# Lexington Community Association, Inc.
# d/b/a Lexington Country Club

Financial Report
April 30, 2023

## Contents

RSM US LLP

## Independent Auditor's Report

Board of Directors
Lexington Community Association, Inc.
d/b/a Lexington Country Club

### Report on the Audit of the Financial Statements

***Opinion***

We have audited the financial statements of Lexington Community Association, Inc. d/b/a Lexington Country Club (the Association), which comprise the balance sheet as of April 30, 2023, the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association as of April 30, 2023, and the changes in its fund balances 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's 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 issued or available to be issued.

**Auditor's 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 auditor's 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 GAAS 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 GAAS, 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.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the required supplementary information on future major repairs and replacements on page 17 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 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 Association's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Naples, Florida
January 15, 2024

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Balance Sheet**
**April 30, 2023**
**With Comparative Totals for April 30, 2022**

| | Operating Fund | Replacement Fund | Combined Funds 2023 | Combined Funds 2022 | |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | $ 2,223,294 | $ 5,525,768 | $ 7,749,062 | $ 9,394,657 | |
| Certificates of deposit | - | - | - | 976,227 | |
| Accounts receivable, net of allowance for doubtful accounts of $9,600 in 2023 | 501,942 | - | 501,942 | 616,524 | |
| Inventories | 243,171 | - | 243,171 | 236,722 | |
| Prepaid expenses | 524,358 | - | 524,358 | 373,259 | |
| Due from sub-associations (Note 11) | 1,042,158 | - | 1,042,158 | 7,552 | |
| Due from Operating Fund | - | 1,275,676 | - | - | * |
| **Total current assets** | 4,534,923 | 6,801,444 | 10,060,691 | 11,604,941 | |
| Property and equipment, net (Note 2) | 15,477,304 | - | 15,477,304 | 15,211,883 | |
| Right-of-use assets for finance lease, net (Note 6) | 98,143 | - | 98,143 | - | |
| Right-of-use assets for operating leases, net (Note 6) | 453,201 | - | 453,201 | - | |
| Other assets | 589 | - | 589 | 589 | |
| | $ 20,564,160 | $ 6,801,444 | $ 26,089,928 | $ 26,817,413 | |
| **Liabilities and Fund Balances** | | | | | |
| Current liabilities: | | | | | |
| Current operating lease liabilities (Note 6) | $ 145,736 | $ - | $ 145,736 | $ - | |
| Current finance lease liability (Note 6) | 18,542 | - | 18,542 | - | |
| Current maturities of long-term debt (Note 3) | 278,670 | - | 278,670 | 268,487 | |
| Accounts payable (Note 11) | 1,637,066 | - | 1,637,066 | 662,159 | |
| Accrued expenses | 628,071 | - | 628,071 | 553,459 | |
| Due to Replacement Fund | 1,275,676 | - | - | - | * |
| Unearned membership assessments and fees | 368,468 | - | 368,468 | 430,888 | |
| Due to sub-associations | 107,974 | - | 107,974 | 114,427 | |
| Current portion of deferred cable revenue | 30,813 | - | 30,813 | 30,813 | |
| **Total current liabilities** | 4,491,016 | - | 3,215,340 | 2,060,233 | |
| Deferred cable revenue, less current portion | 51,354 | - | 51,354 | 82,166 | |
| Long-term lease liabilities for operating leases (Note 6) | 307,465 | - | 307,465 | - | |
| Long-term lease liability for finance lease (Note 6) | 79,601 | - | 79,601 | - | |
| Long-term debt, net of current maturities and unamortized deferred financing costs (Note 3) | 803,435 | - | 803,435 | 1,075,394 | |
| **Total liabilities** | 5,732,871 | - | 4,457,195 | 3,217,793 | |
| Commitments and contingencies (Notes 5 and 11) | | | | | |
| Fund balances (Note 8) | 14,831,289 | 6,801,444 | 21,632,733 | 23,599,620 | |
| | $ 20,564,160 | $ 6,801,444 | $ 26,089,928 | $ 26,817,413 | |

* Eliminated in combination of funds.

See notes to financial statements.

