

**The Meadows Community
Association, Inc.**

Financial Statements

February 28, 2019

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CAVANAUGH & CO, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Meadows Community Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Meadows Community Association, Inc., which comprise the balance sheet as of February 28, 2019, 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 The Meadows Community Association, Inc. as of February 28, 2019, 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.

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 replacement fund activity 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 the supplementary information on future major repairs and replacements 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.

Report on Summarized Comparative Information

We have previously audited The Meadows Community Association, Inc.'s February 28, 2018 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated July 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Cannough & Co. LLP

Sarasota, Florida
July 19, 2019

The Meadows Community Association, Inc.

Balance Sheet
February 28, 2019

	<u>ASSETS</u>				2018 Total (For Comparative Purposes Only)
	Operating Fund	2019 Replacement Fund	Capital Assets Fund	Total	
Current assets:					
Cash and cash equivalents	\$ 250	24,057	3,945	28,252	2,419,258
Certificates of deposit	247,101	250,553	-	497,654	1,036,343
Accounts receivable	-	-	-	-	329
Assessments receivable	3,520	-	-	3,520	1,501
Due (to) from other fund	2,209,813	-	(2,209,813)	-	-
Prepaid expenses	6,230	-	-	6,230	6,625
Total current assets	<u>2,466,914</u>	<u>274,610</u>	<u>(2,205,868)</u>	<u>535,656</u>	<u>3,464,056</u>
Other assets:					
Property and equipment, net	-	-	6,993,489	6,993,489	1,205,349
Total other assets	-	-	<u>6,993,489</u>	<u>6,993,489</u>	<u>1,205,349</u>
Total assets	<u>\$ 2,466,914</u>	<u>274,610</u>	<u>4,787,621</u>	<u>7,529,145</u>	<u>4,669,405</u>

<u>LIABILITIES AND FUND BALANCES</u>					
Current liabilities:					
Accounts payable	\$ -	-	-	-	15,141
Unpresented checks	61,136	-	-	61,136	-
Prepaid assessments	1,585,547	-	-	1,585,547	1,545,953
Line of credit	1,262	-	-	1,262	-
Current maturities of long term debt	-	-	1,696,531	1,696,531	-
Accrued payroll	20,643	-	-	20,643	20,410
Deferred advertising revenue	13,503	-	-	13,503	10,951
Deposits	<u>2,984</u>	-	-	<u>2,984</u>	<u>2,914</u>
Total liabilities	<u>1,685,075</u>	-	<u>1,696,531</u>	<u>3,381,606</u>	<u>1,595,369</u>
Other liabilities:					
Long term debt, net of current maturities	-	-	588,491	588,491	-
Fund balances	<u>781,839</u>	<u>274,610</u>	<u>2,502,599</u>	<u>3,559,048</u>	<u>3,074,036</u>
Total liabilities and fund balances	<u>\$ 2,466,914</u>	<u>274,610</u>	<u>4,787,621</u>	<u>7,529,145</u>	<u>4,669,405</u>

See accompanying notes to financial statements.

The Meadows Community Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended February 28, 2019

