

The Meadows at WGV – Board of Director's Special Business Meeting

December 18, 2025 at 7:00 P.M. – Online & via Phone **

Agenda

Meeting Called to Order

Opening Remarks

Special Order

- Establish an Operating Capital Fund Balance Account Category
- Adopt an Accounting Framework Policy
- Monthly Allocation of Reserve Account Interest to Reserve Account: Deferred Landscaping



Event Info

Open to those attending for comments, feedback and questions

- Additional comments, feedback and questions

Closing Remarks

Adjournment

** Web & Phone Connection Information: <https://themadowsgv.com/>

On HOA Web Site – Home Page – Bottom - Association Events Section

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Join Zoom Meeting - Video Conference (On-Line) & By Phone (Voice Only)

Register in advance for this meeting:

<https://zoom.us/meeting/register/WV7fpjq1QriXq6MdF3zh3g>

After registering, you will receive a confirmation email containing information about joining the meeting.

THE MEADOWS OF WORLD GOLF VILLAGE

THE MEADOWS AT SAINT JOHNS OWNERS ASSOCIATION, INC.

A Deed Restricted Community

MOTION TO ESTABLISH OPERATING CAPITAL AND MODIFY CHART OF ACCOUNTS

WHEREAS, the Association has elected to file Form 1120-H under IRS Code Section 528 to maintain tax-advantaged status, which requires demonstrating that "substantially all" (90%+) of assessment income is either expended or set aside for legitimate association purposes;

WHEREAS, the Association collects all annual assessments on January 1st of each fiscal year, but pays operating expenses monthly throughout the year, creating significant cash flow timing requirements;

WHEREAS, the Board has determined that proper financial management and transparency require establishing a permanent "Operating Capital" component within the Association's Fund Balance to ensure adequate liquidity throughout the fiscal year;

WHEREAS, Operating Capital represents the minimum working capital needed to pay operating expenses from February through December before the next annual assessment collection, plus a prudent buffer for timing differences and fourth-quarter major expenses;

WHEREAS, the Board has adopted the Fiscal Year 2026 Operating Budget with total operating expenses of \$128,415;

WHEREAS, industry best practices and the Association's unique assessment collection model require maintaining Operating Capital equal to 2.0 months of budgeted annual operating expenses to ensure liquidity throughout the fiscal year;

WHEREAS, the Board recognizes that past financial mismanagement may result in insufficient equity to fully fund the established Operating Capital target on January 2, 2026;

WHEREAS, the Board is committed to transparent financial reporting that clearly shows Directors and homeowners whether Operating Capital is adequately funded or requires restoration;

WHEREAS, modifications to the Association's chart of accounts and balance sheet presentation are necessary to implement this enhanced financial reporting; and

WHEREAS, the Board has developed comprehensive Operating Capital management procedures to formalize established financial practices and ensure consistency and continuity;

NOW, THEREFORE, BE IT RESOLVED:**SECTION 1: ESTABLISHMENT OF OPERATING CAPITAL**

1.1 The Board hereby establishes "Operating Capital" as a permanent component of the Association's Fund Balance (Owners' Equity), defined as permanent working capital maintained to ensure adequate liquidity to pay operating expenses throughout the fiscal year given the Association's practice of collecting all annual assessments on January 1st;

1.2 Operating Capital shall be calculated annually as 2.0 months of the current fiscal year's budgeted operating expenses, rounded to the nearest whole dollar;

1.3 For Fiscal Year 2026, Operating Capital is hereby established at \$21,403.00 (calculated as $\$128,415.00 \div 12 \times 2.0$);

1.4 Operating Capital shall be reviewed and adjusted annually during the budget adoption process based on the following year's budgeted operating expenses;

SECTION 2: CHART OF ACCOUNTS MODIFICATIONS

2.1 The Association's chart of accounts is hereby modified effective January 2, 2026, to add the following accounts within the Equity section:

- 32-3200-00 Operating Capital - Target
- 32-3201-00 Operating Capital - Unfunded
- 32-3210-00 Current Year Net Income

2.2 The existing account "32-3205-00 Fund Balance" shall no longer be used for Association transactions effective January 2, 2026, with its balance allocated per Section 4 of this Resolution;;

SECTION 3: ADOPTION OF POLICY AND PROCEDURES

3.1 The Board hereby adopts the Operating Capital Management Policy and Procedures, a copy of which is attached hereto and incorporated herein by reference, which establishes ongoing procedures for balance sheet presentation, year-end allocation process, restoration requirements when underfunded, monitoring protocols, and annual review;

SECTION 4: INITIAL ALLOCATION - JANUARY 2, 2026

4.1 On January 2, 2026, following approval of final December 31, 2025 financial statements, the Board shall allocate the 2025 year-end Fund Balance and Current Year Net Income according to the priority established in the attached Policy: (1) Operating Capital restoration to target, (2) Reserve Fund allocation, (3) Alternative uses if applicable, (4) Deficit absorption;

4.2 If the allocation results in Operating Capital being underfunded, the Board shall acknowledge the underfunded status in a supplemental resolution and follow restoration procedures established in the attached Policy;

4.3 The specific allocation amounts shall be documented in a supplemental resolution adopted at the January 2026 Board meeting;

SECTION 5: IMPLEMENTATION DIRECTIVES

5.1 The Community Association Manager (The CAM Team) is directed to:

- Implement chart of accounts changes by January 2, 2026;
- Prepare balance sheets using the format specified in the attached Policy beginning January 2, 2026;
- Include Operating Capital status in monthly financial reports;
- Assist in preparation of quarterly reports when Operating Capital is underfunded;

5.2 The President is directed to ensure that the Board:

- Monitors Operating Capital status and addresses underfunded status with appropriate recommendations;
- Includes Operating Capital analysis in all budget presentations;
- Prepares year-end allocation recommendations for Board consideration;
- Conducts annual review during budget development process;
- Prepares quarterly restoration reports when underfunded;

5.3 The President is authorized to execute any documents necessary to implement this Resolution;

SECTION 6: EFFECTIVE DATE

This Resolution shall be effective immediately upon adoption, with chart of accounts changes, balance sheet format changes, and initial allocation effective January 2, 2026.