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Statement of Revenues and Expenses**
**Year Ended April 30, 2023**
**With Comparative Totals for Year Ended April 30, 2022**

| | Operating Fund | Replacement Fund | Combined Funds 2023 | Combined Funds 2022 |
|---|---|---|---|---|
| Revenues: | | | | |
| Maintenance fees (Note 5) | **$ 5,271,556** | **$ -** | **$ 5,271,556** | $ 5,224,526 |
| Golf village assessments | **1,236,324** | **-** | **1,236,324** | 1,375,128 |
| Food and beverage | **1,904,971** | **-** | **1,904,971** | 2,598,773 |
| Unspent minimum | **5,454** | **-** | **5,454** | 78,895 |
| Golf operations | **1,297,688** | **-** | **1,297,688** | 1,692,763 |
| Tennis | **11,496** | **-** | **11,496** | 21,399 |
| Sub-association landscape maintenance and other fees (Note 9) | **923,069** | **-** | **923,069** | 836,246 |
| Transfer fees | **121,700** | **-** | **121,700** | 168,000 |
| Interest income | **16,794** | **13,181** | **29,975** | 51,422 |
| Other | **175,597** | **-** | **175,597** | 58,960 |
| | **10,964,649** | **13,181** | **10,977,830** | 12,106,112 |
| Expenses: | | | | |
| Food and beverage | **3,580,411** | **-** | **3,580,411** | 3,737,011 |
| Golf operations | **1,064,740** | **-** | **1,064,740** | 1,156,356 |
| Golf course maintenance | **1,367,226** | **-** | **1,367,226** | 1,234,588 |
| Tennis | **232,672** | **-** | **232,672** | 260,790 |
| Activities | **181,833** | **-** | **181,833** | 180,966 |
| Security | **424,181** | **-** | **424,181** | 453,193 |
| General and administrative | **1,916,260** | **-** | **1,916,260** | 1,636,433 |
| Clubhouse | **988,509** | **-** | **988,509** | 914,535 |
| Sub-association landscape maintenance and other fees | **1,891,722** | **-** | **1,891,722** | 1,935,479 |
| Insurance | **352,417** | **-** | **352,417** | 262,093 |
| | **11,999,971** | **-** | **11,999,971** | 11,771,444 |
| **(Deficiency) excess of revenues over expenses before other revenues (expenses)** | **(1,035,322)** | **13,181** | **(1,022,141)** | 334,668 |
| Other revenues (expenses): | | | | |
| Hurricane activity, net (Note 11) | **(2,122,791)** | **-** | **(2,122,791)** | - |
| Depreciation | **(1,217,253)** | **-** | **(1,217,253)** | (1,208,515) |
| Gain on extinguishment of debt (Note 5) | **-** | **-** | **-** | 520,000 |
| Interest expense | **(46,322)** | **-** | **(46,322)** | (69,073) |
| **(Deficiency) excess of revenues over expenses** | **$ (4,421,688)** | **$ 13,181** | **$ (4,408,507)** | $ (422,920) |

See notes to financial statements.

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Statement of Changes in Fund Balances**
**Year Ended April 30, 2023**
**With Comparative Totals for Year Ended April 30, 2022**

| | Operating Fund | Replacement Fund | Combined Funds 2023 | Combined Funds 2022 |
|---|---|---|---|---|
| Fund balances, beginning: | **$ 17,046,453** | **$ 6,553,167** | **$ 23,599,620** | $ 21,791,420 |
| (Deficiency) excess of revenues over expenses | **(4,421,688)** | **13,181** | **(4,408,507)** | (422,920) |
| Resale contributions (Note 1) | **449,500** | **-** | **449,500** | 460,000 |
| Special assessments (Note 10) | **286,524** | **-** | **286,524** | 304,840 |
| Capital assessments (Note 8) | **166,740** | **-** | **166,740** | 147,936 |
| Maintenance reserve assessments (Note 7) | **-** | **1,284,468** | **1,284,468** | 1,063,956 |
| Capital improvement assessments (Note 8) | **254,388** | **-** | **254,388** | 254,388 |
| Transfer of property and equipment | **1,049,372** | **(1,049,372)** | **-** | - |
| Fund balances, ending | **$ 14,831,289** | **$ 6,801,444** | **$ 21,632,733** | $ 23,599,620 |

See notes to financial statements.

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Statement of Cash Flows**
**Year Ended April 30, 2023**
**With Comparative Totals for Year Ended April 30, 2022**