	2019				2018
	Operating Fund	Replacement Fund	Capital Assets Fund	Total	Total (For Comparative Purposes Only)
Revenues:					
Property assessments	\$ 2,029,908	210,000	5,000	2,244,908	1,794,820
Interest	43,087	3,485	14	46,586	15,698
Community affairs	91,789	-	-	91,789	109,511
Storage rental	22,761	-	-	22,761	22,819
Memorial Gardens	-	-	-	-	1,755
Other	107,743	-	-	107,743	77,916
Total revenues	<u>2,295,288</u>	<u>213,485</u>	<u>5,014</u>	<u>2,513,787</u>	<u>2,022,519</u>
Expenses:					
Salaries and wages	428,849	-	-	428,849	543,099
Maintenance	354,365	-	-	354,365	319,747
Community security	358,085	-	-	358,085	383,365
Employee benefits	158,114	-	-	158,114	176,687
Community activity	79,303	-	-	79,303	64,129
Professional fees	126,980	-	-	126,980	105,974
Operating	196,596	-	-	196,596	197,078
Business and bank fees	3,781	-	-	3,781	3,665
MCA building maintenance	14,078	-	-	14,078	6,088
Administrative	78,974	-	-	78,974	13,798
Public relations and promotions	1,928	-	-	1,928	1,033
Other expense	89,070	-	-	89,070	8,323
Replacement fund	-	-	-	-	17,308
Depreciation	-	-	138,652	138,652	80,560
Total expenses	<u>1,890,123</u>	<u>-</u>	<u>138,652</u>	<u>2,028,775</u>	<u>1,920,854</u>
Excess (deficiency) of revenues over expenses	405,165	213,485	(133,638)	485,012	101,665
Fund balances - beginning of year	376,674	1,464,390	1,232,972	3,074,036	2,972,371
Transfers	-	(1,403,265)	1,403,265	-	-
Fund balances - end of year	<u>\$ 781,839</u>	<u>274,610</u>	<u>2,502,599</u>	<u>3,559,048</u>	<u>3,074,036</u>

See accompanying notes to financial statements.

The Meadows Community Association, Inc.

Statement of Cash Flows
Year Ended February 28, 2019

	2019			2018 Total (For Comparative Purposes Only)
	Operating Fund	Replacement Fund	Capital Assets Fund	
Cash flows from operating activities:				
Property assessments collected	\$ 2,067,483	210,000	5,000	2,282,483
Interest received	43,087	3,485	14	46,586
Community affairs income received	94,670	-	-	94,670
Storage rental income received	22,761	-	-	22,761
Memorial gardens income received	-	-	-	-
Other revenue received	107,743	-	-	107,743
Cash paid for operating expenses	(1,843,430)	-	-	(1,843,430)
Net cash flows from operating activities	<u>492,314</u>	<u>213,485</u>	<u>5,014</u>	<u>710,813</u>
Cash flows from investing activities:				
Purchase of property and equipment	-	-	(2,941,770)	(2,941,770)
Purchase of certificates of deposit	(247,101)	(492,215)	-	(739,316)
Redemption of certificates of deposit	544,128	733,877	-	1,278,005
Net cash flows from investing activities	<u>297,027</u>	<u>241,662</u>	<u>(2,941,770)</u>	<u>(2,403,081)</u>
Cash flows from financing activities:				
Proceeds from line of credit, net	1,262	-	-	1,262
Payments on note payable	-	-	(700,000)	(700,000)
Transfers	(2,205,070)	(1,431,699)	3,636,769	-
Net cash flows from financing activities	<u>(2,203,808)</u>	<u>(1,431,699)</u>	<u>2,936,769</u>	<u>(698,738)</u>
Increase in cash and cash equivalents	(1,414,467)	(976,552)	13	(2,391,006)
Cash and cash equivalents at beginning of year	<u>1,414,717</u>	<u>1,000,609</u>	<u>3,932</u>	<u>2,419,258</u>
Cash and cash equivalents at end of year	<u>\$ 250</u>	<u>24,057</u>	<u>3,945</u>	<u>28,252</u>
Reconciliation of excess (deficiency) of revenues over expenses to net cash flows from operating activities:				
Excess (deficiency) of revenues over expenses	\$ 405,165	213,485	(133,638)	485,012
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash flows from operating activities:				
Depreciation	-	-	138,652	138,652
(Increase) decrease in:				
Accounts receivable	329	-	-	329
Assessments receivable	(2,019)	-	-	(2,019)
Prepaid expenses	395	-	-	395
Increase (decrease) in:				
Accounts payable	(15,141)	-	-	(15,141)
Unpresented checks	61,136	-	-	61,136
Prepaid assessments	39,594	-	-	39,594
Accrued payroll	233	-	-	233
Deferred advertising revenue	2,552	-	-	2,552
Deposits	70	-	-	70
Total adjustments	<u>87,149</u>	<u>-</u>	<u>138,652</u>	<u>225,801</u>
Net cash flows from operating activities	<u>\$ 492,314</u>	<u>213,485</u>	<u>5,014</u>	<u>710,813</u>

See accompanying notes to financial statement.