VOTE: In Favor: Opposed: Abstaining:

ADOPTED: [Date]

I hereby certify that the above motion was duly made, seconded, and voted upon at a properly noticed meeting of the Board of Directors of The Meadows at Saint Johns Owners Association held on December 18, 2025, at which a quorum was present.

[Secretary Name], Secretary
Board of Directors
The Meadows at Saint Johns Owners Association, Inc.
dba The Meadows at World Golf Village

THE MEADOWS OF WORLD GOLF VILLAGE

THE MEADOWS AT SAINT JOHNS OWNERS ASSOCIATION, INC.

A Deed Restricted Community

OPERATING CAPITAL MANAGEMENT POLICY AND PROCEDURES

Established by Board Resolution [Date]

SECTION 1: PURPOSE AND SCOPE

1.1 Purpose

This Policy establishes ongoing procedures for Operating Capital management, including calculation methodology, chart of accounts structure, balance sheet presentation standards, year-end allocation procedures, monitoring protocols, and restoration requirements.

1.2 Scope

This Policy applies to all fiscal years following its adoption and shall be reviewed annually during the budget development process.

SECTION 2: OPERATING CAPITAL DEFINITION AND CALCULATION

2.1 Definition

Operating Capital is permanent working capital maintained to ensure adequate liquidity to pay operating expenses throughout the fiscal year, given the Association's practice of collecting all annual assessments on January 1st.

2.2 Calculation Methodology

Operating Capital shall be calculated each year as 2.0 months of the current fiscal year's budgeted operating expenses, rounded to the nearest whole dollar.

Calculation formula:

Annual Budgeted Operating Expenses ÷ 12 months × 2.0 months = Operating Capital Target
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2.3 Annual Adjustment

During each annual budget adoption process, the Board shall:

- Calculate the Operating Capital target for the coming fiscal year
- Evaluate whether the 2.0 month factor remains appropriate based on actual cash flow patterns
- Update the Operating Capital target in the financial system

2.4 Methodology Changes

Any changes to the calculation methodology or the 2.0 month factor shall require formal Board resolution with documented justification considering:

- Actual cash flow patterns from prior years
- Changes to assessment collection practices
- Fourth quarter expense patterns
- Emergency reserve adequacy

SECTION 3: CHART OF ACCOUNTS STRUCTURE

3.1 Required Equity Accounts

The following accounts shall be maintained within the Equity section of the chart of accounts:

32-3200-00 Operating Capital - Target

Board-established target level for Operating Capital based on 2.0 months of current year budgeted operating expenses

32-3201-00 Operating Capital - Unfunded

Amount by which actual Operating Capital falls short of target level (shown as negative/contra-equity account when underfunded; shows \$0.00 when fully funded)

32-3210-00 Current Year Net Income

Accumulated net income (or loss) for current fiscal year; resets to zero on January 2nd following year-end allocation

3.2 Account Maintenance

The Community Association Manager shall maintain these accounts in the accounting system and ensure proper posting of transactions throughout the year.

SECTION 4: BALANCE SHEET PRESENTATION STANDARDS

4.1 Standard Presentation Format

The Association's Balance Sheet shall present the Equity section using the following format:

EQUITY (OWNERS' EQUITY / FUND BALANCE):		
Operating Capital:		
32-3200-00 Operating Capital - Target	\$XX,XXX.XX	
32-3201-00 Operating Capital - Unfunded	(\$X,XXX.XX)*	
Operating Capital - Actual	\$XX,XXX.XX	
32-3210-00 Current Year Net Income	\$X,XXX.XX**	
Total Equity:	\$XX,XXX.XX	
	=====	

* Shows \$0.00 when Operating Capital is fully funded
** Resets to \$0.00 on January 2nd; accumulates monthly during fiscal year

4.2 Balance Sheet Note - Underfunded Status

When Operating Capital is underfunded, the Balance Sheet shall include the following note:

Note: Operating Capital Deficiency
Operating Capital target is \$[amount] (2.0 months of [year] budgeted operating expenses of \$[amount]). As of [date], Operating Capital is underfunded by \$[amount] ([X]% funded). The Board has directed that restoration measures be implemented per this Policy. [Reference restoration plan resolution if adopted.]

4.3 Monthly Reporting Requirements

The Community Association Manager shall:

- Prepare monthly balance sheets using the format specified in Section 4.1
- Include Operating Capital funding status in monthly financial reports
- Calculate and report the percentage funded (Actual ÷ Target × 100)

SECTION 5: YEAR-END ALLOCATION PROCEDURES

5.1 Timing of Allocation

On or about January 2nd of each year, following Board approval of final year-end financial statements, the Treasurer shall present allocation recommendations and the Board shall allocate the prior year's net income (or loss).

5.2 Allocation Priority

The Board shall allocate year-end equity according to the following priority:

- **Priority 1 - Operating Capital Restoration:**

If Operating Capital is below target level, allocate sufficient surplus to restore Operating Capital to target level. If surplus is insufficient to reach target, allocate all available surplus to Operating Capital.

- **Priority 2 - Reserve Fund Allocation:**

After Operating Capital reaches target (or all available surplus has been allocated to Operating Capital), allocate remaining surplus to designated Reserve Fund categories per Board resolution and reserve study recommendations.

- **Priority 3 - Alternative Uses:**

Any surplus remaining after Priorities 1 and 2 may be:

- Applied against following year's assessments (returned to owners), OR
- Retained in unallocated equity for specific Board-approved purposes

- **Priority 4 - Deficit Absorption:**

If the prior year ended with a net loss (deficit), Operating Capital shall absorb the loss, reducing Operating Capital below target level.

