

**The Meadows Community
Association, Inc.**

Financial Statements

February 28, 2021

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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, 2021, 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, 2021, 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.



Sarasota, Florida
July 7, 2021

The Meadows Community Association, Inc.

Balance Sheet
February 28, 2021

ASSETS

	2021				2020
	Operating Fund	Replacement Fund	Capital Assets Fund	Total	Total (For Comparative Purposes Only)
Cash and cash equivalents	\$ 2,365,793	226,359	153,109	2,745,261	2,093,253
Accounts receivable	2,100	-	-	2,100	1,860
Assessments receivable	16,130	-	-	16,130	9,163
Due (to) from other fund	2,563,166	149,541	(2,712,707)	-	-
Prepaid expenses	9,946	-	-	9,946	8,675
Property and equipment, net	-	-	9,026,794	9,026,794	7,154,936
Total assets	\$ 4,957,135	375,900	6,467,196	11,800,231	9,267,887

LIABILITIES AND FUND BALANCES

Accounts payable and accrued expenses	27,584	-	-	27,584	31,709
Prepaid assessments	2,661,517	-	-	2,661,517	2,006,503
Line of credit	-	-	-	-	2,105,944
Deferred advertising revenue	18,890	-	-	18,890	18,112
Funds held for others	177,584	-	-	177,584	34,963
Deposits	9,781	-	-	9,781	3,009
Notes payable	-	-	4,212,414	4,212,414	1,068,913
Contract liabilities (assessments received in advance - Replacement Fund)	-	374,610	-	374,610	324,610
Total liabilities	2,895,356	374,610	4,212,414	7,482,380	5,593,763
Fund balances	2,061,779	1,290	2,254,782	4,317,851	3,674,124
Total liabilities and fund balances	\$ 4,957,135	375,900	6,467,196	11,800,231	9,267,887

See accompanying notes to financial statements.

The Meadows Community Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended February 28, 2021

	Operating Fund	Replacement Fund	Capital Assets Fund	Total	2020 Comparative Purposes Only)
Revenues:					
Property assessments	\$ 3,050,000	-	65,550	3,115,550	2,557,800
Interest	2,492	136	231	2,859	5,075
Community affairs	80,583	-	-	80,583	60,267
Storage rental	33,501	-	-	33,501	30,607
Memorial Gardens	937	-	-	937	-
Other	86,355	-	-	86,355	77,546
Total revenues	<u>3,253,868</u>	<u>136</u>	<u>65,781</u>	<u>3,319,785</u>	<u>2,731,295</u>
Expenses:					
Salaries and wages	469,611	-	-	469,611	486,433
Maintenance	379,938	-	-	379,938	379,559
Community security	300,729	-	-	300,729	297,125
Employee benefits	163,297	-	-	163,297	162,188
Community activity	53,095	-	-	53,095	80,881
Professional fees	82,882	-	-	82,882	111,326
Operating	211,399	-	-	211,399	210,828
Business and bank fees	16,486	-	-	16,486	3,202
MCA building maintenance	9,045	-	-	9,045	25,038
Administrative	10,924	-	-	10,924	11,636
Capital improvements	21,019	-	-	21,019	-
Public relations and promotions	300	-	-	300	616
Community activities	600,000	-	-	600,000	-
Beautification projects	3,590	-	-	3,590	288,298
Depreciation	-	-	194,870	194,870	176,238
Interest expense	<u>158,873</u>	<u>-</u>	<u>-</u>	<u>158,873</u>	<u>108,241</u>
Total expenses	<u>2,481,188</u>	<u>-</u>	<u>194,870</u>	<u>2,676,058</u>	<u>2,341,609</u>
Excess (deficiency) of revenues over expenses	772,680	136	(129,089)	643,727	389,686
Fund balances - beginning of year	<u>1,289,099</u>	<u>1,154</u>	<u>2,383,871</u>	<u>3,674,124</u>	<u>3,284,438</u>
Fund balances - end of year	<u>\$ 2,061,779</u>	<u>1,290</u>	<u>2,254,782</u>	<u>4,317,851</u>	<u>3,674,124</u>

See accompanying notes to financial statements.

