

The Trails
Homeowners Association, Inc.

Financial Statements

December 31, 2025

The Trails
Homeowners Association, Inc.

Financial Statements

December 31, 2025

Table of Contents

Independent Auditors' Report.....	1
Financial Statements	
Balance Sheet	4
Statement of Revenues, Expenses and Changes in Fund Balances.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements	7
Supplementary Information	
Exhibit I – Schedule of Changes in Replacement and Restricted Fund Balance	12
Exhibit II – Unaudited Supplementary Information on Future Major Repairs and Replacements and Restricted Funds.....	13

Martin & Associates, PL

Certified Public Accountants & Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Trails Homeowners Association, Inc.
Ormond Beach, Florida

Opinion

We have audited the accompanying financial statements of The Trails Homeowners Association, Inc., (the "Association") which comprise the balance sheet as of December 31, 2025, and the related statements of revenues, expenses, and changes in fund balance 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 the Association as of December 31, 2025, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association 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 the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 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 the Association'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 the Association'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 accompanying schedule shown in Exhibit I 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements in Exhibit II be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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.

A handwritten signature in cursive script that reads "Martin & Associates, PL".

Martin & Associates, PL
Daytona Beach, FL

August 20, 2026

Financial Statements

The Trails
Homeowners Association, Inc.

Balance Sheet

December 31, 2025

	Operating Fund	Replacement and Restrictive Fund	Total
Assets			
Cash and cash equivalents	\$ 323,270	\$ 299,066	\$ 622,336
Owners' assessments receivable, net of allowance of \$28,492	35,278	-	35,278
Prepaid expenses	7,172	-	7,172
Due from reserves	-	5,685	5,685
Property and equipment, net	269,286	-	269,286
Total assets	<u><u>\$ 635,006</u></u>	<u><u>\$ 304,751</u></u>	<u><u>\$ 939,757</u></u>
Liabilities and fund balances			
Liabilities			
Accounts payable and accrued expenses	\$ 24,923	\$ 9,656	\$ 34,579
Owners' prepaid assessments	117,621	-	117,621
Due to other fund	5,685	-	5,685
Other liabilities	658	-	658
Refundable deposits	191	-	191
Total liabilities	149,078	9,656	158,734
Fund balance	<u>485,928</u>	<u>295,095</u>	<u>781,023</u>
Total liabilities and fund balances	<u><u>\$ 635,006</u></u>	<u><u>\$ 304,751</u></u>	<u><u>\$ 939,757</u></u>

See auditors' report and accompanying notes to financial statements.

The Trails
Homeowners Association, Inc.

Statement of Revenues, Expenses
and Changes in Fund Balances

For the Year Ended December 31, 2025

	Operating Fund	Replacement and Restrictive Fund	Total
Revenues			
Owners' assessments	\$ 908,031	\$ -	\$ 908,031
Reserve assessments	-	125,529	125,529
Late fees	5,621	-	5,621
Rental	32,641	-	32,641
Interest	-	8,497	8,497
Miscellaneous	12,925	-	12,925
Total revenues	<u>959,218</u>	<u>134,026</u>	<u>1,093,244</u>
Expenses			
Administration	26,167	-	26,167
Bad debt	13,498	-	13,498
Capital expenditures	1,757	-	1,757
Clubhouse	54,079	-	54,079
Depreciation expense	12,458	-	12,458
Insurance	34,088	-	34,088
Landscaping	433,911	-	433,911
Other expenses	676	-	676
Management fees	182,777	-	182,777
Pool	161,118	-	161,118
Professional fees	19,894	-	19,894
Utilities	46,996	-	46,996
Reserve expenses	-	158,660	158,660
Total expenses	<u>987,419</u>	<u>158,660</u>	<u>1,146,079</u>
Excess of revenues (expenses) over expenses (revenues)	<u>(28,201)</u>	<u>(24,634)</u>	<u>(52,835)</u>
Fund balance - beginning of year	<u>514,129</u>	<u>319,729</u>	<u>833,858</u>
Fund balance - end of year	<u>\$ 485,928</u>	<u>\$ 295,095</u>	<u>\$ 781,023</u>

See auditors' report and accompanying notes to financial statements.