5.3 Reset of Current Year Net Income

Following completion of the allocation, account "32-3210-00 Current Year Net Income" shall be reset to zero balance to begin the new fiscal year.

5.4 Allocation Documentation

All allocations shall be documented by Board resolution specifying:

- Dollar amounts allocated to each category
- Effective date of allocation
- Resulting Operating Capital funding status (fully funded or underfunded amount)
- Reference to restoration plan if Operating Capital remains underfunded

SECTION 6: RESTORATION PROCEDURES WHEN UNDERFUNDED

6.1 Determination of Underfunded Status

Operating Capital is considered underfunded when actual Operating Capital is less than the target level established for the current fiscal year.

6.2 Required Board Actions

When Operating Capital is determined to be underfunded, the Board shall:

- Adopt a resolution formally acknowledging the underfunded status and amount
- Calculate and document the percentage funded ($\text{Actual} \div \text{Target} \times 100$)
- Develop and adopt a restoration plan per Section 6.3
- Communicate status to homeowners through regular communication channels

6.3 Restoration Plan Requirements

The restoration plan shall include:

- Timeline for achieving full restoration (typically 1-3 years)
- Annual restoration targets
- Specific measures to achieve restoration (budget adjustments, assessment increases, expense reductions, or other actions)
- Quarterly monitoring and reporting schedule

6.4 Budget Restrictions During Underfunded Period

While Operating Capital is underfunded:

- Non-essential capital expenditures require specific Board approval with documented justification showing they do not impede restoration
- New major programs or initiatives require demonstration that they do not delay Operating Capital restoration
- The Treasurer shall include Operating Capital restoration progress and impact analysis in all budget presentations

6.5 Quarterly Monitoring and Reporting

During any period when Operating Capital is underfunded, the Treasurer shall prepare quarterly reports to the Board showing:

- Current Operating Capital funding level (dollars and percentage)
- Progress toward annual restoration target
- Year-to-date net income and projected year-end Operating Capital status
- Recommendations for accelerating restoration if current progress is insufficient

6.6 Homeowner Communication

The Board shall include Operating Capital status and restoration progress in:

- Regular newsletters or homeowner communications
- Annual meeting materials
- Annual budget presentations

SECTION 7: ROLES AND RESPONSIBILITIES

7.1 Board of Directors

The Board shall:

- Review and approve the annual Operating Capital target during budget adoption
- Review and approve year-end allocation resolutions
- Adopt restoration plans when Operating Capital is underfunded
- Review quarterly restoration reports during underfunded periods
- Evaluate the 2.0 month calculation factor annually for continued appropriateness
- Approve any changes to calculation methodology

7.2 Treasurer

The Treasurer shall:

- Monitor Operating Capital status monthly
- Report underfunded status to the Board promptly with recommendations
- Include Operating Capital analysis in all budget presentations
- Prepare year-end allocation recommendations for Board consideration
- Prepare quarterly restoration progress reports when underfunded
- Lead the annual review of Operating Capital methodology during budget development
- Coordinate with the Community Association Manager on implementation

7.3 Community Association Manager

The Community Association Manager shall:

- Maintain chart of accounts structure as specified in Section 3
- Prepare monthly balance sheets using the format specified in Section 4
- Include Operating Capital status in monthly financial reports
- Calculate and report Operating Capital funding percentage monthly
- Support the Treasurer in preparation of quarterly reports when underfunded
- Implement Board-approved allocation resolutions
- Maintain accounting records to support all required reporting

SECTION 8: ANNUAL REVIEW PROCESS

8.1 Review During Budget Development

During each annual budget development process, the Treasurer shall lead a review that includes:

- Calculation of next year's Operating Capital target based on proposed operating budget
- Analysis of actual cash flow patterns from the current and prior year
- Evaluation of whether the 2.0 month factor remains appropriate
- Assessment of any changes needed to calculation methodology
- Review of this Policy for needed updates

8.2 Documentation of Review

The annual review shall be documented in Board meeting minutes, including:

- Calculated Operating Capital target for the coming year
- Evaluation of the 2.0 month factor appropriateness
- Any recommended changes to methodology or this Policy
- Board decision on Operating Capital target for budget approval

SECTION 9: TRANSITION PROVISIONS

9.1 Historical Financial Statements

The equity presentation format specified in Section 4 applies only to financial statements dated on or after the effective date established in the Board resolution adopting this Policy. Historical financial statements retain their original presentation format.

9.2 Permitted Historical Adjustments

This Policy does not prohibit:

- Corrections to historical financial statements for accounting errors or misstatements
- Reclassifications of historical accounts for comparative purposes in multi-year summaries
- Restatements required by changes in accounting principles or standards
- Adjustments required by auditors or tax authorities

9.3 Equity Reconciliation for First Implementation

For the first fiscal year following adoption of this Policy, the balance sheet shall include a reconciliation note showing:

- Prior year ending equity by account
- Allocation to new account structure per Board resolution
- Beginning equity under new account structure

SECTION 10: POLICY ADMINISTRATION

10.1 Policy Authority

This Policy is established by Board resolution and may be amended only by subsequent Board resolution adopted by majority vote at a duly noticed meeting at which a quorum is present.

10.2 Severability

If any provision of this Policy is held invalid or unenforceable, the remaining provisions shall continue in full force and effect.

10.3 Conflict with Governing Documents

If any provision of this Policy conflicts with the Declaration, Articles of Incorporation, Bylaws, or applicable law, those governing documents and laws shall control.

10.4 Policy Review Schedule

This Policy shall be reviewed annually during the budget development process and updated as necessary to reflect current best practices and Association needs.