The Meadows Community Association, Inc.

Notes to Financial Statements

February 28, 2019

Note 1 – Organization:

The Meadows Community Association, Inc. ("the Association") is a master homeowners' association organized as a not-for-profit corporation pursuant to the laws of the State of Florida in March 1976. The Association was organized for the purposes of maintaining and preserving the common property of the Meadows Community which is located in Sarasota, Florida. The Association consists of 3,456 residential units and a country club, shopping village, and retirement center. The common elements the Association is responsible for include roads maintenance, streetlights, security, lake maintenance, drainage canals, grounds, parks and common open space, bike paths, pedestrian sidewalks and walkways, traffic control, bridges, the Meadows Community Association building and country club facilities.

Note 2 – Summary of Significant Accounting Policies:

Basis of Accounting

The accompanying financial statements have been prepared using the fund method of accounting on the accrual basis. The accrual basis of accounting recognizes revenues when earned and expenses when the obligations are incurred.

The fund method of accounting requires funds, such as operating funds and funds for future major repairs and replacements, to be classified separately for accounting and reporting purposes.

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

This fund is composed of assessments paid by unit owners to fund future major repairs and replacements. Expenditures from this fund are generally only used for those items for which assessments were levied.

Capital Assets Fund

This fund is used to accumulate financial resources designated for future capital acquisitions. Disbursements from this fund generally may be made only for these designated purposes.

Cash and Cash Equivalents

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

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2019

Note 2 – Summary of Significant Accounting Policies – Continued:

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The 2018 - 2019 annual assessment to owners of The Meadows Community Association, Inc. totaled \$2,244,908. Of this amount, \$210,000 and \$5,000 were designated for the replacement fund and capital assets fund, respectively. Any excess of assessments at year end is retained by the Association for use in the succeeding year.

The member assessments are determined by first dividing the annual budget by the total Sarasota County Property Appraiser's assessed value of the entire assessable properties in the Meadows Community to calculate the assessment rate. This assessment rate is multiplied by each unit owner's county property assessed value to obtain the annual assessment amount. The documents allow the Highlands area (387 units) to be assessed as one group then divided equally by each unit. The Meadows Country Club, Kobernick House, Tarpon Point Nursing and Rehabilitation Center, and the Meadows Shopping Village are assessed as single units.

Each member (unit) has a number of voting rights based on the assessed value of the unit divided by \$10,000. Highlands votes are based on the total assessed value of the Highlands.

The Association's policy is to assess interest on any unpaid assessment balance until fully paid in an amount up to the maximum legal rate for individuals in the State of Florida. Further, all delinquent accounts not paid by ten days following the March 1 delinquency date may also be charged an administrative late fee of \$50 or 5% of the unpaid balance, whichever is greater. The Association may charge a \$25 fee for any insufficient funds on deposit or other improper execution of the payment instruments.

Payments are applied to interest, penalties and legal fees before being applied to outstanding assessments.

It is the Association's policy to file liens and foreclose, if warranted, on delinquent accounts. As of February 28, 2019, there were cumulative outstanding assessments in the amount of \$3,520 over a 3 year period. Management establishes an allowance for doubtful accounts, when necessary, based on amounts expected to be uncollectible at the balance sheet date. As of February 28, 2019, the Association expects to collect substantially all amounts outstanding; therefore, no allowance has been recorded. These delinquent accounts have been referred to the Association's attorney.

Property and Equipment

Property and equipment are capitalized at cost and depreciated on a straight-line basis over the estimated useful lives of the assets ranging from three to thirty-nine years. It is the Association's policy to capitalize property and equipment over \$500.

Deferred Advertising Revenue

Revenue received in advance for advertising in *Meadoword* is deferred until the period in which the advertising is printed.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2019

Note 2 – Summary of Significant Accounting Policies – Continued:

Estimates

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

Common Property

The Association's policy is to not capitalize and depreciate the commonly owned real property as ownership is vested directly or indirectly in the unit owners and these assets are not deemed to be severable.

