

2017

Financial Statements as
of December 31, 2017

**[PALM BAY ESTATES RESIDENT-OWNED
ASSOCIATION, INC.]**

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members Palm Bay Estates Resident-Owned Association, Inc.

We have reviewed the accompanying financial statements of Palm Bay Estates Resident-Owned Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the required supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Mapili CPAs LLC

Mapili CPAs LLC
Certified Public Accountants
Winter Park, Florida
May 31, 2018

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2017

ASSETS	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 72,447	\$ 390,801	\$ 463,248
Member assessments	4,268	-	4,268
Land	4,219,830	-	4,219,830
Prepaid insurance	12,016	-	12,016
Loan origination fees	1,838	-	1,838
Utility deposits	90	-	90
	<u>\$ 4,310,489</u>	<u>\$ 390,801</u>	<u>\$ 4,701,290</u>
 LIABILITIES AND FUND BALANCE			
Accounts payable and accruals	\$ 4,820	\$ -	\$ 4,820
Prepaid member assessments	13,493	-	13,493
Notes payable - City of PB	291,272	-	291,272
Deposits held	3,100	-	3,100
Total liabilities	312,685	-	312,685
Fund balance	3,997,804	390,801	4,388,605
	<u>\$ 4,310,489</u>	<u>\$ 390,801</u>	<u>\$ 4,701,290</u>

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Revenues</u>			
Member assessments	\$ 272,060	\$ 163,620	\$ 435,680
Rental income	19,950	-	19,950
Storage income	12,406	-	12,406
Sale on lots	22,182	-	22,182
Insurance proceeds	20,641	7,000	27,641
Other income	18,305	-	18,305
Interest income	49	1,282	1,331
	<u>365,593</u>	<u>171,902</u>	<u>537,495</u>
<u>Expenses</u>			
Amortization expense	1,297	-	1,297
Cable service	95,634	-	95,634
General and administrative	14,540	-	14,540
Grounds and landscaping	67,823	-	67,823
Insurance expense	13,746	-	13,746
Interest expense - City of PB	-	21,067	21,067
Major repairs and replacements	20,529	10,392	30,921
Management and staffing	67,606	-	67,606
Pool and clubhouse	11,434	-	11,434
Professional fees	2,045	-	2,045
Utilities expense	22,516	-	22,516
	<u>317,170</u>	<u>31,459</u>	<u>348,629</u>
Excess of revenues over expenses	48,423	140,443	188,866
Fund balance at December 31, 2016- <i>as previously stated</i>	3,856,943	340,291	4,197,234
Prior period adjustments	<u>2,505</u>	-	<u>2,505</u>
Fund balance at December 31, 2016- <i>as restated</i>	3,859,448	340,291	4,199,739
Interfund Transfers	89,933	(89,933)	-
Fund balance at December 31, 2017	<u>\$ 3,997,804</u>	<u>\$ 390,801</u>	<u>\$ 4,388,605</u>

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Excess of revenues over expenses	<u>\$ 48,423</u>	<u>\$ 140,443</u>	<u>\$ 188,866</u>
 <i><u>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:</u></i>			
Change in interfund transfers	89,933	(89,933)	-
Increase in member assessments receivable	(2,494)	-	(2,494)
Decrease in prepaid insurance	673	-	673
Decrease on loan fees amortization	1,297	-	1,297
Decrease in accounts payable and accruals	(93)	-	(93)
Decrease in prepaid member assessments	(556)	-	(556)
Decrease in deposits held	(2,829)	-	(2,829)
Prior period adjustments	2,505	-	2,505
Net cash provided (used) by operating activities	<u>88,436</u>	<u>(89,933)</u>	<u>(1,497)</u>
 <i><u>Cash flows from financing activities:</u></i>			
Change in notes payable	<u>(130,932)</u>	-	<u>(130,932)</u>
Net cash provided (used) by financing activities	<u>(130,932)</u>	-	<u>(130,932)</u>
 Net increase/decrease in cash	 5,927	 50,510	 56,437
 Cash at beginning of year	 <u>66,520</u>	 <u>340,291</u>	 <u>406,811</u>
 Cash at end of year	 <u>\$ 72,447</u>	 <u>\$ 390,801</u>	 <u>\$ 463,248</u>

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

A. ORGANIZATION

Palm Bay Estates Resident- Owned Association, Inc. is incorporated as a not-for-profit corporation in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Brevard County, Florida and consists of 241 units.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using the principles of fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - The operating fund is used to account for the day-to-day activities of the Association, including the general management and upkeep of the common property.