Document Control:

- Policy Number: [To be assigned]
- Adopted: [Date]
- Effective: [Date]
- Last Reviewed: [Date]
- Next Review: Annual during budget development

THE MEADOWS OF WORLD GOLF VILLAGE

THE MEADOWS AT SAINT JOHNS OWNERS ASSOCIATION, INC.

A Deed Restricted Community

MOTION TO ADOPT ACCOUNTING FRAMEWORK POLICY

WHEREAS, the Association has operated under accrual basis accounting principles since 2010, with financial records maintained in accordance with Generally Accepted Accounting Principles (GAAP); and

WHEREAS, the Association's accounting practices include calendar fiscal year operations with annual assessments due January 1, proper capitalization of collection costs as prepaid assets when advanced by the Association, and maintenance of allowances for doubtful accounts; and

WHEREAS, these established accounting practices, while consistently applied, have not been formally codified in comprehensive written policy; and

WHEREAS, the Board of Directors recognizes the necessity of formally documenting the Association's accounting framework to ensure consistency, transparency, and continuity in financial reporting regardless of management company transitions; and

WHEREAS, Section 720.303, Florida Statutes, and the Association's governing documents authorize the Board to establish policies for financial management and reporting; and

WHEREAS, it is necessary and appropriate to adopt a comprehensive Accounting Framework Policy to establish the foundational principles and structure for accrual basis accounting, revenue and expense recognition, collection cost capitalization, bad debt accounting, and financial statement requirements;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors hereby adopts the Accounting Framework Policy Statement, a copy of which is attached hereto and incorporated herein by reference, effective January 1, 2026.

BE IT FURTHER RESOLVED that the Board acknowledges the need for supporting documentation as outlined in Section XV of the Accounting Framework Policy Statement, consisting of:

1. **The Meadows Accounting Policies** - providing operational policy details that translate framework principles into specific Association policies, including grace periods, late fee amounts, interest rates, payment schedules, and collection timelines
2. **Accounting Procedures for Board Members** - providing instructional guidance for Board members to understand their financial oversight responsibilities, financial statement review processes, and monitoring activities

MOTION TO ADOPT ACCOUNTING FRAMEWORK POLICY

Page 2 of 2

The Board shall establish development timelines and approval processes for these supporting documents through subsequent Board resolution(s).

BE IT FURTHER RESOLVED that this Policy Statement shall be effective immediately upon adoption and shall supersede any prior inconsistent policies or informal practices related to accounting and financial reporting.

VOTE: In Favor: Opposed: Abstaining:

ADOPTED: [Date]

CERTIFICATION

I hereby certify that the above motion was duly made, seconded, and voted upon at a properly noticed meeting of the Board of Directors of The Meadows at Saint Johns Owners Association held on [Date], at which a quorum was present.

[Secretary Name], Secretary
Board of Directors
The Meadows at Saint Johns Owners Association, Inc.
dba The Meadows at World Golf Village



THE MEADOWS AT WORLD GOLF VILLAGE

THE MEADOWS AT SAINT JOHNS OWNERS ASSOCIATION, INC.

A Deed Restricted Community

ACCOUNTING FRAMEWORK POLICY STATEMENT

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* * *

January 2026

Effective: January 2, 2026
(Adopted: December 18, 2025)

THE MEADOWS ACCOUNTING FRAMEWORK POLICY STATEMENT

The Meadows at Saint Johns Owners Association, Inc.

EXECUTIVE SUMMARY

Accounting Framework Policy Statement

This Accounting Framework Policy Statement establishes the foundational accounting principles and financial reporting structure for The Meadows Homeowners Association. By formally documenting these requirements, the Association ensures consistent, accurate financial management regardless of personnel changes or management company transitions.

Why This Policy Matters

Board members need clear visibility into three distinct financial areas: current year operations, prior year collection activities, and reserve funding. This policy creates that clarity by establishing a stable framework that remains consistent through Board transitions and management company changes, enabling informed oversight without requiring deep accounting expertise.

What This Policy Establishes

- **Three-Bucket Financial Structure:** Separates Operating Fund, Capitalized Collectables (prior year receivables), and Reserve Funds for clear visibility into each area
- **Accrual Basis Accounting:** Follows Generally Accepted Accounting Principles (GAAP) with revenue recognized when earned and expenses when incurred
- **Collection Cost Capitalization:** Treats collection costs as prepaid assets charged to delinquent owners, not absorbed by the collective membership
- **Operating Capital Framework:** Maintains permanent working capital to ensure liquidity throughout the fiscal year

Key Problem Solved

The policy prevents revenue double-counting by directing prior year assessment collections to Capitalized Collectables rather than current year Operating Fund revenue. This preserves the accuracy of current year financial statements and prevents artificial inflation of operating results.

Document Structure

This framework policy (Tier 1) establishes foundational principles. The Meadows Accounting Policies (Tier 2) translates these into specific operational rules, and Accounting Procedures for Board Members (Tier 3) provides oversight guidance.

This policy formalizes accounting practices successfully utilized by the Association from 2010 through 2024, providing continuity while establishing clear documentation for the future.

