

MCA Assessments & Reserves Explained

At the July MCA board meeting, Susan Chapman circulated a letter she had written to Board President Chris Perone. In her fiduciary capacity as a Director, Susan asked for an explanation as to why so much of the homeowner assessments had gone to the TMCC and the impact on our replacement reserves. Jan Lazar attempted without much real conviction to explain and stated that only after the bank loans were repaid would the MCA address its reserve funds. Subsequent to that meeting, Steve McGuire, a CPA with 40 years of commercial experience, posted an explanation on The Meadows Bulletin Board on July 17 regarding the 187% increase in assessments from 2018-2025. Here are some inconvenient truths to consider before publicly asking how our current Board, as well as previous MCA boards, have used MCA residents' assessments to significantly subsidize the private Meadows Country Club.

1. Susan estimated that since 2018 the MCA had sunk \$12.2M into TMCC and asked about the implication on the MCA's reserves. Jan offered an amazingly convoluted and incoherent explanation. The inconvenient truth is Susan's numbers were on the conservative side. Consider the following figures which were drawn from the MCA's audited financials and the County Appraiser's Office:

Capital Asset Expenditures for TMCC	Amount	Notes
2018 Purchase	\$ 6,000,000	
2020 Improvements	2,000,000	Members' Course & Regency Room
2021-2024 Improvements	2,400,000	Fitness building, CCL deck, etc.
Subtotal	10,400,000	
MCA Expense Subsidies to TMCC		
2020 Renaissance Fee	600,000	
2021 Renaissance Fee	600,000	
2022 Renaissance Fee	600,000	
2023 Renaissance Fee	600,000	
2024 Renaissance Fee	530,786	
2024 Property Tax + Insurance	560,000	
2025 Renaissance Fee	184,716	
2025 Property Tax + Insurance	415,284	
Misc. Property + Equipment 2024-25	1,400,000	
Interest on Loans	1,204,000	
Interest Foregone on Replacement Reserve	307,440	Would have earned but spent on TMCC improvements.
16 MCA Projects Put on Hold	789,500	Many referenced in Reserve Study
Subtotal - Expenses Incurred for/because of TMCC	7,791,726	
Est. Total MCA Spent on TMCC	<u>\$ 18,191,726</u>	
MCA Expenses from Audited Financials		
MCA Expenses 2019	1,890,123	
MCA Expenses 2020	2,165,371	

MCA Expenses 2021	2,481,188
MCA Expenses 2022	2,925,805
MCA Expenses 2023	3,306,015
MCA Expenses 2024	3,356,308
MCA Expenses 2025	3,808,548
Total MCA Expenses	<u>19,933,358</u>
LESS Expenses Paid to TMCC	<u>(7,791,726)</u>
Estimated Total for MCA (adj.)	<u>\$ 12,141,632</u>

2. Steve provided a simple calculation of annual assessments collected as reported from the audited financials. He then compared the rise in assessments to the rise in the consumer price index for these years. Assessments increased 187% since 2017 while the CPI increased 28%. Again, Steve's calculations are factually correct. He wanted to know where the money went. A logical question. Assessments did not increase because of property tax assessment values. Assessments are a function of the size of the MCA budget.
3. When Susan asked about the surplus of revenues collected over expenses and why the surplus was not distributed between the Replacement Fund and the Capital Assets Fund, Jan again could not provide a coherent explanation. You can now see from the above tally where much of the 187% increase in assessments went. See #8 below as well.
4. Mel Sykes, who resigned as treasurer, offered a list of 16 projects to put on hold, and delay \$325K loan prepayment in order to reallocate \$789.5K of funds to maintain the sport complex until it could be leased or sold. Most of those projects were noted in the Staebler 2024-25 Reserve Study of essential maintenance. Curiously, the balance of replacement reserves in this Reserve Study does not tie directly to Cavanaugh's audited annual reports for either 2024 or 2025.
5. In fact, Stabler said on pg. 17 that they used a 2024 YE estimated total reserve balance of \$4M from the MCA which "was not audited." Our audited financials for 2024 and 2025 reveal our replacement reserves totaled a mere \$542,242 in 2024 and \$592,242 in 2025. Jan never explained this discrepancy or where the apparently missing \$4M went when asked by Susan.
6. In 2018 our replacement reserve was \$1.46M. As of today, I estimate that our replacement reserves of \$592,242 from the audited accounts are about 5.12% of the \$11,560,855 estimated replacement costs from the Staebler Reserve Study. This is a 59.7% decline in replacement reserves since 2018. According to Staebler, as of today we should have funded reserves of \$6.42M (pg. 23).
7. The MCA, while it has separate reserve accounts on the books, appears to comingle all reserve funds into/through the operating reserve account which fails to provide adequate governance for monitoring the replacement reserve. While not required by Florida law, it is mandated by the IRS. Our treasurer and auditor should have known this, and recommended accounting policy corrections.
8. Between 2018-2025 the MCA invested about \$18.2M into the TMCC and the sports complex. During the same period, the MCA spent about \$12.1M on the community itself, or 33.5% less than it spent supporting the TMCC. I think Susan, who said she supports having a sports complex the community

could afford, was trying to get Jan to admit the cost fellow residents have paid to support a private club which actually began when Jan was treasurer in 2017 and when Jan instituted the Renaissance fee subsidy in 2020 as President. Instead, Jan answered Susan's valid questions with obfuscation.

9. While the executives on the MCA board have continually fumbled the ball in handling the current crisis with the TMCC, they may have lost sight of their fiduciary duties vis-à-vis the IRS classification of a 501(c)(4) not-for-profit and setting aside reserves. Compliance with IRS regulations involves maintaining transparent accounting practices, especially concerning reserve funds. HOAs must clearly segregate funds to differentiate between operating funds, reserve funds, and any other restricted accounts. While our funds may be segregated on paper, in practice that may be a different story. Co-mingling funds through the operating reserves or using reserves for operational expenses can lead to tax implications and legal issues. To ensure compliance, the MCA should establish clear financial policies and maintain meticulous records.

The bottom line is that Susan and Steve are both correct and the data from the MCA's financials, the Staebler Report, and the County Appraiser support their statements. Chris and Jan appear not to understand the accounting implications of actions taken by past and present boards. Jan's wholly illogical and erroneous responses to Susan's questions were obvious to people with a finance and accounting background, although perhaps not to many residents. The Staebler Reserve Report does not reconcile to Cavanaugh's audit report. The MCA looks to have overstated by \$4M its replacement reserves to Staebler who said they couldn't audit the figure. The replacement reserves have been tapped over the years to fund the TMCC and are significantly underfunded. The MCA appears to have spent more money on the TMCC over the past 7 years than it did on the community itself, which may raise thorny IRS issues. And our bookkeeping for governance purposes appears to be suboptimal. Perhaps we need a Facebook poll on whether the board should hire a golf club expert to help them wrestle with this situation because what they've done so far isn't working for the residents who are footing the bills.