The Trails
Homeowners Association, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2025

	Operating Fund	Replacement and Restrictive Fund	Total
Cash flows from operating activities:			
Excess of revenues (expenses) over expenses (revenues)	\$ (28,201)	\$ (24,634)	\$ (52,835)
Depreciation	12,458	-	12,458
Adjustments to reconcile excess of revenues over expenses to net cash provided by Operating activities:			
Changes in:			
Owners' assessments receivable	25,108	-	25,108
Prepaid expenses	(1,329)	-	(1,329)
Accounts payable and accrued expenses	21,683	9,656	31,339
Other liabilities	(1,364)	-	(1,364)
Owners' prepaid assessments	(29,549)	-	(29,549)
Cash provided (used) by operating activities	(1,194)	(14,978)	(16,172)
Cash flows from financing activities:			
Interfund due to/from	5,722	(5,722)	-
Cash provided (used) by financing activities	5,722	(5,722)	-
Net increase (decrease) in cash and cash equivalents	4,528	(20,700)	(16,172)
Cash and cash equivalents - beginning of year	318,742	319,766	638,508
Cash and cash equivalents - end of year	<u>\$ 323,270</u>	<u>\$ 299,066</u>	<u>\$ 622,336</u>
Cash paid for interest during year			<u>\$ -</u>
Cash paid for income taxes during year			<u>\$ -</u>

See auditors' report and accompanying notes to financial statements.

The Trails
Homeowners Association, Inc.

Notes to Financial Statements

December 31, 2025

1. Organization

Nature of organization

The Trails Homeowners Association, Inc. (the "Association") was incorporated as a not-for-profit corporation in the State of Florida on August 13, 1975 for the purposes of maintaining and preserving the common property of the Association. The Association consists of 990 units in the Association located in Ormond Beach, Florida.

2. Summary of Significant Accounting Policies

Common Areas

As provided in the Declaration of Homeowners, each unit owner owns an undivided share in the common elements of the Homeowners. In conformity with industry practice, the Association recognized the following common property as assets:

- i) Common personal property used by the Association in operating, preserving, maintaining, repairing and replacing common property and providing other services.
- ii) Common real property to which the Association has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members on the basis of usage from nonmembers

Common elements include, but are not limited to parking areas, pool, and deck.

Fund Accounting

The Association uses fund accounting which requires that funds, such as operating funds, funds designated for future major repairs and replacements, and funds restricted for use by the Board of Directors be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the restricted and replacement fund may generally be made only for designated purposes.

Recognition of Assets and Capitalization Policy

The Association's policy for recognizing common property as assets in its balance sheet is to recognize common personal property and real property to which it has title and that it can dispose of for cash while retaining the proceeds. Each owner owns an undivided share in all other common elements of the Association, thus the common elements have not been recorded as assets of the Association.

See auditors' report.

The Trails
Homeowners Association, Inc.

Notes to Financial Statements

December 31, 2025

2. Summary of Significant Accounting Policies (Continued)

Recognition of Assets and Capitalization Policy

The Association's policy is to capitalize and depreciate tangible personal property which costs \$1,000 or more. Tangible personal property, which costs under \$1,000, is expensed as incurred.

Depreciation

The Association's property and equipment are depreciated using the straight-line method.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Association considers all monies deposited with financial institutions in checking accounts, money market accounts, and certificates of deposit to be cash equivalents. The Association has had no policy requiring collateral or other security to support its deposits, although all deposits with banks are federally insured up to \$250,000 under FDIC protection. The Association has demand deposits and certificates of deposit with multiple banks. The Association places its cash with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Receivables

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses and future major repairs and replacements. The Association is dependent upon the receipt of members' monthly assessments for operating and replacement expenditures. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. Income and expenses are allocated to each unit owner on an equal basis, with the exception of the Association owned manager unit. Assessments receivable at the balance sheet date represent fees due from unit owners.

The Association has no policy requiring collateral or other security to support its assessments receivables, however, the Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are delinquent. It is in the opinion of the Board of Directors that some of the receivables will be uncollectible. As of December 31, 2025, the Board of Directors has estimated an allowance of \$28,492 for doubtful accounts.

Prepaid assessments at the balance sheet date represent fees paid in advance by unit owners.

See auditors' report.

The Trails
Homeworkers Association, Inc.

Notes to Financial Statements

December 31, 2025

2. Summary of Significant Accounting Policies (Continued)

Interest Income

It is the policy of the Board of Directors to retain interest in the fund in which it is earned. Income tax liability on all interest earned is expensed from the operating fund.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2025. 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, nonmembership transactions, and capital transactions.

For federal tax purposes, the Association is taxed on all net income from nonmembership activities, which include earned interest and revenues received from nonmembers, reduced only by losses from nonmembers 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 percent applied to net taxable income.