Effective Date: January 1, 2026

Adopted: [Date of Board Resolution]

THE MEADOWS ACCOUNTING FRAMEWORK POLICY STATEMENT

The Meadows at Saint Johns Owners Association, Inc.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
I. PURPOSE AND SCOPE	1
II. ACCOUNTING BASIS	1
A. Accrual Accounting	1
B. Consistency Requirement	1
III. FISCAL YEAR STRUCTURE	1
A. Fiscal Year Period	1
B. Annual Assessment Structure	1
C. Delinquency and Late Charges	2
IV. REVENUE RECOGNITION	2
A. Assessment Revenue	2
B. Late Fees and Interest	2
C. Other Revenue Sources	2
D. Prior Year Collections and Capitalized Collectables	2
V. EXPENSE RECOGNITION	3
A. Operating Expenses	3
B. Prepaid Expenses	3
C. Accrued Expenses	3
VI. ACCOUNTS RECEIVABLE MANAGEMENT	3
A. Recording of Receivables	3
B. Accounts Receivable Structure	3
C. Classification and Aging	4
D. Transfer to Capitalized Collectables	4
E. Allowance for Doubtful Accounts	4
F. Write-off Treatment	5

TABLE OF CONTENTS

THE MEADOWS ACCOUNTING FRAMEWORK POLICY STATEMENT

VII. COLLECTION COST CAPITALIZATION	5
A. Capitalization Requirement	5
B. Collection Cost Definition	5
C. Initial Treatment of Advanced Costs	5
D. Current Year Collection Cost Recovery	6
E. Prior Year Collection Cost Recovery	6
F. Uncollectible Collection Costs	6
G. Cost Responsibility Principle	6
VIII. BAD DEBT ACCOUNTING	7
A. Bad Debt Expense	7
B. Methodology	7
C. Bad Debt Recovery	7
IX. OPERATING CAPITAL AND FUND BALANCE	7
A. Operating Capital Component	7
B. Operating Capital Purpose	7
C. Operating Capital Structure	7
D. Current Year Net Income	8
E. Year-End Allocation	8
F. Operating Capital Target	8
G. Underfunded Status Disclosure	8
X. FINANCIAL STATEMENT REQUIREMENTS	8
A. Required Monthly Financial Statements	8
B. Annual Financial Statements	9
XI. STATEMENT OF FINANCIAL CONDITION STRUCTURE	10
A. Asset Section	10
B. Liability Section	10
C. Fund Balance (Owners' Equity) Section	10

TABLE OF CONTENTS

THE MEADOWS ACCOUNTING FRAMEWORK POLICY STATEMENT

XII. MANAGEMENT COMPANY REQUIREMENTS	11
A. Accounting Basis Compliance	11
B. Accounts Receivable Structure	11
C. Collection Cost Treatment	11
D. Prior Year Collection Treatment	11
E. Required Financial Statements	11
F. Operating Capital Presentation	11
G. Allowance for Doubtful Accounts	12
XIII. BOARD OVERSIGHT RESPONSIBILITIES	12
A. Financial Statement Review	12
B. Allowance Review	12
C. Capitalized Collectables Monitoring	12
D. Operating Capital Status	12
E. Annual Budget Review	12
XIV. AUDIT AND COMPLIANCE	13
A. Independent Review	13
B. Tax Compliance	13
XV. SUPPORTING DOCUMENTATION	13
A. Supporting Policy and Procedure Documents	13
B. Operating Capital Management	14
C. Collection Procedures	14
XVI. POLICY GOVERNANCE	14
A. Authority	14
B. Amendments	14
C. Review	14
D. Superseding Effect	14
E. Relationship to Procedures	14

TABLE OF CONTENTS

THE MEADOWS ACCOUNTING FRAMEWORK POLICY STATEMENT

XVII. ACCOUNTING STANDARDS FOUNDATION	15
A. Generally Accepted Accounting Principles (GAAP)	15
B. Industry Practices	15
C. Historical Foundation	15
D. Software Systems	15
CERTIFICATION	15

THE MEADOWS OF WORLD GOLF VILLAGE

THE MEADOWS AT SAINT JOHNS OWNERS ASSOCIATION, INC.

A Deed Restricted Community

ACCOUNTING FRAMEWORK POLICY STATEMENT

Adopted by Board Resolution: [Date]

Effective Date: January 1, 2026

I. PURPOSE AND SCOPE

This Policy Statement establishes the foundational accounting framework for The Meadows Homeowners Association ("the Association"). This framework defines the accounting basis, fiscal structure, revenue and expense recognition principles, and financial reporting requirements that govern all Association financial activities. This policy applies to the Association's Board of Directors, management company, and any party involved in the Association's financial management and reporting.

II. ACCOUNTING BASIS

A. Accrual Accounting

The Association utilizes **accrual basis accounting** in accordance with Generally Accepted Accounting Principles (GAAP). Under accrual accounting:

1. Revenue is recognized when earned, regardless of when cash is received
2. Expenses are recognized when incurred, regardless of when cash is paid
3. Revenues and expenses are matched to the accounting period in which they occur

B. Consistency Requirement

The Association's accounting basis shall remain consistent from year to year to ensure comparability of financial statements and compliance with tax-advantaged status requirements.

III. FISCAL YEAR STRUCTURE

A. Fiscal Year Period

The Association operates on a **calendar fiscal year** beginning January 1 and ending December 31.

B. Annual Assessment Structure

Annual assessments are due and payable on **January 1** of each fiscal year.

C. Delinquency and Late Charges

Assessments become delinquent per the Association's governing documents and Board policies. Late fees and interest charges are recognized as revenue when assessed in accordance with those documents.

IV. REVENUE RECOGNITION

A. Assessment Revenue

Assessment revenue is recognized when assessments are levied, not when collected. Annual assessments are recorded as revenue on January 1 regardless of payment status.

B. Late Fees and Interest

Late fees and interest charges on delinquent accounts are recognized as revenue when assessed in accordance with the Association's governing documents.

C. Other Revenue Sources

All other revenue sources are recognized when earned in accordance with accrual accounting principles.

D. Prior Year Collections and Capitalized Collectables

Collections received for assessments from prior fiscal years are **not** recorded as current year Operating Fund revenue.

Treatment of Prior Year Collections:

1. When payments are received for assessments originally levied in prior fiscal years, these collections reduce the Capitalized Collectables balance
2. The revenue was already recognized in the fiscal year when the assessment was originally levied
3. Recording prior year collections as current year revenue would constitute double-counting
4. All components of prior year accounts (assessments, late fees, interest, and collection costs) follow this treatment

Rationale: This treatment preserves the accuracy of current year financial statements and prevents artificial inflation of current year Operating Fund revenue. It allows the Board to separately track and monitor historical collection activity distinct from current operations.