| | Operating Fund | Replacement Fund | Combined Funds 2023 | Combined Funds 2022 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| (Deficiency) excess of revenues over expenses | **$ (4,421,688)** | **$ 13,181** | **$ (4,408,507)** | $ (422,920) |
| Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash (used in) provided by operating activities: | | | | |
| Depreciation | **1,217,253** | **-** | **1,217,253** | 1,208,515 |
| Amortization of deferred financing costs | **1,999** | **-** | **1,999** | 1,999 |
| Accrued interest on certificates of deposit | **-** | **-** | **-** | (21,948) |
| Gain on extinguishment of debt | **-** | **-** | **-** | (520,000) |
| Loss (gain) on write-off and disposition of property and equipment | **36,929** | **-** | **36,929** | (7,918) |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in: | | | | |
| Accounts receivable | **114,582** | **-** | **114,582** | (146,170) |
| Inventories | **(6,449)** | **-** | **(6,449)** | (50,568) |
| Prepaid expenses | **(151,099)** | **-** | **(151,099)** | (43,773) |
| Due from sub-associations | **(1,034,606)** | **-** | **(1,034,606)** | (2,137) |
| Increase (decrease) in: | | | | |
| Accounts payable | **914,037** | **-** | **914,037** | 145,691 |
| Accrued expenses | **74,612** | **-** | **74,612** | 96,771 |
| Unearned membership assessments and fees | **(62,420)** | **-** | **(62,420)** | 51,963 |
| Deferred cable revenue | **(30,812)** | **-** | **(30,812)** | (30,813) |
| Due to sub-associations | **(6,453)** | **-** | **(6,453)** | (915) |
| **Net cash (used in) provided by operating activities** | **(3,354,115)** | **13,181** | **(3,340,934)** | 257,777 |
| | | | | |
| Cash flows from investing activities: | | | | |
| Disbursements for property and equipment | **(431,861)** | **(1,049,372)** | **(1,481,233)** | (544,435) |
| Proceeds from disposition of property and equipment | **22,500** | **-** | **22,500** | 11,500 |
| Proceeds from sale of certificates of deposit | **-** | **976,227** | **976,227** | 2,706,478 |
| **Net cash (used in) provided by investing activities** | **(409,361)** | **(73,145)** | **(482,506)** | 2,173,543 |

(Continued)

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Statement of Cash Flows (Continued)**
**Year Ended April 30, 2023**
**With Comparative Totals for Year Ended April 30, 2022**

| | Operating Fund | Replacement Fund | Combined Funds 2023 | Combined Funds 2022 |
|---|---|---|---|---|
| Cash flows from financing activities: | | | | |
| Interfund activity | $ 1,290,127 | $ (1,290,127) | $ - | $ - * |
| Principal payments on long-term debt | (263,775) | - | (263,775) | (444,791) |
| Proceeds from maintenance reserve assessments | - | 1,284,468 | 1,284,468 | 1,063,956 |
| Proceeds from special assessment | 286,524 | - | 286,524 | 304,840 |
| Proceeds from resale contributions | 449,500 | - | 449,500 | 460,000 |
| Proceeds from capital improvement assessments | 254,388 | - | 254,388 | 254,388 |
| Proceeds from capital assessments | 166,740 | - | 166,740 | 147,936 |
| **Net cash provided by (used in) financing activities** | 2,183,504 | (5,659) | 2,177,845 | 1,786,329 |
| **Net (decrease) increase in cash** | (1,579,972) | (65,623) | (1,645,595) | 4,217,649 |
| Cash: | | | | |
| Beginning | 3,803,266 | 5,591,391 | 9,394,657 | 5,177,008 |
| Ending | $ 2,223,294 | $ 5,525,768 | $ 7,749,062 | $ 9,394,657 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash payments for interest | $ 44,323 | $ - | $ 44,323 | $ 67,075 |
| Supplemental schedules of noncash investing and financing activities: | | | | |
| Transfers of property and equipment | $ 1,049,372 | $ (1,049,372) | $ - | $ - |
| Property and equipment included in accounts payable | $ 60,870 | $ - | $ - | $ - |
| Right-of-use asset acquired through finance lease | $ 98,143 | $ - | $ - | $ - |
| Right-of-use assets obtained by incurring operating lease liabilities | $ 577,524 | $ - | $ - | $ - |

* Eliminated in combination of funds.

See notes to financial statements.

## Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Lexington Community Association, Inc. d/b/a Lexington Country Club (the Association), a member-owned private club and property owners' association, was incorporated as a "corporation not-for-profit" under the laws of the state of Florida on December 22, 1995. The primary purpose of the Association is to operate and maintain, for the benefit of the membership, the common areas and Club facilities. All owners of lots, units or parcels subject to assessment must be members.

A summary of the Association's significant accounting policies follows:

**Fund accounting:** The Association uses fund accounting, which requires that funds, such as Operating Funds and funds designated for major replacements and improvements, be classified separately for accounting and reporting purposes. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors (the Board). Disbursements from the Replacement Fund generally may be made only for designated purposes.

**Accounting 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.

**Ownership transactions:** Maintenance reserve assessments, resale contributions, capital assessments and special assessments are accounted for as owner transactions because of various rights and obligations of the members making such payments. Ownership transactions are recognized as changes in fund balances when collected.