Income Taxes

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes. 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 reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any net membership losses 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 fixed tax rate of 21% that is applied to net taxable income. The Association also pays income taxes for state purposes at a tax rate of 5.5% on taxable income in excess of \$50,000. There was no Income tax expense for the year ended February 28, 2019.

Management has evaluated the effect of an accounting standard relating to accounting for uncertainty in income taxes. Management has determined that the Association had no uncertain income tax positions that could have a significant effect on the financial statements for the year ended February 28, 2019. The Association's federal income tax returns are subject to examination by the Internal Revenue Service, generally for three years after the federal income tax returns were filed.

Comparative Financial Statements

The financial information shown for 2018 in the accompanying financial statements is included to provide a basis for comparison with 2019 and presents summarized totals only.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2019

Note 3 – Future Major Repairs and Replacements:

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements although the board of directors has elected to designate monies to be used for this purpose. Accumulated funds are held in separate bank accounts and generally are not available for expenditures for normal operations.

The Board has established a replacement fund to provide for future major repairs and replacements. The Board of Directors determined the future major repairs and replacement costs from information provided by a study prepared by the Association's general manager. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on these estimates. Accordingly, the Board committed to fund \$210,000 and \$50,000 for major repairs and replacements for the years ending February 28, 2019 and 2020, respectively. The Board has elected and voted to annually review the replacement fund requirement to determine the adequacy of the annual funding.

Actual expenditures may vary from the estimated amounts and the variations may be material. If additional funds are needed the Association has the right to increase regular assessments, levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 4 – Property and Equipment:

Property and equipment consists of the following:

<u>Association assets</u>	
Building and improvements	\$ 1,613,128
Furniture and equipment	145,939
Vehicles	161,123
Total association assets	<u>1,920,190</u>
<u>Country club assets</u>	
Land and land improvements	2,480,782
Buildings	3,446,008
Total country club assets	<u>5,926,790</u>
Total assets	<u>7,846,980</u>
Less: accumulated depreciation	<u>(853,491)</u>
Net property and equipment	<u>\$ 6,993,489</u>

Note 5 – Uninsured Cash Balances:

The Association maintains its cash in bank deposit accounts which, for minimal periods of time, may exceed federally insured limits. The Association has not experienced any losses on such accounts and believes, based on professional financial advice, it is not exposed to any significant risk on cash and cash equivalents.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2019

Note 6 – Asset Purchase and Related Debt:

The Association is in a development that includes three eighteen-hole golf courses, a country club and related amenities formerly owned and operated by The Meadows Country Club, Inc. (the "Club").

In March 2018, the Association purchased loans owed by the Club to a local bank totaling approximately \$2,881,000. The Association purchased the loans with cash available at the time of purchase including reserve funds. Other terms of the loans were unchanged.

In June 2018, the Club purchased all real estate owned by the Club and simultaneously entered into a three-year lease agreement which leases the real estate back to the Club for \$10 per year. Terms of the lease also require the Club to manage, operate and maintain the golf courses, country club and related amenities. An option to renew the lease is available to the parties at the end of the initial lease term.

Total consideration for the transaction was \$6,000,000 to be paid with the application of the amount of debt acquired in May, plus accrued interest, and also cash payments through September 2020 as summarized by the Association's fiscal year below.

Application of debt at closing	\$ 2,918,000
Cash payments for years ending February 28	
2019	700,000
2020	1,775,000
2021	607,000
Total	<u>\$ 6,000,000</u>

The obligation to the Club had no stated interest rate. An imputed rate of 4% has been assigned to the obligation resulting in the face value of the obligation at time of closing of \$2,461,000 and the balance at February 28, 2019 is 2,285,022. As a result, principal payments on the obligation are as follows.