For state income tax purposes, the Association also 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. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 5.5 percent after the first \$50,000.

As of December 31, 2025, the tax years that remain subject to examination by taxing authorities begin with 2022.

See auditors' report.

The Trails
Homeowners Association, Inc.

Notes to Financial Statements

December 31, 2025

2. Summary of Significant Accounting Policies (Continued)

Management Review

Subsequent events have been evaluated through to August 20, 2026, which is the date the financial statements were available to be issued.

3. Concentration of Credit Risk

The Association had one primary source of income, which was assessments paid by unit owners. Assessments receivable from the unit owners are from residents of the Association and may be secured by a lien on their property.

4. Owners' Assessments

The Association's quarterly assessments were \$261 per quarter per unit for the year ended December 31, 2025. A majority of the Association's revenue is derived from assessments charged to unit owners.

5. Future Major Repairs and Replacements

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements unless waived by the membership. The Board of Directors had reviewed the major components of common property and, as a part of this review, evaluated the estimated useful lives and the estimated current replacement costs of the components of the replacement fund. Where applicable, licensed contractors have been consulted regarding useful lives and current replacement costs.

The Board of Directors intends to fund for major repairs and replacements over the estimated useful lives of the components based on estimates of current replacement costs. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Trails
Homeworkers Association, Inc.

Notes to Financial Statements

December 31, 2025

6. Property and Equipment

Following is a schedule of the Association's property and equipment as of December 31, 2025:

Property and equipment valued at fair market value at date of transfer from Developer:

Land	\$ 229,388
Buildings and equipment	<u>1,265,731</u>
Total fair market value	\$1,495,119
Less: accumulated depreciation	<u>(1,225,833)</u>
 Total Property & equipment	 <u>\$ 269,286</u>

The Association recorded depreciation expense of \$12,458 in 2025.

7. Commitments and Contingencies

The Association recorded \$182,777 in management fees to RealManage, LLC in the year ended December 31, 2025.

The Association had various maintenance contracts in effect during the year ended December 31, 2025.

The Association's insurance policy for windstorm coverage is renewed annually. The insurance policy for windstorm has a deductible amount for named hurricane storms of the insured value of the residential building. The Association could therefore be responsible for losses up to the amount of the deductible.

Supplementary Information

Exhibit I

The Trails
Homeowners Association, Inc.

Schedule of Changes in
Replacement and Restricted Fund Balance

From the Year Ended December 31, 2025

<u>Component</u>	<u>Balance 12/31/2024</u>	<u>Amount Funded</u>	<u>Interest</u>	<u>Expenditures</u>	<u>Balance 12/31/2025</u>
Replacement funds:					
Pooled reserves	<u>\$ 319,729</u>	<u>\$ 125,529</u>	<u>\$ 8,497</u>	<u>\$ (158,660)</u>	<u>\$ 295,095</u>
Total replacement	<u><u>\$ 319,729</u></u>	<u><u>\$ 125,529</u></u>	<u><u>\$ 8,497</u></u>	<u><u>\$ (158,660)</u></u>	<u><u>\$ 295,095</u></u>

See auditors' report.

Exhibit II

The Trails Homeowners Association, Inc.

Supplementary Information on Future Major Repairs and Replacements and Restricted Funds

For the Year Ended December 31, 2025
(Unaudited)

Replacement component	Estimated Useful Life	Estimated Remaining Life	Estimated Current Replacement Cost	Budgeted Funding 2026
Replacement funds:				
Roof	19 years	1 year	\$ 16,000	\$ -
Pavement	various	1 year	187,000	-
Other - general	various	1-6 years	488,500	-
Unallocated - pooled reserves			-	125,529
			<u>\$ 691,500</u>	<u>\$ 125,529</u>

The Association's current policy is to assess each unit owners a monthly assessment to meet all future replacement and major repair costs. This policy is not based on an independent study of what funds might be needed. Future replacement and major repair costs may exceed the accumulated funds. In that event, the Association, based on provisions in its Declaration, has the authority to assess unit owners for additional funds needed at the time of replacement or major repair, or may delay major repairs and replacements until funds are available.

The Board of Directors conducts an informal study to estimate the remaining useful lives and replacement costs of the components of common property. The Board of Directors reviews the estimates and updates as needed prior to the preparation of next year's budget. Estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The Association adopted a budget with \$125,529 reserve funding for the year ended December 31, 2026.

See auditors' report.