The Association levies resale contributions of $6,500 upon the transferee of a conveyance of every plot or unit. Resale contributions are accounted for in the Operating Fund and are to be used at the Board's discretion to improve common property. Total resale contributions were $449,500 for the year ended April 30, 2023.

**Revenue recognition:** All revenue is recorded based on fixed transaction prices and any right to return goods does not significantly impact Association revenue. The Association records accounts receivable when it has the unconditional right to issue an invoice and receive payment regardless of whether revenue has been recognized. When consideration is received and revenue has not yet been recognized, a contract liability (unearned membership assessments and fees) is also recorded. The Association does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset.

The Association recognizes membership assessments (including maintenance fees, golf village assessments and sub-association landscaping maintenance fees) and certain golf operations fees as revenue ratably over the period in which those billings relate, which is when the Association's performance obligation is satisfied. All other revenue is recorded upon delivery of the related goods and services to the member, which is when the Association's performance obligation is satisfied.

Total revenue recognized at a point in time and over time was as follows for the year ended April 30, 2023:

| | |
|---|---|
| Revenue recognized at a point in time | $ 3,444,868 |
| Revenue recognized over time | 7,532,962 |
| | $ 10,977,830 |

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Association collects and remits sales and use taxes from members at the point of sale for retail transactions. The Association reports such amounts under the net method on the statement of revenues and expenses. Accordingly, these taxes are not included in gross revenue.

Payment terms for membership assessments, goods and services are billed to member accounts and are typically due in 30 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, the Association has determined that a significant financing component does not exist.

**Operating loss/performance measurement:** The Association considers the deficiency of revenues over expenses before other expenses on the accompanying statement of revenues and expenses in the Operating Fund to be operating loss for performance measurement purposes as this is the line item budgeted for financial management and internal reporting purposes.

**Cash concentration risk:** The Association maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses on such accounts.

**Accounts receivable:** Accounts receivable are carried at the original charge amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 60 days. Interest of 1.5% is charged on accounts receivable that are outstanding for more than 30 days and is recognized as it is charged. Upon 60 days after the receivable due date, the member will be suspended and not be permitted to use the club facilities until reinstatement.

**Inventories:** Inventories, consisting of food and beverage and pro shop merchandise, are stated at the lower of cost (first-in, first-out method) or net realizable value.

**Common property:** The Association's policy for recognizing common property as assets on its balance sheet is to recognize as assets all real property to which it has title or other evidence of ownership and that is not directly associated with the units as well as all common personal property.

**Property and equipment:** Property and equipment is stated at cost. All common property, as described above, is capitalized on the balance sheet. Depreciation is computed using accelerated methods and straight-line methods over the following estimated useful lives:

| | Years |
|---|---|
| Land improvements | 3-15 |
| Buildings and improvements | 3-39 |
| Furniture and equipment | 3-15 |

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Memberships:** In accordance with the Master Declaration of Covenants for the Lexington Community Association, Inc., two classes of memberships have been established. Property owners residing in the Lake Village are entitled to the use of the clubhouse facilities and activities center and receive golfing privileges. Property owners residing in the Golf Village are entitled to the use of clubhouse facilities and activities center and receive preferential treatment over all others for golfing privileges. There are 672 units in the Lake Village and 807 units in the Golf Village.

**Income taxes:** The Association is incorporated as a not-for-profit corporation under the laws of the state of Florida, as contained in Chapter 720 of the Florida Statutes. However, the Association is not exempt from income taxes. For income tax purposes, the Association is required to segregate the results of its member activities from its nonmember activities and is separately taxed on each element. Nonmember activity losses may be used to offset member activity profits in current or future periods.

Member activity losses are referred to as deferred expense carryforwards and cannot be used to offset nonmember activity profits. Due to the nature of the Association's operations, the Association believes it is remote that it would utilize either type of loss carryforward. As a result, it is the Association's policy not to disclose the deferred tax asset and related valuation allowance associated with the carryforwards.

The Association has evaluated its tax positions and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statement to comply with the provisions of the Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

**Deferred financing costs:** Deferred financing costs are being amortized using the effective interest method over the term of the loan agreement and are presented on the balance sheet as a direct reduction to the long-term debt balance. Amortization expense is included in interest expense on the statement of revenues and expenses.

**Leases:** In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheet as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in ASC Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of revenues and expenses. The Association adopted Topic 842 on May 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements.

Under this transition provision, the Association has applied Topic 842 to reporting periods beginning on May 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Association's historical accounting treatment under Topic 840, Leases.

