

# **Babcock Ranch Residential Association, Inc.**

Financial Report  
December 31, 2020

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Babcock Ranch Residential Association, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Babcock Ranch Residential Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2020, the related statements of revenues and expenses and change in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Babcock Ranch Residential Association, Inc. as of December 31, 2020, and its revenues and expenses and change in fund balances and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The Association's policies for funding major repairs and replacements are discussed in Notes 1 and 5 to the financial statements. Management has omitted the supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

**Report on Summarized Comparative Information**

We previously audited Babcock Ranch Residential Association, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

West Palm Beach, Florida  
January 26, 2022

**Babcock Ranch Residential Association, Inc.**

**Balance Sheet  
December 31, 2020  
(With Comparative Totals for 2019)**

	Operating Fund	Service Area Fund	Reserve Fund	Total 2020	Total 2019
<b>Assets</b>					
Current assets:					
Cash	\$ 339,509	\$ -	\$ 100,252	\$ 439,761	\$ 176,625
Restricted cash	8,772	-	-	8,772	2,050
Accounts receivable (Note 2)	646,028	-	-	646,028	107,339
Due from funds	33	74,978	25	-	-
Prepaid expenses and deposits	19,448	-	-	19,448	16,086
<b>Total current assets</b>	<b>1,013,790</b>	<b>74,978</b>	<b>100,277</b>	<b>1,114,009</b>	<b>302,100</b>
Property and equipment, net	9,766	-	-	9,766	12,771
	<b>\$ 1,023,556</b>	<b>\$ 74,978</b>	<b>\$ 100,277</b>	<b>\$ 1,123,775</b>	<b>\$ 314,871</b>
<b>Liabilities and Fund Balances</b>					
Current liabilities:					
Accounts payable	\$ 58,666	\$ -	\$ -	\$ 58,666	\$ 28,743
Due to developer	-	-	-	-	39,175
Due to funds	75,003	-	33	-	-
Prepaid assessments	288,893	-	-	288,893	131,905
Accrued expenses	160,870	-	-	160,870	16,721
<b>Total current liabilities</b>	<b>583,432</b>	<b>-</b>	<b>33</b>	<b>508,429</b>	<b>216,544</b>
Other long-term liabilities	10,490	-	-	10,490	3,500
<b>Total liabilities</b>	<b>593,922</b>	<b>-</b>	<b>33</b>	<b>518,919</b>	<b>220,044</b>
Commitments and contingency (Note 4)					
Fund balances	429,634	74,978	100,244	604,856	94,827
<b>Total liabilities and fund balances</b>	<b>\$ 1,023,556</b>	<b>\$ 74,978</b>	<b>\$ 100,277</b>	<b>\$ 1,123,775</b>	<b>\$ 314,871</b>

\* Eliminated in combination of funds

See notes to financial statements.

**Babcock Ranch Residential Association, Inc.**

**Statement of Revenues and Expenses and Change in Fund Balances  
Year Ended December 31, 2020  
(With Comparative Totals for 2019)**

	Operating Fund	Service Area Fund	Reserve Fund	Total 2020	Total 2019
<b>Revenues:</b>					
Assessments	\$ 1,520,302	\$ 586,925	\$ -	\$ 2,107,227	\$ 990,408
Other income	143,592	-	38	143,630	41,662
<b>Total revenues</b>	<b>1,663,894</b>	<b>586,925</b>	<b>38</b>	<b>2,250,857</b>	<b>1,032,070</b>
<b>Expenses:</b>					
Administrative and general	757,125	20,097	-	777,222	583,339
Grounds maintenance	210,268	549,445	-	759,713	400,304
Community control	160,552	-	-	160,552	19,922
Repairs and maintenance	33,743	-	-	33,743	16,460
Insurance	38,142	-	-	38,142	25,497
Utilities	31,425	-	-	31,425	30,224
Depreciation	3,005	-	-	3,005	2,254
<b>Total expenses</b>	<b>1,234,260</b>	<b>569,542</b>	<b>-</b>	<b>1,803,802</b>	<b>1,078,000</b>
<b>Excess (deficiency) of revenues over expenses before developer deficit funding</b>	<b>429,634</b>	<b>17,383</b>	<b>38</b>	<b>447,055</b>	<b>(45,930)</b>
Developer deficit funding (Note 2)	-	-	-	-	103,542
<b>Excess of revenues over expenses</b>	<b>429,634</b>	<b>17,383</b>	<b>38</b>	<b>447,055</b>	<b>57,612</b>
Fund balances, beginning of the year	-	57,595	37,232	94,827	4,256
Reserve assessments	-	-	62,974	62,974	32,959
<b>Fund balances, end of the year</b>	<b>\$ 429,634</b>	<b>\$ 74,978</b>	<b>\$ 100,244</b>	<b>\$ 604,856</b>	<b>\$ 94,827</b>

See notes to financial statements.