Principal payments for years ending February 28	
2020	\$ 1,696,531
2021	588,491
Total	<u>\$ 2,285,022</u>

Note 7 – Line of Credit:

The Association has a \$3,000,000 revolving line of credit with a local financial institution. Terms of the agreement call for interest payments monthly at 4.95%. The line of credit expires in May 2020 at which time all outstanding principal and interest is due. Collateral includes substantially all of the Association's assets. The agreement also includes a financial covenant to maintain a debt service coverage ratio of 1 to 1 during the term of the loan. For the measurement period ended February 28, 2019 the Association did not meet this covenant and, as a result, the financial institution can accelerate the required payment and maturity date of the line of credit. At February 28, 2019 the balance on the line of credit was \$1,262. Management doesn't believe the financial institution will exercise their rights as a result of this default however they do have the right to do so.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2019

Note 8 – Profit Sharing Plan:

Effective January 1, 1997, the Association adopted a qualified profit sharing plan with a 401(k) deferred compensation provision. All full-time employees are eligible to participate in the profit sharing and 401(k) plan as long as they are 21 years of age and have completed six months of service. The Association matches 50% of the employee's contribution up to 6% of their salary for the year. The Association contributed \$12,196 to the plan during the fiscal year ended February 28, 2019.

Note 9 – Contingent Liability:

The Association's current windstorm insurance policy contains a 5% deductible clause for the Association community center and 2% on golf course assets. Based on the \$1,656,718 insured valuation of the community center and contents, the first 5%, or \$82,836 would be the responsibility of the Association. The building reserve has sufficient funds for that expenditure. Based on the \$14,261,100 insured valuation of the golf buildings and contents, the first 2%, or \$285,222 would be the responsibility of the Association.

Note 10 – Subsequent Events:

Subsequent events have been evaluated through July 19, 2019, which is the date the financial statements were available to be issued.

The Meadows Community Association, Inc.

Schedule of Replacement Fund Activity
Year Ended February 28, 2019

	<u>Balance 3/1/18</u>	<u>Assessments</u>	<u>Interest</u>	<u>Transfers</u>	<u>Expenses</u>	<u>Balance 2/28/19</u>
Roads - asphalt only	\$ 263,517	100,000	-	(88,907)	-	274,610
Grounds (trees)	30,616	20,000	-	(50,616)	-	-
Storm water	125,784	-	-	(125,784)	-	-
Bike path	7,409	-	-	(7,409)	-	-
Traffic control	27,296	-	-	(27,296)	-	-
Bridges	451,315	20,000	-	(471,315)	-	-
Recreation	8,961	-	-	(8,961)	-	-
MCA Building	523,023	50,000	-	(573,023)	-	-
Equipment replacement	-	20,000		(20,000)		-
Assessment shortfall	<u>26,469</u>	<u>-</u>	<u>3,485</u>	<u>(29,954)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 1,464,390</u>	<u>210,000</u>	<u>3,485</u>	<u>(1,403,265)</u>	<u>-</u>	<u>274,610</u>

The Meadows Community Association, Inc.

Supplementary Information on Future Major Repairs and Replacements
February 28, 2019
(Unaudited)

The following presents significant information on reserves:

	<u>Estimated Remaining Life</u>	<u>Estimated Replacement Cost</u>
Streets / asphalt	15	\$ 1,020,000
Roofing	1 - 24	535,775
Painting	1 - 2	128,135
Recreation / pool	1 - 5	81,100
Equipment	1 - 15	378,500
Building components	9 - 32	157,200
Grounds components	1 - 24	1,142,500
Doors	8	7,200
Fire safety	1	7,500
Plumbing	3	6,500
HVAC	1 - 15	476,982
Conveying system	1 - 2	160,000
Remodel / rehab / replacement	1 - 44	3,131,250
Tennis	1 - 16	<u>890,000</u>
Total		<u>\$ 8,122,642</u>

The budget of the Association provides for limited voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance, subject to limits on funding contained in our documents. Because the owners have not elected to provide for reserve accounts pursuant to Section 720.303(6), Florida Statutes, these funds are not subject to the restrictions on use of such funds set forth in that statute, nor are reserves calculated in accordance with that statute.