The Association elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Association does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Association has not elected to adopt the "hindsight" practical expedient, and therefore measured the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on May 1, 2022.

### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Association determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the Association obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Association also considers whether its service arrangements include the right to control the use of an asset.

The Association made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or May 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Association made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

**Subsequent events:** Management has assessed subsequent events through January 15, 2024, the date the financial statements were available to be issued (see Note 11).

### Note 2. Property and Equipment

The major classifications of property and equipment as of April 30, 2023, are summarized as follows:

| | |
|---|---|
| Land and improvements | $ 10,947,764 |
| Buildings and improvements | 12,031,973 |
| Furniture and equipment | 5,514,958 |
| | 28,494,695 |
| Less accumulated depreciation | 13,315,539 |
| | 15,179,156 |
| Construction in progress | 298,148 |
| | $ 15,477,304 |

### Note 3. Long-Term Debt

**Line of credit:** The Association has a line of credit agreement with a bank to provide for short-term borrowings up to $1,000,000 with interest at the Wall Street Journal prime rate plus 0.25% (8.25% as of April 30, 2023) secured by all maintenance fees and assessments. The agreement requires that any amounts borrowed must be repaid by the maturity date of December 21, 2024. The line of credit had no outstanding borrowings as of April 30, 2023.

**Long-term debt:** On December 1, 2016, the Association entered into a construction loan agreement with a financial institution for borrowings up to $2,500,000 to finance the golf course renovation along with $1,000,000 in reserves and the golf course renovation assessment (see Note 10). The loan requires monthly principal and interest payments beginning on January 1, 2018, at a fixed rate of 4.75% based on a 10-year amortization. In September 2021, the Association refinanced their construction loan agreement to reduce their fixed interest rate to 3.50%. As of April 30, 2023, the outstanding balance under this agreement was $1,090,098.

## Note 3. Long-Term Debt (Continued)

There are no prepayment penalties related to the loan. The loan is secured by a collateral assignment and first priority security interest of all Association accounts, deposit accounts, general intangibles, all maintenance fees, special assessments and other various items as further detailed in the loan agreement. The loan will mature on December 1, 2027, at which time all unpaid interest, principal and fees will be due and payable.

The following is a schedule by years of future minimum required payments on long-term debt as of April 30, 2023:

| | |
|---|---|
| Years ending April 30: | |
| 2024 | $ 278,670 |
| 2025 | 283,703 |
| 2026 | 293,793 |
| 2027 | 233,932 |
| | 1,090,098 |
| Less current maturities | 278,670 |
| | 811,428 |
| Less unamortized deferred financing costs | 7,993 |
| | $ 803,435 |

## Note 4. Retirement Plan

The Association sponsors a 401(k) employee savings and retirement plan for the benefit of its employees. All employees 21 years and older having one year of employment with at least 1,000 hours of service, are eligible to participate in the plan. The Association can elect annually to match participating employee's contributions. The Association elected to match 40% of 5% of participating employee's annual salaries. The Association's policy is to fund retirement costs as accrued. Retirement expense recognized in the statement of revenues and expenses for the year ended April 30, 2023, totaled $87,516.

## Note 5. Commitments and Contingencies

**Cable services:** In September 2019, the Association entered into a new contract for cable television and internet services which commenced January 2020 for a six-year period. The Association includes a budgeted amount to cover the costs of the cable services in each member's maintenance fees. For the year ended April 30, 2023, the Association paid $1,607,744 for cable services, which is netted against maintenance fees on the statement of revenues and expenses.

**Insurance matters:** Where possible, the Association attempts to mitigate the risk of hurricane damage through insurance. The Association's insurance policies were renewed through March 1, 2024. Due to the Association's deductibles, losses from future catastrophic weather events may require special membership assessments or funding from existing reserves.

## Note 5. Commitments and Contingencies (Continued)

**Paycheck Protection Program**: In fiscal year 2021, the Association received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan under the Coronavirus Aid, Relief and Economic Security (CARES) Act for $520,000. In fiscal year 2022, the loan was fully forgiven and recognized as a gain on extinguishment of debt on statement of revenues and expenses in the year of forgiveness. The SBA reserves the right to audit any PPP loan, for eligibility and other criteria, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven and to provide that documentation to the SBA upon request.

## Note 6. Leases

The Association leases golf carts, GPS equipment, trash compactors and a trailer for the administrative offices under operating lease agreements with initial terms ranging from 22 to 60 months. The Association also leases copiers and a envelope printer under one finance lease agreement with an initial term of 60 months. The Association's leases do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease expense is recorded in the related departmental expense on the statements of revenues and expenses. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

Operating lease costs, including interest of $14,390, was $138,713 for the year ended April 30, 2023. Total lease expense was $132,771 for the year ended April 30, 2022.

