

# 2016

Financial Statements as  
of December 31, 2016

**[ 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, 2016, 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 16, 2017

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

**BALANCE SHEET**

**DECEMBER 31, 2016**

<b>ASSETS</b>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 66,520	\$ 340,291	\$ 406,811
Member assessments	1,774	-	1,774
Land	4,219,830	-	4,219,830
Prepaid insurance	12,689	-	12,689
Loan origination fees	3,135	-	3,135
Utility deposits	90	-	90
	<u>\$ 4,304,038</u>	<u>\$ 340,291</u>	<u>\$ 4,644,329</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable and accruals	\$ 4,913	\$ -	\$ 4,913
Prepaid member assessments	14,049	-	14,049
Notes payable - City of PB	422,204	-	422,204
Deposits held	5,929	-	5,929
Total liabilities	447,095	-	447,095
Fund balance	<u>3,856,943</u>	<u>340,291</u>	<u>4,197,234</u>
	<u>\$ 4,304,038</u>	<u>\$ 340,291</u>	<u>\$ 4,644,329</u>

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

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

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
<u>Revenues</u>			
Member assessments	\$ 297,327	\$ 136,044	\$ 433,371
Rental income	22,403	-	22,403
Storage income	11,572	-	11,572
Sale on lots	42,370	-	42,370
Interest income	37	809	846
Other income	6,975	-	6,975
	<u>380,684</u>	<u>136,853</u>	<u>517,537</u>
<u>Expenses</u>			
Amortization expense	1,297	-	1,297
Cable service	87,473	-	87,473
General and administrative	14,222	-	14,222
Grounds and landscaping	81,680	-	81,680
Insurance expense	13,213	-	13,213
Interest expense - City of PB	22,492	-	22,492
Loss on disposed fixed assets	35,950	-	35,950
Major repairs and replacements	-	14,200	14,200
Management and staffing	76,063	-	76,063
Pool and clubhouse	13,122	-	13,122
Professional fees	2,768	-	2,768
Utilities expense	21,136	-	21,136
	<u>369,416</u>	<u>14,200</u>	<u>383,616</u>
Excess of revenues over expenses	11,268	122,653	133,921
Fund balance at December 31, 2015- <i>as previously stated</i>	3,767,077	297,638	4,064,715
Prior period adjustments	<u>(1,402)</u>	-	<u>(1,402)</u>
Fund balance at December 31, 2015- <i>as restated</i>	3,765,675	297,638	4,063,313
Interfund Transfers	80,000	(80,000)	-
<b>Fund balance at December 31, 2016</b>	<b><u>\$ 3,856,943</u></b>	<b><u>\$ 340,291</u></b>	<b><u>\$ 4,197,234</u></b>

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

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Excess of revenues over expenses	<u>\$ 11,268</u>	<u>\$ 122,653</u>	<u>\$ 133,921</u>
 <i><u>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:</u></i>			
Change in interfund transfers	80,000	(80,000)	-
Increase in member assessments receivable	(456)	-	(456)
Decrease in prepaid insurance	524	-	524
Decrease in prepaid expense	5,162	-	5,162
Decrease on loan fees amortization	1,297	-	1,297
Increase in accounts payable and accruals	971	-	971
Increase in prepaid member assessments	1,634	-	1,634
Increase in deposits held	30	-	30
Prior period adjustments	(1,402)	-	(1,402)
Net cash provided (used) by operating activities	<u>87,760</u>	<u>(80,000)</u>	<u>7,760</u>
 <i><u>Cash flows from investing activities:</u></i>			
Change in net fixed assets	<u>35,950</u>	<u>-</u>	<u>35,950</u>
Net cash provided (used) by investing activities	<u>35,950</u>	<u>-</u>	<u>35,950</u>
 <i><u>Cash flows from financing activities:</u></i>			
Change in notes payable	<u>(127,698)</u>	<u>-</u>	<u>(127,698)</u>
Net cash provided (used) by financing activities	<u>(127,698)</u>	<u>-</u>	<u>(127,698)</u>
Net increase/decrease in cash	7,280	42,653	49,933
Cash at beginning of year	<u>59,240</u>	<u>297,638</u>	<u>356,878</u>
Cash at end of year	<u>\$ 66,520</u>	<u>\$ 340,291</u>	<u>\$ 406,811</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**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, 2016, 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, 2016, the tax years that remain subject to examination begin with 2013.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**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, 2016**

**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, 2016 was \$22,492.

Maturities of long-term debt for each of the five years following December 31, 2016 are as follows:

<i>Years Ended December 31, 2016</i>	<i>Outstanding Debt</i>
2017	\$38,795.68
2018	\$40,374.67
2019	\$42,017.92
2020	\$43,728.05
2021	\$45,507.78
Thereafter	\$211,780.70
Total	<u>\$422,204.80</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, 2016**

**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 1/1/16	Fund Additions	Major Repairs/ Replacements	Reallocation Transfers	Balance 12/31/16
Deferred Maintenance	\$ 87,501	\$ 1,709	\$ 14,200	\$ (22,000)	\$ 53,010
Painting	13,315	-	-	-	13,315
Paving	46,864	1,884	-	-	48,748
Roof	26,792	-	-	-	26,792
Pool	12,220	996	-	-	13,216
Water Pipes	5,568	3,000	-	-	8,568
Seawall	84,665	6,864	-	-	91,529
Vehicles	14,292	-	-	-	14,292
Water Payment - City PB	6,421	122,400	80,000	22,000	70,821
Total	<u>\$ 297,638</u>	<u>\$ 136,853</u>	<u>\$ 94,200</u>	<u>\$ -</u>	<u>\$ 340,291</u>

**SUPPLEMENTARY INFORMATION**

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

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**

**REPAIRS AND REPLACEMENTS (COMPILED)**

**DECEMBER 31, 2016**

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 12/31/16</u>	<u>2017 Approved Annual Funding</u>
Deferred Maintenance	-	\$ -	\$ 53,010	\$ 900
Painting	5 years	12,000	13,315	-
Paving	4 years	120,000	48,748	3,060
Roof	3 years	22,000	26,792	-
Pool	1 year	22,000	13,216	5,400
Water Pipes	14 years	50,000	8,568	3,000
Seawall	18 years	215,000	91,529	6,900
Vehicles	-	12,000	14,292	360
Water Payment - City PB	-	56,000	70,821	144,000
Total		<u>\$ 509,000</u>	<u>\$ 340,291</u>	<u>\$ 163,620</u>