V. EXPENSE RECOGNITION

A. Operating Expenses

Operating expenses are recognized when incurred, not when paid.

B. Prepaid Expenses

Expenses paid in advance for future periods are recorded as prepaid assets and expensed over the period benefited.

C. Accrued Expenses

Expenses incurred but not yet paid are recorded as accrued liabilities in the period the expense is incurred.

VI. ACCOUNTS RECEIVABLE MANAGEMENT

A. Recording of Receivables

All assessments are recorded as accounts receivable when levied, regardless of collectability or payment status.

B. Accounts Receivable Structure

The Association maintains accounts receivable in two distinct categories:

1. Current Fiscal Year Accounts Receivable

Current year accounts receivable includes:

- Assessments levied in the current fiscal year
- Late fees and interest accruing in the current fiscal year on current year assessments
- Collection costs incurred for current year delinquencies

Current year accounts receivable activity flows to the Operating Fund.

2. Capitalized Collectables (Prior Year Accounts Receivable)

Capitalized Collectables is a separate accounts receivable category that includes:

- Assessments from prior fiscal years that remain unpaid
- Late fees and interest from prior fiscal years
- Collection costs incurred for prior year delinquencies

Purpose of Capitalized Collectables:

- Prevents double-counting of revenue in the Operating Fund
- Maintains separate tracking of prior year collection activity
- Provides Board visibility into historical delinquency separate from current operations
- Preserves the integrity of current year financial statements

Treatment of Collections: When payments are received for Capitalized Collectables:

- Cash received does not flow to current year Operating Fund revenue
- Collections reduce the Capitalized Collectables balance
- This treatment recognizes that the revenue was already recorded in the fiscal year when the assessment was originally levied

C. Classification and Aging

Accounts receivable are classified and aged by the fiscal year in which the assessment was originally levied, maintaining separate identification of:

- Current year assessments
- Prior year assessments (by year of origin)
- Associated late fees (by year of origin)
- Associated interest charges (by year of origin)
- Associated collection costs (by year of origin)

D. Transfer to Capitalized Collectables

At fiscal year-end, any unpaid current year accounts receivable (assessments, late fees, interest, and collection costs) are transferred from Current Year Accounts Receivable to Capitalized Collectables. This transfer occurs on January 2nd of the subsequent fiscal year.

E. Allowance for Doubtful Accounts

The Association maintains an **Allowance for Doubtful Accounts** as a contra-asset to accounts receivable. This allowance:

- Offsets gross accounts receivable (both current year and Capitalized Collectables) to present net realizable value
- Reflects the estimated uncollectible portion of receivables
- Is established and adjusted based on collection experience, economic conditions, aging analysis, and known collection impediments
- Is maintained separately for current year receivables and Capitalized Collectables to provide clear visibility

F. Write-off Treatment

When accounts receivable are determined to be uncollectible:

- Write-offs are applied against the Allowance for Doubtful Accounts
- Write-offs do not directly impact current year revenue
- Both gross receivables and the allowance are reduced by the write-off amount
- Write-offs of Capitalized Collectables do not affect Operating Fund results

Treatment of Uncollectible Prepaid Collection Costs: When prepaid collection costs advanced by the Association are determined to be uncollectible:

- The prepaid asset balance is eliminated
- The uncollectible amount is recorded as bad debt expense in the current fiscal year Operating Fund
- This expense recognition is required because the prepaid costs were never previously expensed (they were carried as an asset under the assumption of recovery)
- The delinquent owner's accounts receivable balance is reduced by the uncollectible collection cost amount

VII. COLLECTION COST CAPITALIZATION

A. Capitalization Requirement

When the Association advances funds for collection activities on delinquent accounts, these costs are capitalized as prepaid assets, not recorded as operating expenses.

B. Collection Cost Definition

Collection costs subject to capitalization include all costs paid by the Association on behalf of delinquent owners, including but not limited to:

- Management company collection fees and administrative charges
- Legal notice fees and attorney fees
- Lien filing, recording, and title service fees
- Court costs, filing fees, and foreclosure-related costs
- Service, mailing, and certified mail costs
- Monitoring and administrative fees during collection proceedings

C. Initial Treatment of Advanced Costs

All collection costs advanced by the Association are:

1. Initially recorded as prepaid assets (not operating expenses)
2. Added to the delinquent owner's account receivable balance
3. Attributed to the specific owner and fiscal year of the underlying delinquency

D. Current Year Collection Cost Recovery

When collection costs related to current fiscal year assessments are recovered:

1. Cash received reduces the owner's current year accounts receivable balance
2. The prepaid asset is reduced by the amount recovered
3. Recovery does not generate additional revenue beyond the original charge

E. Prior Year Collection Cost Recovery

When collection costs related to prior fiscal year assessments are recovered:

1. Cash received reduces the owner's Capitalized Collectables balance
2. The prepaid asset is reduced by the amount recovered
3. Recovery flows to Capitalized Collectables, not to current year Operating Fund revenue
4. This treatment prevents double-counting of income in the Operating Fund

F. Uncollectible Collection Costs

When collection costs are determined to be uncollectible:

1. The prepaid asset balance is reduced to zero
2. The uncollectible amount is recorded as bad debt expense in the current fiscal year Operating Fund
3. The owner's accounts receivable balance (either current year or Capitalized Collectables) is reduced by the uncollectible amount
4. This expense recognition is necessary because prepaid collection costs were never previously recorded as an expense - they were carried as assets pending recovery

Rationale: Since the Association advances collection costs as prepaid assets (not expenses) with the expectation of recovery from the delinquent owner, these costs only become Operating Fund expenses when recovery is determined to be impossible. This treatment ensures the Operating Fund properly reflects the actual cost burden when collection efforts fail.

