association expenses	104,784	114,990	(10,206)
Total expenses	\$ 144,960	\$ 148,563	\$ (3,603)

Read Independent Auditors' Report.

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 5  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget <i>(Unaudited)</i>	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	148	148	-
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	148	148	-
Total administrative			
	148	148	-
INSURANCE	-	-	-
MAINTENANCE			
Landscaping/irrigation	26,089	26,089	-
Plant/tree replacement	4,534	13,703	(9,169)
Tree trimming condo #5	1,814	-	1,814
Maintenance - buildings	6,601	1,948	4,653
Pest control	4,534	3,958	576
	43,572	45,698	(2,126)
Total maintenance			
	43,572	45,698	(2,126)
Total expenses before allocation	43,720	45,846	(2,126)
Allocation of Association expenses	114,025	125,131	(11,106)
Total expenses	\$ 157,745	\$ 170,977	\$ (13,232)

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
CONDOMINIUM 6  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budget <i>(Unaudited)</i>	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Administrative fee	\$ -	\$ -	\$ -
Division fees	212	208	4
Legal	-	-	-
Accounting	-	-	-
Postage	-	-	-
	212	208	4
Total administrative			
INSURANCE	-	-	-
MAINTENANCE			
Landscaping/irrigation	36,665	36,665	-
Plant/tree replacement	6,373	9,142	(2,769)
Tree trimming condo #6	2,548	6,900	(4,352)
Maintenance - buildings	9,278	15,096	(5,818)
Pest control	6,373	5,052	1,321
	61,237	72,855	(11,618)
Total maintenance			
Total expenses before allocation	61,449	73,063	(11,614)
Allocation of Association expenses	160,161	175,762	(15,601)
Total expenses	\$ 221,610	\$ 248,825	\$ (27,215)

SOMMERSET VILLAS AT LEXINGTON CONDOMINIUM ASSOCIATION, INC.  
SCHEDULE OF OPERATING FUND EXPENSES - BUDGET TO ACTUAL  
NEIGHBORHOOD  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Budget</u> <i>(Unaudited)</i>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
ADMINISTRATIVE			
Administrative fee	\$ 1,500	\$ 1,091	\$ 409
Division fees	61	61	-
Legal	20,000	6,946	13,054
Accounting	6,650	4,930	1,720
Bank charges	2,000	384	1,616
Interest expense	-	-	-
Postage	1,500	692	808
	<u>31,711</u>	<u>14,104</u>	<u>17,607</u>
Total administrative			
	<u>31,711</u>	<u>14,104</u>	<u>17,607</u>
INSURANCE	<u>596,870</u>	<u>660,278</u>	<u>(63,408)</u>
MAINTENANCE			
Landscaping/irrigation	-	-	-
Plant/tree replacement	-	-	-
Tree trimming condo #6	-	-	-
Maintenance - buildings	-	-	-
Pest control	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total maintenance	<u>-</u>	<u>-</u>	<u>-</u>
HURRICANE	<u>-</u>	<u>15,423</u>	<u>(15,423)</u>
Total expenses before allocation	628,581	689,805	(61,224)
Allocation of Association expenses	<u>(628,581)</u>	<u>(689,805)</u>	<u>61,224</u>
Total expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>