

ON TOP OF THE WORLD
(CENTRAL) OWNERS ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
BALANCE SHEET	3
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 11



INDEPENDENT AUDITOR'S REPORT

On Top of the World (Central)
Owners Association, Inc.
Ocala, Florida

We have audited the accompanying financial statements of On Top of the World (Central) Owners Association, Inc. (the Association), which comprise the balance sheet as of February 29, 2020, and the related statements of revenues and expenses and changes in fund balance 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 On Top of the World (Central) Owners Association, Inc. as of February 29, 2020, 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.

Change in Accounting Principle

As described in Note B to the financial statements, the Association adopted new accounting guidance under Topic 606 in the Accounting Standard's Codification of the Financial Accounting Standards Board, *Revenue from Contracts with Customers* during 2020. Our opinion is not modified with respect to this matter.

*Christopher, Smith, Leonard,
Bristow + Stanell, P.A.*

CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P.A.

May 15, 2020
Bradenton, Florida

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
BALANCE SHEET
FEBRUARY 29, 2020

	Operating Fund	Special Assessment Fund	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 971	\$ -	\$ 971
Maintenance assessments receivable, net	74,951	-	74,951
Special assessments receivable, net	-	238,193	238,193
TOTAL CURRENT ASSETS	75,922	238,193	314,115
TOTAL ASSETS	\$ 75,922	\$ 238,193	\$ 314,115
<u>LIABILITIES AND FUND BALANCE</u>			
CURRENT LIABILITIES			
Due to Parkway Maintenance & Management, LLC – Assessments	\$ 47,596	\$ -	\$ 47,596
Due to Master Association	3,772	-	3,772
Due to Parkway Maintenance & Management, LLC – Special Assessments	-	238,193	238,193
Prepaid assessments	24,554	-	24,554
TOTAL LIABILITIES	75,922	238,193	314,115
FUND BALANCE	-	-	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 75,922	\$ 238,193	\$ 314,115

The accompanying notes are an integral part of these financial statements.

**ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED FEBRUARY 29, 2020**

	<u>Operating Fund</u>	<u>Special Assessment Fund</u>	<u>Total</u>
REVENUES			
Assessments:			
Community service fees	\$ 16,523,497	\$ -	\$ 16,523,497
Special assessments	-	1,036,672	1,036,672
Resales	105,755	-	105,755
Rental income	12,600	-	12,600
TOTAL REVENUES	<u>16,641,852</u>	<u>1,036,672</u>	<u>17,678,524</u>
EXPENSES			
Gate operations	386,493	-	386,493
Building and ground maintenance	6,620,659	-	6,620,659
Outside and building lighting	105,723	-	105,723
Water and sewer services	2,278,392	-	2,278,392
Solid waste collection	196,442	-	196,442
Insurance	1,284,655	-	1,284,655
Recreation	3,976,570	-	3,976,570
General and administrative	388,688	-	388,688
ACH rebates	92,168	-	92,168
Repairs and maintenance – rentals	1,260	-	1,260
Master association fees	1,310,802	-	1,310,802
Special assessment expenses	-	1,036,672	1,036,672
TOTAL EXPENSES	<u>16,641,852</u>	<u>1,036,672</u>	<u>17,678,524</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2020

	Operating Fund	Special Assessment Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from members	\$ 16,506,922	\$ 1,117,931	\$ 17,624,853
Cash paid for management services and ACH fees	(15,314,730)	(1,117,931)	(16,432,661)
Cash paid to Circle Square Ranch Master Association	(1,309,576)	-	(1,309,576)
Cash received from sale of units	105,755	-	105,755
Cash received from rental of units	12,600	-	12,600
NET CASH PROVIDED BY OPERATING ACTIVITIES	971	-	971
NET CHANGE IN CASH AND CASH EQUIVALENTS	971	-	971
CASH AND CASH EQUIVALENTS – Beginning of year	-	-	-
CASH AND CASH EQUIVALENTS – End of year	\$ 971	\$ -	\$ 971
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	\$ -
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities:			
(Increase) Decrease in assets:			
Assessments receivable	(6,303)	-	(6,303)
Special assessments receivable	-	81,259	81,259
Increase (Decrease) in liabilities:			
Accounts payable	17,546	-	17,546
Accounts payable–special assessment	-	(81,259)	(81,259)
Prepaid assessments	(10,272)	-	(10,272)
Net cash provided by operating activities	\$ 971	\$ -	\$ 971

The accompanying notes are an integral part of these financial statements.

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION

On Top of the World (Central) Owners Association, Inc., (the Association), was incorporated on April 19, 1985 as a not-for-profit corporation in the State of Florida for the purpose of maintaining and administering community property and improvements, administering and enforcing the covenants and restrictions, and collecting and disbursing assessments and charges. The Association is a homeowners association under Chapter 720, Florida Statutes. At February 29, 2020, the development governed by the Association consisted of 4,138 residential units located in Ocala, Florida. The Association was turned over from the developer to the owners in 1983. The board of directors are elected bi-annually.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association prepares its financial statements on the accrual basis of accounting. The Association maintains its accounts using fund accounting. Currently, the Association utilizes an Operating Fund and a Special Assessment Fund.