The finance lease was entered into in April 2023, therefore, the cost as of April 30, 2023 was $98,143 with no related accumulated amortization.

Supplemental balance sheet information related to leases is as follows as of April 30, 2023:

| | |
|---|---|
| Weighted-average remaining lease term: | |
| Operating leases | 3.24 years |
| Finance lease | 5 years |
| | |
| Weighted-average discount rate: | |
| Operating leases | 3.05% |
| Finance lease | 2.81% |

## Note 6. Leases (Continued)

Future undiscounted cash flows for each of the next five years and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of April 30, 2023:

| | Operating Leases | Finance Leases |
|---|---|---|
| Years ending December 31: | | |
| 2024 | $ 157,149 | $ 21,063 |
| 2025 | 138,713 | 21,063 |
| 2026 | 125,545 | 21,063 |
| 2027 | 53,568 | 21,063 |
| 2028 | - | 21,063 |
| | 474,975 | 105,315 |
| Less amount of imputed interest | 21,774 | 7,172 |
| Present value of the net minimum lease payments | 453,201 | 98,143 |
| Less current portion | 145,736 | 18,542 |
| Long-term portion | $ 307,465 | $ 79,601 |

Future minimum lease commitments, as determined under Topic 840, for all non-cancellable leases were as follows as of April 30, 2022:

| | Operating Leases |
|---|---|
| Years ending April 30: | |
| 2023 | $ 105,030 |
| 2024 | 88,122 |
| 2025 | 90,653 |
| 2026 | 93,259 |
| 2027 | 48,548 |
| | $ 425,612 |

## Note 7. Major Repairs and Replacements

The Association has set aside funds for certain future major repairs and replacements. Accumulated funds are held in separate bank accounts and investments, and generally are not available for expenditures for normal operations.

In 2022, management conducted a study to estimate the remaining useful lives and current replacement costs of certain components of common property. The table included in the unaudited required supplementary information on future major repairs and replacements is based on the study.

The Board is funding major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund. The Association collected $1,284,468 for major repairs and replacements for the year ended April 30, 2023. The 2023 funding requirement is management's estimate of the amount needed to be funded annually over the estimated remaining lives of certain common property. Accordingly, the Board has committed to fund approximately $1,460,000 for major repairs and replacements during the year ending April 30, 2024.

## Note 7. Major Repairs and Replacements (Continued)

Funds are being accumulated in the Replacement Fund based on estimates of future needs for major repairs and replacements of common property components. 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 for all major repairs and replacements. If additional funds are needed, the Association has the right to pass special assessments, subject to board approval, and to increase regular assessments, or delay major repairs and replacements until funds are available.

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 governing 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.

## Note 8. Fund Balances

The Operating Fund balance as of April 30, 2023, consists of the following:

| | |
|---|---|
| Contributed capital | $ 17,469,102 |
| Assets acquired at turnover | 11,275,686 |
| Accumulated deficit of expenses over revenues | (13,913,499) |
| | $ 14,831,289 |

The Association levies an annual Operating Fund capital assessment ($20 per community village unit and $15 per golf village unit for the year ended April 30, 2023) which is accounted for in the Operating Fund and is designated for future new capitalized assets. The Association billed to its members and collected $166,740 in Operating Fund capital assessments for the year ended April 30, 2023.

In February 2021, the Board approved a new Capital Improvement Fund to start in May 2021, which is accounted for in the Operating Fund and is designated for the purpose of improving the Association's common facilities that are not covered by reserves and other normal maintenance expenditures. All members are billed $43 quarterly for the Capital Improvement Fund. As of April 30, 2023, the Association collected $254,388 in relation to this fund.

## Note 9. Related Party Transactions

The Association has entered into agreements with several sub-associations within the community to provide landscape maintenance and other services to the sub-associations. The sub-associations are charged varying fees for these services. The Association recognized $923,069 in landscape maintenance and other services revenue under these agreements during the year ended April 30, 2023.

## Note 10. Special Assessments

In February 2016, the Board approved a special assessment for the purpose of funding the golf course renovation project. The special assessment is over a period of 11 years, beginning May 1, 2016 and ending May 1, 2027. The assessment is used to fund the construction loan entered into by the Association on December 1, 2016 (see Note 3). Golf village members had the following payment options: Quarterly payments of $116 beginning May 1, 2016 and continuing for 45 quarters until May 1, 2027; or pay a lump sum of $4,255 by May 31, 2016. During the year ended April 30, 2023, the Association collected $286,524 of special assessments from members.