G. Cost Responsibility Principle

All collection costs are the financial responsibility of the delinquent owner who necessitated them, not the collective membership. The Association advances these costs on behalf of the delinquent owner with the expectation of recovery.

VIII. BAD DEBT ACCOUNTING

A. Bad Debt Expense

Bad debt expense is recorded on the Statement of Activity to establish or adjust the Allowance for Doubtful Accounts, reflecting changes in the estimated uncollectible portion of receivables.

B. Methodology

The allowance methodology considers:

- Historical collection experience
- Current economic conditions
- Age and composition of outstanding receivables
- Known collection impediments (bankruptcy, foreclosure, etc.)
- Individual account assessment

C. Bad Debt Recovery

Recoveries of amounts previously written off are recorded as bad debt recovery or reductions to current year bad debt expense, never as current year assessment revenue.

IX. OPERATING CAPITAL AND FUND BALANCE

A. Operating Capital Component

The Association maintains **Operating Capital** as a permanent component of Fund Balance (Owners' Equity).

B. Operating Capital Purpose

Operating Capital represents working capital maintained for operations throughout the fiscal year, recognizing that all annual assessments are collected on January 1.

C. Operating Capital Structure

Operating Capital is presented in the Fund Balance section of the Statement of Financial Condition as:

1. **Operating Capital - Target:** The Board-established target level
2. **Operating Capital - Unfunded:** The shortfall amount when actual capital is below target (shown as contra-equity)
3. **Operating Capital - Actual:** The calculated funded amount

D. Current Year Net Income

The Fund Balance structure includes a **Current Year Net Income** component that:

- Accumulates net income (or loss) during the fiscal year
- Is allocated to Operating Capital, reserves, or other categories following year-end
- Resets to zero at the beginning of each new fiscal year following allocation

E. Year-End Allocation

At year-end, Current Year Net Income is allocated according to Board-established priorities, typically:

1. **First Priority:** Restoration of Operating Capital to target level
2. **Second Priority:** Allocation to Reserve Funds
3. **Additional Priorities:** As established by Board resolution

F. Operating Capital Target

The Operating Capital target is established by Board resolution and reviewed annually during budget adoption.

G. Underfunded Status Disclosure

When Operating Capital is below target (underfunded), the underfunded status is disclosed in financial statement notes and monthly financial reports.

X. FINANCIAL STATEMENT REQUIREMENTS

A. Required Monthly Financial Statements

The Association produces monthly financial statements consisting of:

1. Statement of Activity (Income Statement)

Reports revenues and expenses for the period, including:

- Assessment revenue (current and prior years separately identified)
- Late fee revenue
- Interest revenue
- Bad debt expense
- Bad debt recovery
- Operating expenses by category
- Net income (or loss) for the period

2. Statement of Financial Condition (Balance Sheet)

Reports assets, liabilities, and fund balance, including:

- **Assets:**
 - Cash
 - Accounts Receivable - Current Year (gross)
 - Accounts Receivable - Capitalized Collectables (gross)
 - Less: Allowance for Doubtful Accounts (contra-asset, separately shown for current year and Capitalized Collectables)
 - Accounts Receivable - Current Year (net)
 - Accounts Receivable - Capitalized Collectables (net)
 - Prepaid Collection Costs (separately reported)
 - Other prepaid expenses and assets
- **Liabilities:** Accounts payable, accrued expenses, other liabilities
- **Fund Balance (Owners' Equity):** Operating Capital structure, Current Year Net Income, Reserve Funds, Total Equity

3. Accounts Receivable Aging Report

Provides detailed aging analysis showing:

- Individual owner account detail
- Separation between Current Year Accounts Receivable and Capitalized Collectables
- Breakdown by assessment year of origin
- Separate columns for assessments, late fees, interest, and collection costs
- Aging categories (current, 30, 60, 90+ days) for current year receivables
- Total Capitalized Collectables by year of origin

B. Annual Financial Statements

Year-end financial statements include:

- Comparative presentation with prior year
- Notes disclosing accounting policies and significant matters
- Analysis of collection activity and effectiveness
- Allowance for Doubtful Accounts balance and methodology

XI. STATEMENT OF FINANCIAL CONDITION STRUCTURE

A. Asset Section

Assets are presented showing:

- Cash and cash equivalents
- **Current Year Accounts Receivable:**
 - Gross current year accounts receivable (assessments, late fees, interest, collection costs)
 - Less: Allowance for doubtful accounts - current year
 - Net current year accounts receivable
- **Capitalized Collectables (Prior Year Accounts Receivable):**
 - Gross Capitalized Collectables by year of origin
 - Less: Allowance for doubtful accounts - Capitalized Collectables
 - Net Capitalized Collectables
- Prepaid collection costs (asset account for costs advanced but not yet recovered)
- Other prepaid expenses
- Reserve fund assets (if applicable)
- Other assets

B. Liability Section

Liabilities are presented showing:

- Current liabilities (payables, accrued expenses)
- Long-term liabilities (if any)

C. Fund Balance (Owners' Equity) Section

Fund Balance is presented in the following structure:

Operating Capital:

- Operating Capital - Target
- Operating Capital - Unfunded
- Operating Capital - Actual (subtotal)

Current Operations:

- Current Year Net Income

Reserves (if applicable):

- Reserve Fund accounts by category

Total Fund Balance (Total Equity)

XII. MANAGEMENT COMPANY REQUIREMENTS

Any management company providing accounting and financial reporting services to the Association must deliver:

A. Accounting Basis Compliance

Financial records and reports that reflect accrual basis accounting, including:

- Revenue recognized when earned (not when received)
- Expenses recognized when incurred (not when paid)
- Proper matching of revenues and expenses to the applicable fiscal period