Future Major Repairs and Replacements

The Association has not estimated the remaining useful lives and replacement costs of the structures and/or their components. THE BUDGET OF THE ASSOCIATION DOES NOT PROVIDE FOR RESERVE ACCOUNTS FOR CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE THAT MAY RESULT IN SPECIAL ASSESSMENTS. OWNERS MAY ELECT TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO THE PROVISIONS OF SECTION 720.303(6), FLORIDA STATUTES, UPON OBTAINING THE APPROVAL OF A MAJORITY OF THE TOTAL VOTING INTERESTS OF THE ASSOCIATION BY VOTE OF THE MEMBERS AT A MEETING OR BY WRITTEN CONSENT.

Member Assessments

Association members are subject to monthly assessments, referred to as community service fees (CSF), to provide for the common expenses and operation of the Association. Also included in the community service fees are the Master Association fees. Assessments are determined annually by the Board and approved in the annual operating budget. Assessments are charged to members on a per unit basis.

Pursuant to the Declaration of Covenants, Restrictions, Easements, Charges and Liens of the Association, assessments are allocated to members based on the members' share of the total annual requirement. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to place liens on the properties of members whose assessments are two months delinquent.

Member assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its operating assessments (CSF) is satisfied over

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Member Assessments–continued

time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners.

At February 29, 2020 and February 28, 2019, assessments receivable from current owners totaled \$135,951 and \$114,648, respectively for amounts due, but not received prior to year end. An allowance for doubtful accounts has been established in the amount of \$61,000 and \$46,000, respectively. The Association's allowance for uncollectible accounts is based on past experience and specific evaluation of account balances, as well as credit worthiness. In addition, the Association also has \$157,177 and \$139,258 at February 29, 2020 and February 28, 2019, respectively, of past due amounts from prior owners for unpaid assessments, legal fees, interest and other items. Although, the Association continues efforts to collect on these past due accounts, the accounts related to past owners are all considered uncollectible, and as a result fully reserved for.

Assessments are collected in the month the assessment is due. At the end of the month all assessments collected are remitted to Parkway Maintenance & Management, LLC, (Note C), which is the management company of the Association. All master association fees collected are remitted to Circle Square Ranch Master Association on a monthly basis.

Assessments received in advance of the period to which they apply are recorded as assessments received in advance. At February 29, 2020 and February 28, 2019 there were \$24,554 and \$34,826, respectively, of assessments received in advance.

Delinquent Assessments

The Association's policy is to retain legal counsel, place liens and pursue foreclosure on delinquent homeowners. At February 29, 2020, the Association had \$128,107 of delinquent assessments receivable on lienied units. The Association has foreclosed on 2 units as a result of non-payment of assessments. One of the foreclosed units had a mortgage or other liens held by third parties that would prohibit the Association from selling the foreclosed unit at this time. During the year, the Association collected rental income on foreclosed units in the amount of \$12,600 as a means of replacing the uncollected assessments. Additional foreclosed units may be rented in the future based on their condition and extent of repairs needed. All costs incurred to keep foreclosed units in rental condition are paid by Parkway and included in expenses of the Association.

The following units were foreclosed on by the Association prior to February 29, 2020:

8630 SW 94th Lane, #D

8552 – SW 93rd Place, #B

Special Assessments

The Board may levy additional, special assessments as needed for the capital repair or replacement not included in the budget. Pursuant to the management agreement, if capital repairs or replacements in excess of \$10,000, (which are not

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Special Assessments – Continued

included in the annual budget), are deemed necessary by management, a majority of the members of the Association Board of Directors must approve the work to be paid for by special assessment. Special assessments must be levied on a pro rata basis against only those homes actually benefiting from the work performed. Special assessments revenue is recognized in the period that the expense for which it was levied is incurred and the performance obligation is satisfied.

Working Capital Assessment – Master Association

Pursuant to the Declaration of Covenants, Conditions, and Restrictions, the Association shall collect and remit to Circle Square Ranch Master Association, a one time working capital contribution equal to two twelfths of the annual assessments due the Master Association. The working capital assessment does not apply to any unit in an existing development created prior to May 18, 2004.

Resales

Resales of units are recorded at the date of the sale at the negotiated sales price, upon closing.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended February 29, 2020, the Association will be taxed as a regular corporation. Membership income is exempt from taxation. However, all other amounts received by the Association, such as resales and rental income, do not qualify as exempt function income and are taxed, net of related expenses, at normal corporate rates. There were no material amounts of income tax expense or related liabilities for the year ended February 29, 2020, and, as a result, no provision for income taxes has been recorded. The Association has not been informed of any pending IRS audit. However, the previous three tax years are subject to IRS examination.