## Note 11. Hurricane Activity

In September 2022, the Association's facilities sustained damage related to Hurricane Ian. During the year ended April 30, 2023, the Association incurred hurricane related expenditures as follows:

| | |
|---|---|
| Operating expenses—community, net of $273,866 insurance proceeds | $ 2,042,648 |
| Operating expenses—golf | 80,143 |
| Total hurricane activity—statement of revenues and expenses | 2,122,791 |
| | |
| Capital purchases—community | 168,573 |
| Capital purchases—golf | 65,197 |
| Capital purchases—reserve spending | 330,733 |
| Capital purchases—capital contribution spending | 62,822 |
| Total hurricane activity—balance sheet property and equipment | 627,325 |
| | |
| Total hurricane expenditures | $ 2,750,116 |

During fiscal year 2023, the Association entered into a construction agreement to replace various roofs due to hurricane damage in the amount of approximately $850,000. The Association had approximately $765,000 in outstanding contracts related to the roof replacements within the community.

During fiscal year 2023, the Association contracted one company to perform all hurricane work in the community, including property related to sub-associations. The seven sub-associations are reimbursing the Association for the work performed by the contractor in their specific neighborhoods. As of April 30, 2023, $1,000,000 of reimbursements were included in due from sub-associations on the balance sheet. As of April 30, 2023, $1,000,000 was included in accounts payable on the balance sheet due to the contractor for work performed in fiscal year 2023 related to hurricane activity.

The Association estimates incurring an approximate total of $1,840,000 hurricane expenditures for the fiscal year 2024. The Association's flood and property insurance claims are still ongoing as of January 15, 2024, the date the financial statements were available to be issued.

**Subsequent event:** In October 2023, the Board approved a special hurricane assessment in the total amount of $2,219,354 ($1,501 per lot) to provide funds to pay for damage to the common areas from Hurricane Ian. In addition, the Board approved a special hurricane assessment in the total amount of $863,986 ($1,071 per Golf village lot) to provide funds to pay for damage to the golf course from Hurricane Ian.

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

**Required Supplementary Information on Future Major Repairs and Replacements (Unaudited)**

Management conducted an internal study in 2022 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs.

The following table is based on the study and presents significant information about the components of common property:

| Component | Estimated Remaining Lives (Years) | Estimated Current Replacement Costs | 2024 Funding Requirement |
|---|---|---|---|
| Community reserves: | | | |
| Clubhouse (1) | 1-18 | $ 468,954 | $ 24,125 |
| Clubhouse furniture and fixtures | 1-20 | 1,947,987 | 247,476 |
| Grounds maintenance | 1-17 | 1,867,489 | 251,684 |
| HVAC systems | 1-8 | 265,450 | 26,657 |
| Island club | 1-7 | 191,098 | - |
| Island club furniture and fixtures | 1-8 | 329,866 | 44,822 |
| Pavement | 1-24 | 1,555,968 | 93,017 |
| Pools and equipment | 1-21 | 235,740 | 4,605 |
| Roofs | 1-26 | 520,861 | 22,836 |
| Access control | 3-4 | 137,530 | 27,728 |
| Tennis and bocce courts | 1-17 | 379,872 | 81,673 |
| Emergency fund | 6-14 | 525,000 | 50,381 |
| | | 8,425,815 | 875,004 |
| Golf reserves: | | | |
| Golf course (2) | 1-16 | 1,380,000 | 131,859 |
| Furniture, fixtures and equipment | 1-2 | 45,500 | 2,406 |
| Grounds maintenance | 1-18 | 2,312,690 | 441,130 |
| HVAC systems | 6-10 | 14,442 | - |
| Pavement | 23 | 31,800 | 985 |
| Pro shop | 1-2 | 162,344 | 7,473 |
| Roofs | 1-27 | 176,942 | 9,146 |
| | | 13,591,935 | 1,627,785 |
| | | $ 22,017,750 | $ 2,502,789 |

The Association does not establish separate bank accounts for each major component of the Replacement Fund and treats the Replacement Fund as a single general reserve for major repairs and replacements. As of April 30, 2023, the Association has accumulated $6,801,444 for future major repairs and replacements.

(1) The current replacement costs represent only the replacement costs of certain clubhouse components and are not intended to represent the total replacement cost of the clubhouse and its contents.

(2) The current replacement costs represent only the replacement costs of certain items on the golf course and are not intended to represent the total replacement cost of the golf course.