B. Accounts Receivable Structure

Financial records that maintain the two-tier accounts receivable structure:

- Current Year Accounts Receivable (flows to Operating Fund)
- Capitalized Collectables (prior year receivables, separate from Operating Fund)

C. Collection Cost Treatment

Financial records that treat collection costs as:

- Prepaid assets (not operating expenses) when advanced by the Association
- Charges added to delinquent owner accounts receivable
- Categorized as current year or Capitalized Collectables based on the year of underlying delinquency
- Reductions to prepaid assets when recovered
- Bad debt expense when uncollectible

D. Prior Year Collection Treatment

Financial records that treat collections received for prior year assessments as:

- Reductions to Capitalized Collectables
- Never as current year Operating Fund revenue
- Separate from current year collection activity

E. Required Financial Statements

Monthly and annual financial statements that comply with the structure and content requirements established in Section X of this policy, including proper presentation of Current Year Accounts Receivable and Capitalized Collectables.

F. Operating Capital Presentation

Fund Balance (Owners' Equity) presentation that reflects the Operating Capital structure established in Section IX of this policy.

G. Allowance for Doubtful Accounts

Maintenance of Allowance for Doubtful Accounts that offsets gross accounts receivable as established in Section VI.E of this policy, with separate allowances for current year receivables and Capitalized Collectables.

XIII. BOARD OVERSIGHT RESPONSIBILITIES

A. Financial Statement Review

The Board of Directors reviews monthly financial statements to verify:

- Compliance with this accounting framework policy
- Proper presentation of financial position and operating results
- Correct reporting of Current Year Accounts Receivable and Capitalized Collectables
- Proper separation of current year activity from prior year collection activity
- Correct allowance balances for both current year and Capitalized Collectables
- Correct tracking and presentation of prepaid collection costs
- Correct Operating Capital presentation

B. Allowance Review

The Board reviews the Allowance for Doubtful Accounts to verify it reflects the methodology established in Section VIII.B of this policy, including separate allowances for current year receivables and Capitalized Collectables.

C. Capitalized Collectables Monitoring

The Board monitors the Capitalized Collectables balance, collection activity on prior year accounts, and the effectiveness of collection procedures for historical delinquencies.

D. Operating Capital Status

The Board reviews Operating Capital funding status as reported in monthly financial statements.

E. Annual Budget Review

During annual budget review, the Board establishes:

- The Operating Capital target for the upcoming fiscal year
- Assessment levels and budget appropriations
- Reserve fund allocations

XIV. AUDIT AND COMPLIANCE

A. Independent Review

The Association may engage independent auditors or reviewers to verify:

- Compliance with this accounting framework policy
- Accuracy of financial statement presentation
- Internal control structure
- Proper application of GAAP principles

B. Tax Compliance

The accounting framework is designed to support the Association's tax filing requirements, including:

- Form 1120-H filing under IRS Code Section 528
- Demonstration that substantially all (90%+) assessment income is expended or set aside for legitimate association purposes
- Proper documentation of reserve allocations and capital requirements

XV. SUPPORTING DOCUMENTATION

A. Supporting Policy and Procedure Documents

Implementation of this framework is supported by two separate documents:

1. The Meadows Accounting Policies

- Provides operational policy details that implement this framework
- Translates framework principles into specific Association policies
- Establishes specific rules, amounts, dates, and procedures
- Examples: grace periods, late fee amounts, interest rates, payment schedules, collection timelines
- Binding on all parties (owners, directors, management company)
- Subject to Board amendment through standard policy adoption procedures

2. Accounting Procedures for Board Members

- Provides instructional guidance for Board members
- Explains Board oversight responsibilities
- Describes what to look for in financial statements
- Guides Board review and monitoring activities
- Assists Board members in understanding their financial oversight role

The Accounting Framework Policy establishes the "what" (principles and structure), The Meadows Accounting Policies establishes the "how" (specific implementation rules), and the Accounting Procedures for Board Members provides the "oversight guidance" (how Board monitors compliance).

B. Operating Capital Management

Operating Capital management procedures, including restoration requirements, monitoring protocols, and budget restrictions when Operating Capital is underfunded, are addressed in separate Board policies or procedures.

C. Collection Procedures

The Association's collection policies and procedures are established separately and align with the collection cost capitalization requirements established in this framework.

XVI. POLICY GOVERNANCE**A. Authority**

This policy is adopted pursuant to the Board's authority under the Association's governing documents and Florida Statutes Section 720.303 to establish financial management policies and procedures.

B. Amendments

This policy may be amended only by Board resolution adopted by majority vote at a duly noticed meeting.

C. Review

This policy is reviewed periodically to ensure continued relevance and compliance with accounting standards, but is expected to remain stable over time as it establishes foundational principles rather than operational procedures.

D. Superseding Effect

This policy supersedes any prior informal practices or conflicting accounting procedures.

E. Relationship to Procedures

This policy establishes the framework and requirements. Implementation procedures, timelines, and specific operational guidance are addressed in separate procedure documents.

XVII. ACCOUNTING STANDARDS FOUNDATION

A. Generally Accepted Accounting Principles (GAAP)

This policy is based on Generally Accepted Accounting Principles as established by the Financial Accounting Standards Board (FASB).

B. Industry Practices

This policy incorporates common industry practices for community association financial management while maintaining GAAP compliance.

C. Historical Foundation

This policy formalizes and documents accounting practices successfully utilized by the Association from 2010 through 2024.

D. Software Systems

This policy is designed for implementation through modern community association accounting software systems (such as CINC Systems) properly configured for full accrual basis accounting.

CERTIFICATION

This Accounting Framework Policy Statement was duly adopted by the Board of Directors of The Meadows Homeowners Association on *[Date]* at a meeting for which proper notice was given and at which a quorum was present.