Replacement Fund - The replacement fund is used to account for monies accumulated to fund capital expenditures and maintenance, repair and replacement of property.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Member assessments receivable at the balance sheet date represents fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

Income Taxes

The Association may be taxed either as a homeowners' association or as a regular corporation. For the year ended December 31, 2017, the Association filed IRS Form 1120H and elected to be taxed as a homeowners' association. Under this election, the Association is generally exempt from taxation on membership income and is taxed only on nonmembership income items, such as interest earnings. The State of Florida does not require an association that files IRS Form 1120H to file a state income tax return. The Association's federal income tax returns are subject to examination by the IRS generally for three years after they are filed. At December 31, 2017, the tax years that remain subject to examination begin with 2014.

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real and Common Area Property

Real and common area property acquired by the original homeowners from the developer is not capitalized on the Association's financial statements, since it is owned by the individual owners in common and not by the Association. As a result, improvements to the real property and common areas are expensed as incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid instruments with original maturities of three months or less.

Allocation of Revenues and Expenses to Unit Owners

Revenue and expenses are allocated equally among all of the units within the Association.

Subsequent Events - Date of Management's Review

In preparing these financial statements, the Association has evaluated subsequent events and transactions for potential recognition and disclosure through the date of the Independent Accountant's Review Report, which is the date the financial statements were available to be issued.

C. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts and certificates of deposit with balances not in excess of amounts insured by the Federal Deposit Insurance Corporation (\$250,000) and member assessments receivable. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote.

The Association's major source of revenue is member assessments, which are receivable from its members and may be secured by a lien on their property. The Association monitors the collectibility of these receivables and pursues collection. Management routinely assesses the uncollectibility of these receivables and provides for an allowance for doubtful accounts based on this assessment.

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

D. NOTE PAYABLE

In February 2010, the Association entered into an agreement with the City of Palm Bay to upgrade the water and sewer systems and turn maintenance and billing of the systems over to the City. The City has agreed to finance the \$756,085 cost of the upgrade over 20 years, payable in annual installments of \$55,979. The interest rate is fixed at 4.07%. The loan is collateralized by rights to assess members and shall be first lien on the Property. Interest paid as of December 31, 2017 was \$21,067.

Maturities of long-term debt for each of the five years following December 31, 2017 are as follows:

<i>Years Ended December 31, 2017</i>	<i>Outstanding Debt</i>
2018	\$44,124.64
2019	\$45,920.52
2020	\$47,789.48
2021	\$49,734.51
2022	\$51,758.71
Thereafter	\$51,944.25
Total	<u>\$291,272.12</u>

E. COMMITMENTS

The Association has entered into various short-term contractual agreements with outside vendors and service providers to maintain its common property and to help with the Association's administration. These contracts have different expiration dates and renewal terms.

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

F. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, as well as Florida Statutes, require funds to be accumulated for future major repairs and replacements. The funds are segregated and held primarily in interest-bearing accounts. The Association's Board of Directors has estimated the remaining useful lives and replacement costs of common property components.

The Association is funding for major repairs and replacements using the pooled reserve method as described in Florida Administrative Code 61B-22.005. Under either the pooled or straight-line reserve methods amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Member's equity designated for future major repairs and replacements has been allocated by the Board of Directors to the components of common property as follows:

Components	Balance 1/1/17	Fund Additions	Major Repairs/ Replacements	Reallocations/ Transfers	Balance 12/31/17
Deferred Maintenance	\$ 53,010	\$ 2,182	\$ 12	\$ 19,000	\$ 74,180
Painting	13,315	-	-	-	13,315
Paving	48,748	3,060	10,380	-	41,428
Roof	26,792	-	-	7,000	33,792
Pool	13,216	5,400	-	-	18,616
Water Pipes	8,568	3,000	-	-	11,568
Seawall	91,529	6,900	-	-	98,429
Vehicles	14,292	360	-	-	14,652
Water Payment - City PB	70,821	144,000	130,000	-	84,821
Total	<u>\$ 340,291</u>	<u>\$ 164,902</u>	<u>\$ 140,392</u>	<u>\$ 26,000</u>	<u>\$ 390,801</u>

SUPPLEMENTARY INFORMATION

PALM BAY ESTATES RESIDENT-OWNED ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR

REPAIRS AND REPLACEMENTS (COMPILED)

DECEMBER 31, 2017

The Association's Board of Directors has estimated the remaining useful lives and the replacement costs of the components of common property using the cash flow (pooled) reserve method. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

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

<u>Components</u>	<u>Estimated Remaining Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Component Balance 12/31/17</u>	<u>2018 Required Annual Funding</u>
Deferred Maintenance	-	\$ -	\$ 74,180	\$ -
Painting	4 years	13,000	13,315	-
Paving	4 years	60,000	41,428	4,643
Roof	2 years	26,000	33,792	-
Pool	2 years	24,000	18,616	2,692
Water Pipes	13 years	50,000	11,568	2,562
Seawall	17 years	215,000	98,429	6,857
Vehicles	1 year	14,000	14,652	-
Water Payment - City PB	-	-	84,821	-
Total		<u>\$ 402,000</u>	<u>\$ 390,801</u>	<u>\$ 16,754</u>