**Babcock Ranch Residential Association, Inc.**

**Statement of Cash Flows  
Year Ended December 31, 2020  
(With Comparative Totals for 2019)**

	Operating Fund	Service Area Fund	Reserve Fund	Total 2020	Total 2019
Cash flows from operating activities:					
Change in fund balance	\$ 429,634	\$ 17,383	\$ 38	\$ 447,055	\$ 57,612
Adjustments to reconcile change in fund balance to net cash provided by operating activities:					
Depreciation	3,005	-	-	3,005	2,254
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(538,689)	-	-	(538,689)	19,090
Due from operating fund	(33)	(17,383)	4,794	-	-
Prepaid expenses and deposits	(3,362)	-	-	(3,362)	(12,415)
Increase (decrease) in:					
Accounts payable	29,923	-	-	29,923	(18,692)
Due to developer	(39,175)	-	-	(39,175)	(10,363)
Due to reserve fund	12,589	-	33	-	-
Prepaid assessments	156,988	-	-	156,988	96,472
Accrued expenses	144,149	-	-	144,149	(10,845)
Other long-term liabilities	6,990	-	-	6,990	3,500
<b>Net cash provided by operating activities</b>	<b>202,019</b>	<b>-</b>	<b>4,865</b>	<b>206,884</b>	<b>126,613</b>
Cash flows from investing activities:					
Disbursements for property and equipment	-	-	-	-	(15,025)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,025)</b>
Cash flows from financing activities:					
Reserve assessments	-	-	62,974	62,974	32,959
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>-</b>	<b>62,974</b>	<b>62,974</b>	<b>32,959</b>
<b>Net increase in cash and restricted cash</b>	<b>202,019</b>	<b>-</b>	<b>67,839</b>	<b>269,858</b>	<b>144,547</b>
Cash and restricted cash:					
Beginning	146,262	-	32,413	178,675	34,128
Ending	<b>\$ 348,281</b>	<b>\$ -</b>	<b>\$ 100,252</b>	<b>\$ 448,533</b>	<b>\$ 178,675</b>

\* Eliminated in combination of funds

See notes to financial statements.

## Babcock Ranch Residential Association, Inc.

### Notes to Financial Statements

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

**Nature of organization:** Babcock Ranch Residential Association, Inc. (the Association), a nonprofit corporation, was incorporated in 2016 pursuant to a Community Charter. The Association was formed for the purpose of providing maintenance, preservation, control and operations to common property within Babcock Ranch, Florida. Babcock Ranch is a mixed-use planned community consisting of a series of neighborhoods, which include single-family developments, condominiums and commercial projects in the town center. Babcock Ranch is located in Charlotte and Lee counties.

The Association is currently under the control of Babcock Property Holdings (the Developer). As such, the Developer controls the Association's management, policy setting and finances.

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

**Accounting estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 these estimates.

**Fund accounting:** The Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

The Operating Fund reflects operating assessments paid by unit owners to meet regular, recurring costs of operation. Expenditures of this fund are limited to those connected with the day-to-day operations.