The Meadows Community Association, Inc.

Statement of Cash Flows
Year Ended February 28, 2021

	Operating Fund	Replacement Fund	Capital Assets Fund	Total
Cash flows from operating activities:				
Property assessments collected	\$ 3,698,047	50,000	65,550	3,813,597
Interest received	2,492	136	231	2,859
Community affairs income received	81,121	-	-	81,121
Storage rental income received	33,501	-	-	33,501
Other revenue received	86,355	-	-	86,355
Cash paid for operating expenses	(2,337,191)	-	-	(2,337,191)
Net cash flows from operating activities	<u>1,565,262</u>	<u>50,136</u>	<u>65,781</u>	<u>1,681,179</u>
Cash flows from investing activities:				
Purchase of property and equipment	-	-	(2,066,728)	(2,066,728)
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>(2,066,728)</u>	<u>(2,066,728)</u>
Cash flows from financing activities:				
Payments made on line of credit	(2,105,944)	-	-	(2,105,944)
Proceeds from notes payable	-	-	3,143,501	3,143,501
Transfers	841,269	152,131	(993,400)	-
Net cash flows from financing activities	<u>(1,264,675)</u>	<u>152,131</u>	<u>2,150,101</u>	<u>1,037,557</u>
Increase in cash and cash equivalents	300,587	202,267	149,154	652,008
Cash and cash equivalents at beginning of year	<u>2,065,206</u>	<u>24,092</u>	<u>3,955</u>	<u>2,093,253</u>
Cash and cash equivalents at end of year	<u>\$ 2,365,793</u>	<u>226,359</u>	<u>153,109</u>	<u>2,745,261</u>
Reconciliation of excess (deficiency) of revenues over expenses to net cash flows from operating activities:				
Excess (deficiency) of revenues over expenses	\$ 772,680	136	(129,089)	643,727
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash flows from operating activities:				
Depreciation	-	-	194,870	194,870
(Increase) decrease in:				
Accounts receivable	(240)	-	-	(240)
Assessments receivable	(6,967)	-	-	(6,967)
Prepaid expenses	(1,271)	-	-	(1,271)
Increase (decrease) in:				
Accounts payable	(4,125)	-	-	(4,125)
Prepaid assessments	655,014	-	-	655,014
Deferred advertising revenue	778	-	-	778
Funds held for others	142,621	-	-	142,621
Deposits	6,772	-	-	6,772
Contract liability	-	50,000	-	50,000
Total adjustments	<u>792,582</u>	<u>50,000</u>	<u>194,870</u>	<u>1,037,452</u>
Net cash flows from operating activities	<u>\$ 1,565,262</u>	<u>50,136</u>	<u>65,781</u>	<u>1,681,179</u>

See accompanying notes to financial statement.

The Meadows Community Association, Inc.

Notes to Financial Statements

February 28, 2021

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.

Debt Issuance Costs

Debt issuance costs are presented as a direct reduction of the related debt liability and are amortized over the term of the related debt on a straight-line basis which is not materially different than the interest method. Amortization is included with interest expense.

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 2020 - 2021 annual assessment to owners of The Meadows Community Association, Inc. totaled \$3,165,550. Of this amount, \$50,000 and \$65,550 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.

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 is satisfied over time on a daily pro-rata basis using the input method. 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 treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control.

The 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, 2021, there were cumulative outstanding assessments in the amount of \$16,130 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, 2021, 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.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2021

Note 2 – Summary of Significant Accounting Policies – Continued:

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 *Meadowood* is deferred until the period in which the advertising is printed.

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, 2021.

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, 2021. 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.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2021

Note 3 – 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.

Note 4 – Property and Equipment:

Property and equipment consists of the following:

<u>Association assets</u>	
Building and improvements	\$ 1,786,924
Furniture and equipment	151,619
Vehicles	200,699
Construction in progress	347,701
Total association assets	<u>2,486,943</u>
<u>Country club assets</u>	
Land and land improvements	2,752,842
Buildings and related equipment	5,011,608
Total country club assets	<u>7,764,450</u>
Total assets	<u>10,251,393</u>
Less: accumulated depreciation	<u>(1,224,599)</u>
Net property and equipment	<u>\$ 9,026,794</u>

Note 5 – Asset Purchase:

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 Association 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 plus the Club is required, by the terms of the lease, to manage, operate and maintain the golf courses, country club and related amenities and pay the expenses including maintenance, operations, taxes, insurance and assessments. An option to renew the lease is available to the parties at the end of the initial lease term.

