

CenClub Recreation Management, Inc.

Financial Statements
and Supplementary Information
For the Period January 1, 2020 to
September 30, 2020



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Table of Contents

Independent Auditor's Report	1-2
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Members' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-8
Supplementary Information	
Schedule of Expenses	9

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
CenClub Recreation Management, Inc.

We have audited the accompanying financial statements of CenClub Recreation Management, Inc. (a nonprofit organization) (the "Company"), which comprise the balance sheet as of September 30, 2020, and the related statement of revenues, expenses and changes in members' equity, and cash flows for the period January 1, 2020 to September 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CenClub Recreation Management, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020, and the results of its operations and its cash flows for the period January 1, 2020 to September 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Reports on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses on page 9 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
February 5, 2021

CenClub Recreation Management, Inc.
Balance Sheet
September 30, 2020

Assets:

Cash and cash equivalents	\$	634,808
Cash and cash equivalents - designated for future repairs and replacements		900,921
Accounts receivable - recreation fees		333,409
Prepays and other assets		231,095
Property and equipment, net		<u>4,731,880</u>

Total assets \$ 6,832,113

Liabilities:

Accounts payable and accrued expenses	\$	260,653
Note payable, net		1,159,549
Contract liabilities		<u>295,388</u>

Total liabilities 1,715,590

Members' Equity (Undesignated)

5,116,523

Total liabilities and members' equity \$ 6,832,113

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

CenClub Recreation Management, Inc.
Statement of Revenues, Expenses and Changes in Members' Equity
For the Period January 1, 2020 to September 30, 2020

Revenues:

Assessment fees	\$ 8,002,141
Event and classes income	348,606
Other income	<u>1,048,413</u>
Total revenues	<u>9,399,160</u>

Expenses:

General and administrative	2,221,706
Utilities and maintenance	1,374,964
Social programs	778,890
Scheduled repairs	<u>505,827</u>
Total expenses	<u>4,881,387</u>

Excess of revenues over expenses 4,517,773

Members' Equity, January 1, 2020 598,750

Members' Equity, September 30, 2020 \$ 5,116,523

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

CenClub Recreation Management, Inc.
Statement of Cash Flows
For the Period January 1, 2020 to September 30, 2020

Cash Flows from Operating Activities:

Excess of revenues over expenses	\$ 4,517,773
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:	
Provision for depreciation and amortization	110,502
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable - recreation fees	45,105
Prepays and other assets	(60,139)
Increase (decrease) in:	
Accounts payable and accrued expenses	233,927
Contract liabilities	<u>(242,786)</u>
Net cash provided by (used in) operating activities	<u>4,604,382</u>

Cash Flows from Financing Activities:

Payments on note payable	<u>(3,108,141)</u>
Net cash provided by (used in) financing activities	<u>(3,108,141)</u>

Net increase (decrease) in cash and cash equivalents	1,496,241
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Cash and Cash Equivalents, Beginning of Year	<u>39,488</u>
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Cash and Cash Equivalents, End of Year	<u>\$ 1,535,729</u>
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Supplemental Disclosure:

Interest income	<u>\$ 2,016</u>
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The accompanying notes to financial statements are an integral part of these statements.

Note 1 - Organization and Operations

On December 31, 2019, CenClub Homeowners Association, Inc. purchased the recreational facilities from the previous owner/successor sponsor, CVRF Deerfield, Ltd. CenClub Homeowners Association, Inc. is a not-for-profit corporation, governed under the Florida Statute, Chapter 617 (Not for Profit Corporations Act). During the 2020 year, CenClub Homeowners Association, Inc. amended their articles of incorporation changing their name to CenClub Recreation Management, Inc. (the "Company"). The Company is primarily responsible for managing and maintaining the recreational facilities located in the Century Village in Deerfield Beach, Florida. As part of its organization and in preparation for its management and maintenance obligations of the recreational facilities, the Company commissioned and relied heavily on a third-party Capital Needs Study to underscore its funding objectives and required cash reserves.

Note 2 - Summary of Significant Accounting Policies

Change of financial year end: During 2020, the Company changed its fiscal year end from December 31 to September 30. The change in the fiscal year was executed to align with seasonal residents of Century Village. Accordingly, the current financial statements, along with the related notes are prepared for the period from January 1, 2020 through September 30, 2020.

Basis of accounting: The Company uses the accrual basis of accounting for financial reporting purposes which is in accordance with generally accepted accounting principles. Revenues are recognized when earned and expenses are recognized when incurred.

Provides an allowance for doubtful accounts: The Board of Directors periodically reviews the recreational fee receivable balances and provide an allowance for accounts which may be uncollectible. Past due accounts are pursued initially through the Company's collections department; when routine procedures fail, the accounts are referred to legal counsel. At September 30, 2020 the Company had no allowance for uncollectible accounts. During fiscal year 2021, the Company will develop and implement a formal policy for the accounting of uncollectible accounts.

Property and equipment: Property and equipment are recorded at cost. Depreciation is provided using the straight-line basis over the estimated useful lives ranging from 2 to 39 years.