RSM US LLP

**Independent Auditor's Report on the Supplementary Information**

Board of Directors
Lexington Community Association, Inc.
d/b/a Lexington Country Club

We have audited the financial statements of Lexington Community Association, Inc. d/b/a Lexington Country Club as of and for the year ended April 30, 2023, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 audits 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.

RSM US LLP

Naples, Florida
January 15, 2024

**Lexington Community Association, Inc.**
**d/b/a Lexington Country Club**

## Departmental Schedules of Certain Revenues and Expenses, Operating Fund
## Years Ended April 30, 2023 and 2022

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Revenues | Cost of Sales | Payroll and Related Expenses | Other Expenses | Excess (Deficiency) |
| Community | | | | | |
| General revenues: | | | | | |
| Maintenance fees | $ 5,271,556 | $ - | $ - | $ - | $ 5,271,556 |
| Transfer fees | 121,700 | - | - | - | 121,700 |
| Interest income | 16,794 | - | - | - | 16,794 |
| Other | 175,577 | - | - | - | 175,577 |
| | 5,585,627 | - | - | - | 5,585,627 |
| Departmental revenues and expenses, excluding golf village: | | | | | |
| Sub-association landscape maintenance and other fees | 923,069 | 81,817 | 1,204,813 | 605,092 | (968,653) |
| Food and beverage | 1,904,971 | 972,085 | 2,035,602 | 572,724 | (1,675,440) |
| Unspent minimum | 5,454 | - | - | - | 5,454 |
| Tennis | 11,496 | - | 171,002 | 61,670 | (221,176) |
| Activities | - | - | 16,451 | 165,382 | (181,833) |
| | 2,844,990 | 1,053,902 | 3,427,868 | 1,404,868 | (3,041,648) |
| Undistributed expenses: | | | | | |
| Security | - | - | 379,758 | 44,423 | (424,181) |
| General and administrative | - | - | 1,328,164 | 588,096 | (1,916,260) |
| Clubhouse | - | - | 485,064 | 503,445 | (988,509) |
| Insurance | - | - | - | 352,417 | (352,417) |
| | - | - | 2,192,986 | 1,488,381 | (3,681,367) |
| **Total community** | 8,430,617 | 1,053,902 | 5,620,854 | 2,893,249 | (1,137,388) |
| Golf village: | | | | | |
| Golf village assessments | 1,236,324 | - | - | - | 1,236,324 |
| Golf course maintenance | - | - | 832,464 | 534,762 | (1,367,226) |
| Golf operations | 1,297,688 | 215,186 | 517,964 | 331,590 | 232,948 |
| **Total golf village** | 2,534,032 | 215,186 | 1,350,428 | 866,352 | 102,066 |
| | $ 10,964,649 | $ 1,269,088 | $ 6,971,282 | $ 3,759,601 | |
| **(Deficiency) excess of revenues over expenses before other revenues (expenses)** | | | | | $ (1,035,322) |

| 2022 | | | | |
|---|---|---|---|---|
| Revenues | Cost of Sales | Payroll and Related Expenses | Other Expenses | Excess (Deficiency) |
| $ 5,224,526 | $ - | $ - | $ - | $ 5,224,526 |
| 168,000 | - | - | - | 168,000 |
| 17,849 | - | - | - | 17,849 |
| 58,960 | - | - | - | 58,960 |
| 5,469,335 | - | - | - | 5,469,335 |
| 836,246 | 68,422 | 1,233,940 | 633,117 | (1,099,233) |
| 2,598,773 | 1,220,154 | 1,967,218 | 549,639 | (1,138,238) |
| 78,895 | - | - | - | 78,895 |
| 21,399 | - | 175,473 | 85,317 | (239,391) |
| - | - | 17,968 | 162,998 | (180,966) |
| 3,535,313 | 1,288,576 | 3,394,599 | 1,431,071 | (2,578,933) |
| - | - | 397,811 | 55,382 | (453,193) |
| - | - | 1,056,636 | 579,797 | (1,636,433) |
| - | - | 417,520 | 497,015 | (914,535) |
| - | - | - | 262,093 | (262,093) |
| - | - | 1,871,967 | 1,394,287 | (3,266,254) |
| 9,004,648 | 1,288,576 | 5,266,566 | 2,825,358 | (375,852) |
| 1,375,128 | - | - | - | 1,375,128 |
| - | - | 758,625 | 475,963 | (1,234,588) |
| 1,692,763 | 310,698 | 533,978 | 311,680 | 536,407 |
| 3,067,891 | 310,698 | 1,292,603 | 787,643 | 676,947 |
| $ 12,072,539 | $ 1,599,274 | $ 6,559,169 | $ 3,613,001 | |
| | | | | $ 301,095 |