The Service Area Fund, per Article 12.2 of the Community Charter, reflects all funds that the Association collects as service area assessments, shall be accounted for separately from the Association's general funds and expended solely for the benefit of the service area for which they were collected. The following table provides the description, purpose and fund balance for each service area:

Service Area 1 (Lots 24-43, 82-129, 164-174)	Alley maintenance	\$	(61)
Service Area 2 (Lots 497-530, 611-632)	Villa maintenance		(1,596)
Service Area 3 (Lots 531-610, 633-672)	Landscape maintenance		31,231
Service Area 4 (Lots 673-807)	Landscape maintenance		49,237
Service Area 6 (Lots 228-369, 370-434, 805-824)	Landscape maintenance		(1,709)
Service Area 7 (Lots 1184 - 1349 )	Landscape maintenance		(2,124)
Total service area fund balance		\$	<u>74,978</u>

The Reserve Fund comprises capital assessments paid by unit owners to fund future replacement, major repairs, and purchase of additional commonly owned assets. Interest earned on replacement funds is retained in the fund. Expenditures from this fund are restricted to those items for which assessments were levied. As of December 31, 2020, there was a balance of \$100,244 in the Reserve Fund.

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

**Restricted cash:** The Association charges and collects an Environmental Stewardship Fee from each improved unit in accordance with the Community Charter. The funds are restricted to be used for the purpose of supporting environmental education and stewardship activities in the community.

## Babcock Ranch Residential Association, Inc.

### Notes to Financial Statements

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

The following table provides a reconciliation of cash and restricted cash reported within the balance sheet that sum to the total of the same amounts shown in the statement of cash flows:

Cash	\$ 439,761
Restricted cash	8,772
	<u>\$ 448,533</u>

**Accounts receivable:** Unit owners are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Receivables are carried at original billing amounts. A receivable is considered past due 30 days after the due date. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are delinquent, the cost of which are charged back to the unit owner.

Management determines the allowance for doubtful accounts by identifying troubled accounts through monthly review of accounts receivable aging schedules as well as the legal status of liens and foreclosures. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Based on management's evaluation of uncollected accounts at December 31, 2020, an allowance for doubtful accounts was deemed unnecessary.

**Ownership transactions:** Reserve assessments to the owners are accounted for as owner transactions. These types of assessments are deemed owner transactions based upon the existence of the following criteria: owner is subject to operating and/or special assessments as approved by the Association's Board of Directors and/or owners and the owner has the ability to vote on Association related matters. Reserve assessments are recognized when received.

**Revenue recognition:** The Association records revenue in accordance with Topic 606 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The results of operations can be substantially affected by economic conditions. 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 (deferred income) 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 assessments 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 unit owner, 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 December 31, 2020:

Revenue recognized at a point in time	\$ 143,630
Revenue recognized over time	2,107,227
	<u>\$ 2,250,857</u>

**Babcock Ranch Residential Association, Inc.**

**Notes to Financial Statements**

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

Payment terms for assessments and homeowner services are billed to owner 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.

**Property and equipment:** The Association's policy for recognizing common property in its balance sheet is to recognize: (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds and that is used to generate significant cash flows from owners on the basis of usage or from non-owners.

Accordingly, real and common property transferred from the Developer is not capitalized in the Association's financial statements as it is owned by the individual unit owners in common and not the Association. As a result, improvements made to real property and common areas are not capitalized.

Property and equipment is stated at cost. Depreciation is computed on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Vehicles	5

**Prepaid assessments:** Assessments received in advance are recorded as prepaid assessments. Working capital contributions that are to be used for specific working capital needs are included in prepaid assessments until the project is completed. Included within prepaid assessments are unspent working capital contributions, which totaled \$107,476 as of December 31, 2020.

**Future major repairs and replacements:** The Association provides annually in its budget for certain future major repairs and replacements (see Note 5). It is the Association's policy that major repairs or replacements to the clubhouse and certain other recreational and common property are funded by owner-approved assessments and other sources of funds. For this reason, the annual budget of the Association does not include a provision for reserve accounts for replacement or improvement to the Association's recreational amenities and certain other common property.

THE BUDGET OF THE ASSOCIATION DOES NOT PROVIDE FOR RESERVE ACCOUNTS FOR CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE THAT MAY RESULT IN SPECIAL ASSESSMENTS. OWNERS MAY ELECT TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, UPON OBTAINING THE APPROVAL OF A MAJORITY OF THE TOTAL VOTING INTERESTS OF THE ASSOCIATION BY VOTE OF THE MEMBERS AT A MEETING OR BY WRITTEN CONSENT.

**Income taxes:** The Association has selected a December 31 year-end and files its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to unit owners and other income received from Association unit owners solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest income, less a portion of allocated Association expenses. The Association had no tax due for the year ended December 31, 2020.

The Association has evaluated its tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements.