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2021

Note 6 – Notes Payable:

The Association has loans as detailed below with one financial institution. The loan agreements impose certain financial and non-financial covenants including a debt coverage ratio. In addition, the Association must maintain a primary depository relationship with the lender with a minimum average of \$1 million. The Association believes all covenants have been met at February 28, 2021. Collateral includes a lien on assessments and a first and second mortgage on real property. Other significant terms are as follows:

\$3,200,000 promissory note, the proceeds of which were used to retire previously existing debt. Terms call for monthly payments of \$24,175 including interest at 4.25% through January 2027 at which time the outstanding principal is due.

\$ 3,043,923

\$2,000,000 promissory note. Terms call for monthly interest only payments at 4.25% through May 2021 at which time principal and interest payments will be required to amortize the debt, with various rate changes, through May 2035.

1,298,559

\$4,000,000 Non-revolving line of credit. Terms call for monthly interest only payments at 4.25% through January 2022 at which time principal and interest payments will be required to amortize the debt, with various rate changes, through January 2036.

-

\$500,000 Revolving line of credit with interest due monthly at 4.30%, matures February 2022.

-

Total notes payable

4,342,482

Less unamortized debt issuance costs

(130,068)

Notes payable, net

\$ 4,212,414

Future maturities of notes payable are as follows:

<u>Year</u>	
2022	\$ 215,709
2023	242,680
2024	253,197
2025	264,170
2026	275,618
Thereafter	3,091,108
Total	<u>\$ 4,342,482</u>

The Meadows Community Association, Inc.

Notes to Financial Statements – Continued

February 28, 2021

Note 7 – 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 reserve study professional in 2019. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study. The Board committed to fund \$50,000 for major repairs and replacements for the years ending February 28, 2021 and 2022, respectively. The Board has elected and voted to annually review the replacement fund requirement to determine the adequacy of the annual funding. Based on the study performed, the Replacement Fund is underfunded.

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 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 \$9,149 to the plan during the fiscal year ended February 28, 2021.

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. Based on the \$14,591,415 insured valuation of the golf buildings and contents, the first 2%, or \$291,828 would be the responsibility of the Association.

Note 10 – Subsequent Events:

Subsequent events have been evaluated through July 7, 2021, which is the date the statements were available to be issued.

The Meadows Community Association, Inc.

Schedule of Replacement Fund Activity
Year Ended February 28, 2021

	<u>Balance 3/1/20</u>	<u>Assessments</u>	<u>Interest</u>	<u>Transfers</u>	<u>Expenses</u>	<u>Balance 2/28/21</u>
Roads - asphalt only	\$ 274,610	-	-	-	-	274,610
Grounds (trees)	-	-	-	-	-	-
Storm water	-	-	-	-	-	-
Bike path	-	-	-	-	-	-
Traffic control	-	-	-	-	-	-
Bridges	-	-	-	-	-	-
Recreation	-	-	-	-	-	-
MCA Building	-	-	-	-	-	-
Equipment replacement	50,000	50,000	-	-	-	100,000
Interest income	<u>1,154</u>	<u>-</u>	<u>136</u>	<u>-</u>	<u>-</u>	<u>1,290</u>
Totals	<u>\$ 325,764</u>	<u>50,000</u>	<u>136</u>	<u>-</u>	<u>-</u>	<u>375,900</u>

Presented on balance sheet as:

Contract liability	\$ 374,610
Fund balance	<u>1,290</u>
	<u>\$ 375,900</u>

The Meadows Community Association, Inc.

Supplementary Information on Future Major Repairs and Replacements
February 28, 2021
(Unaudited)

The following presents significant information on reserves based on a study performed in 2019:

	<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.