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 has no common properties. The land upon which the dwellings exist is leased to the unit owners from other entities and is not a part of the Association. The amenities and roadways are owned by a separate entity.

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Association believes that it is not exposed to any significant credit risk on cash and cash equivalents.

FASB Topic 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and required the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of March 1, 2019, using the full retrospective method of transition. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of March 1, 2019. Adoption of the new guidance resulted in no changes to the Association's accounting policies.

The difference to revenue and contract liabilities account balances at February 28, 2019, under the new guidance as opposed to the prior revenue recognition guidance was not material. Accordingly, no adjustment to beginning fund balance was necessary.

NOTE C – MANAGEMENT AND MAINTENANCE

The Association has contracted with Parkway Maintenance & Management, LLC (Parkway), as an independent contractor to perform and carry out the functions and duties of the Association as set forth in the organizing documents of the Association.

The contract price is determined annually based on the amounts determined by Parkway as necessary to pay the monthly common expenses of the Association as described in the management agreement. The Board of Directors passes a budget annually, which assesses the members a Community Service Fee. As noted in the approved budget, the Community Service Fee remitted to Parkway pays for gate operations, building and ground maintenance, outside and building lighting, water and sewer services, solid waste collection, insurance, recreation, and general and administrative costs.

ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C – MANAGEMENT AND MAINTENANCE – CONTINUED

All assessments collected in accordance with the budgeted monthly assessments per unit net of the Master Association fees, are remitted to Parkway. Parkway's services include providing or contracting for services and maintenance on behalf of the Association, which includes maintaining the common areas and properties as described in the management agreement and also to contract for other services such as recreational facilities, water and sewer services, exterior lighting, solid waste collection and other necessary services. Under the terms of the management agreement, Parkway is also responsible for procuring property and general liability insurance as specified in the Declaration of Covenants.

NOTE D – RELATED PARTY TRANSACTIONS

Members of the Board of Directors of the Association are elected by members of the Association every two years. The Association has contracted with a management company, Parkway Maintenance & Management, LLC, to perform the duties and functions of the Association (Note C). Parkway has contracted with Sidney Colen & Associates, Ltd. (SCA) to provide recreation amenities on behalf of the Association. A member of the Association's Board of Directors has an interest in Parkway and SCA. In addition, certain members of the Association's Board of Directors are officers of Parkway and/or SCA. During the year ended February 29, 2020, the Association paid Parkway \$15,222,562 for management services and \$1,117,931 related to special assessments. At February 29, 2020, the Association owed \$47,596 to Parkway for member assessments receivable, and \$238,193 for special assessments receivable.

NOTE E – SPECIAL ASSESSMENTS

The Board has approved special assessments for the purpose of roof replacements. During the current fiscal year, the buildings which had roof replacements completed were: 2004, 2014, 2015, 2016, 2018, 2028, 2039, 2041, 2045, 2056, 2061, 2065, 2066, 2070, 2071, 04119770, 04159700, 08029659, 08189746, 15A9401, 15A9541, 16A9471, 16C9443, 16E9415, 16H9385, 16I9377, 16J9369, 16K9361, 16L9353, 17C9117, 17D9109, 18A9151, 18B9139, 18D9115, 18F9091, 18G9079, 19A9162, 19B9150, 19G9090, 19H9078, 20A9029, 20B9101, 20C9089, 20D9077, 20E9065, 20F9053, 21A9112, 22C9512, 22D9498, 22E9484, 23C9045, 23D9035, 23F9015, 31A9240, 31B9236, 31C9230, 31D9224, 31E9218, 32A9206, 32C9194, 32D9188, 32E9182, 32F9176, 32H9164, 32I9158, 33E9122, 33E9128, 33F9116, and 33G9110. Amounts levied for roof replacement were spent as intended.

The total amount levied for the above roof replacements was \$1,036,672, of which \$239,193 was receivable at February 29, 2020. An allowance for doubtful accounts has been established in the amount of \$1,000 and is based on past experience and specific evaluation, as well as, credit worthiness of members and account balances. At February 28, 2019, the roof replacement receivable was \$319,452 with no related allowance for doubtful accounts.

**ON TOP OF THE WORLD (CENTRAL) OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE F – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 15, 2020, which is the date the financial statements were available to be issued.

As of the date through which the Association has evaluated events occurring subsequent to the balance sheet date, May 15, 2020, Management of the Association is evaluating the risks associated with the COVID-19 pandemic. Management of the Association is in the process of implementing risk mitigation as to the risk of impact, if any, of COVID-19 related to all aspects of the Association's business transactions with members and vendors and human interaction within and outside of the Association. However, the Association cannot at this time, make a determination on the ultimate impacts of the COVID-19 pandemic.