## Babcock Ranch Residential Association, Inc.

### Notes to Financial Statements

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

**Subsequent events:** Management has assessed subsequent events through January 26, 2022, the date the financial statements were available to be issued.

#### Note 2. Due to Developer

In accordance with Florida Statute 720.308(b), while the developer is in control of the Association, it may be excused from payment of its share of the operating expenses and assessments related to its parcels for any period of time for which the developer has, in the declaration, obligated itself to pay any operating expenses incurred that exceed the assessments receivable from other owners and other income of the Association. For the year ended December 31, 2020, there was no Developer deficit funding necessary and no amounts were due to or from the Developer related to deficit funding. As of December 31, 2020, there was approximately \$345,000 in builder assessments included in accounts receivable which the Developer agreed to pay on behalf of certain builders.

#### Note 3. Related Party Transactions

**Babcock Ranch Community Independent Special District (CISD):** The Association pays certain expenses to CISD, an affiliate of the Developer, including security, office and administrative expenses, insurance and other miscellaneous charges. These expenses totaled approximately \$57,000 for the year ended December 31, 2020, included in community control and utilities expenses on the statement of revenues and expenses and change in fund balances.

**Babcock Ranch Community Association (BRCA), CISD and the Developer:** The Association executed cost share agreements with BRCA, CISD and the Developer in October 2020. The Association receives reimbursements based upon the agreement for certain security costs incurred in the Community. For the year ended December 31, 2020, the Association received \$102,079, included in other income on the statement of revenues and expenses and change in fund balances.

**Babcock Ranch Hatchery Operations, LLC (BRH):** The Association was a member of the Hatchery, which is owned and operated by BRH, an affiliate of the Developer. The membership was terminated in March 2021. The Association paid expenses related to their membership which totaled approximately \$31,000 for the year ended December 31, 2020, and is included in administrative and general expenses on the statement of revenues and expenses and change in fund balances.

#### Note 4. Commitments and Contingency

**Capital Consultants Management Corporation, Inc. (CCMC):** CCMC is the management company for the Association. The Association receives management services from CCMC for a minimum monthly fee of \$1,500 per month. For the year ended December 31, 2020, total management fees were \$20,950. The Association reimbursed CCMC for various site service expenses, which is approximately \$221,000 for the year ended December 31, 2020, and is included in administrative and general and repairs and maintenance expenses on the statement of revenues and expenses and change in fund balances.

**Bulk services agreement:** On February 7, 2017, the Association entered into a bulk services agreement for technology services to be provided to the community. The agreement calls for a monthly fee of \$62 per unit and has an initial term of 10 years from the date of the first temporary or permanent certificate of occupancy issued for the first single-family unit in phase one. During the year ended December 31, 2020, there was approximately \$321,000 of bulk technology expenses included in administrative and general expenses on the statement of revenues and expenses and change in fund balances.

## **Babcock Ranch Residential Association, Inc.**

### **Notes to Financial Statements**

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#### **Note 4. Commitments and Contingency (Continued)**

**Landscape agreement:** In March 2020, the Association renewed its agreement With BrightView Landscape Services for an additional year. During the year ended December 31, 2020, there were approximately \$494,000 of expenses related to the agreement included in grounds and maintenance on the statement of revenues and expenses and change in fund balances. In March 2021, the agreement was renewed for one additional year.

**Insurance matters:** Where possible, the Association attempts to mitigate the risk of hurricane damage through insurance. The Association's insurance policies were renewed through January 26, 2022. Due to the Association's coinsurance and deductibles, losses from future catastrophic weather events may require special assessments.

#### **Note 5. Future Major Repairs and Replacements**

The Association has a replacement fund for certain future major repairs and replacements. The funds will be accumulated in a replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material.

If additional funds are needed, the Association has the right, subject to ownership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

As of December 31, 2020, the Association has accumulated \$100,244 in a replacement fund.

#### **Note 6. COVID-19**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus (COVID-19) include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Association operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Association. It is possible that the Association is vulnerable to the risk of a near-term severe impact. As a result, the Association could be impacted and may experience a certain degree of business interruption. The extent to which the COVID-19 outbreak impacts the Association's operations will depend on future developments, which are uncertain as of January 26, 2022, the date the financial statements were available to be issued.