Note payable issuance cost: Issuance costs associated with the note payable are presented in the balance sheet as a direct reduction in the carrying value of the associated note liability.

Revenue recognition: During the year management implemented Financial Accounting Standards Board's Accounting Standard Update ("ASU") Revenue from Contracts with Customers (Topic 606). Management analyzed the provisions of ASC Topic 606 and has concluded that no changes are necessary to implement the new standard.

Contract liabilities: The Company recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Company has the right to receive payment in advance of the satisfaction of performance obligations related to prepaid assessments, special events and other operating revenue, which are considered exchange transactions.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of management review: Management have reviewed and evaluated subsequent events through February 5, 2021, which is the date the financial statements were available for issuance.

Note 3 - Income Taxes

The Company qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended September 30, 2020. The Company is not taxed on income and expenses related to its exempt purpose, which is the management of common property located within Century Village East. Taxable income, which includes interest earned and revenues received from non-members, is taxed at applicable federal rates. Additionally, the Company is not subject to income tax by the State of Florida. The Company has no income tax returns under examination by the IRS.

Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income. Valuation allowances are provided for deferred tax assets based on management's projection of the sufficiency of future taxable income to realize the assets.

In 2020, a deferred tax asset of approximately \$ 41,000 has been recognized for a net operating loss carryforward. The net operating loss carryforward currently does not expire. A valuation allowance was provided in the 2020 financial statements relating to the net operating loss carryforward because management believes that a substantial portion of the loss carryforward will not be utilized. Accordingly, in 2020, a valuation allowance of approximately \$ 41,000 was provided.

Note 4 - Uninsured Cash Balances

The Company maintains cash balances at various financial institutions, which are covered by the Federal Deposit Insurance Corporation ("FDIC"). Uninsured balances are approximately \$ 1,356,000 at September 30, 2020.

Note 5 - Property and Equipment

Property and equipment consisted of the following at September 30, 2020:

Building	\$ 4,453,128
Vehicles	<u>27,020</u>
	4,480,148
Less: accumulated depreciation	<u>(92,488)</u>
	4,387,660
Land	<u>344,220</u>
	<u>\$ 4,731,880</u>

Note 6 - Note Payable

On December 31, 2019, the Company entered into a promissory note with another organization for \$ 4,273,694. The note requires monthly principal payments of \$ 388,518, including imputed interest at a rate of 1.59% through December 2020. As of September 30, 2020, the remaining balance of the note payable, net of unamortized issuance costs of \$ 6,004 at September 30, 2020, was \$ 1,165,553. The remaining balance, including all remaining imputed interest, is due December 2020 and was subsequently paid off.

CenClub Recreation Management, Inc.
Notes to Financial Statements
For the Period January 1, 2020 to September 30, 2020

Note 7 - Commitments

The Company has various multi-year service contracts to maintain the recreation property and facilities. These contracts include management, landscaping services as well as janitorial services. These contracts have different expirations and renewal terms.

Approximate minimum future annual service contract payment under the various service contracts are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2021	\$ 1,203,000
2022	918,000
2023	726,000
2024	173,000
Thereafter	<u>-</u>
	<u>\$ 3,020,000</u>

The expenses related to these contracts mentioned above for the years ended September 30, 2020, amounted to approximately \$ 908,000.

Employee benefit plan: The employees of the Company are offered a defined contribution pension plan through its management company. This multi-employer plan determines the eligibility and the matching requirements. The Company reimburses all costs and expenses relating to the benefit plan.

Note 8 - Uncertainties

In March 2020, the *World Health Organization* declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, the local and global financial markets are experiencing significant declines and creating economic uncertainties. At this time, it is unknown how this negative outlook will impact the Company's financial statements. No adjustments have been made to the accompanying financial statements as a result of the current events.

CenClub Recreation Management, Inc.
Supplementary Information
Schedule of Expenses
For the Period January 1, 2020 to September 30, 2020

General and Administrative:

Payroll and tax expense	\$ 1,018,817
Insurance	570,428
Management fee	288,000
Depreciation and amortization	110,502
Other expenses	57,277
Interest	50,963
Office supplies and expenses	47,181
Security	23,391
Licenses and permits	20,138
Bank and credit card fees	11,543
Auto	11,531
Bad debt	8,393
Professional services	3,542

Total general and administrative	2,221,706
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Utilities and Maintenance:

Janitorial	553,618
Electric and electrical supplies	252,288
Landscaping and irrigation	122,289
Pool and court	114,404
Maintenance - general	144,103
Air conditioning	67,236
Fitness center and entertainment	47,124
Mechanical and other expenses	44,332
Telephone	29,570

Total utilities and maintenance	1,374,964
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Social Programs:

Fitness center	320,745
Theater	261,000
Classes and other entertainment	197,145

Total social programs	778,890
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Scheduled Repairs:

Capital projects	505,827
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Total scheduled repairs	505,827
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Total expenses	\$ 4,881,387
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See independent auditor's report on supplementary information.