

PEMBROKE SHORES COMMUNITY
ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

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To the Board of Directors
Pembroke Shores Community Association, Inc.
Fort Lauderdale, Florida

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Pembroke Shores Community Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes 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 Pembroke Shores Community Association, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 12 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lanter, Leonardo & DiCrescenzo, LLC

Lanter, Leonardo & DiCrescenzo, LLC
Certified Public Accountants
Deerfield Beach, Florida
February 8, 2018

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
BALANCE SHEET
December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 698,720	\$ 610,727	\$ 1,309,447
Assessments Receivable, Net of Allowance for Bad Debt of \$123,131	48,269	-	48,269
Prepaid Insurance	5,163	-	5,163
Prepaid Expenses	4,433	-	4,433
Utility Deposit	70	-	70
Interfund Borrowings	<u>38,617</u>	<u>(38,617)</u>	<u>-</u>
Total Assets	<u>\$ 795,272</u>	<u>\$ 572,110</u>	<u>\$ 1,367,382</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts Payable	\$ 48,472	\$ -	\$ 48,472
Accrued Expenses	122,237	-	122,237
Security Deposits	500	-	500
Deferred Cable Revenue	86,115	-	86,115
Assessments Paid in Advance	<u>162,828</u>	<u>-</u>	<u>162,828</u>
Total Liabilities	<u>420,152</u>	<u>-</u>	<u>420,152</u>

FUND BALANCES

Fund Balances	<u>375,120</u>	<u>572,110</u>	<u>947,230</u>
Total Fund Balances	<u>375,120</u>	<u>572,110</u>	<u>947,230</u>
Total Liabilities and Fund Balances	<u>\$ 795,272</u>	<u>\$ 572,110</u>	<u>\$ 1,367,382</u>

The accompanying notes are an integral part of the financial statements.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Member Assessments	\$ 1,611,324	\$ 153,032	\$ 1,764,356
Interest	327	293	620
Gate Cards and Clickers Income	5,794	-	5,794
Cable Contract Income	19,929	-	19,929
Bad Debt Recovery	26,145	-	26,145
Late Fees	13,400	-	13,400
Other Income	<u>3,939</u>	<u>-</u>	<u>3,939</u>
 Total Revenues	 <u>1,680,858</u>	 <u>153,325</u>	 <u>1,834,183</u>
EXPENSES			
Management Fees	116,500	-	116,500
Bad Debt	22,843	-	22,843
Professional Fees	54,878	-	54,878
Insurance	37,754	-	37,754
Electricity	40,642	-	40,642
Telephone	10,995	-	10,995
Water and Sewer	6,372	-	6,372
Repairs and Maintenance	166,436	-	166,436
Landscape Maintenance and Fertilizer	224,151	-	224,151
Landscape Enhancement and Replacement	6,258	-	6,258
Fountain Maintenance	3,476	-	3,476
Security and Security Equipment	407,313	-	407,313
Intercom Devices	112,334	-	112,334
Insect Control	720	-	720
Pressure Clean	25,900	-	25,900
Rust Removal	16,100	-	16,100
Tree Trimming	40,626	-	40,626
Irrigation Maintenance	20,456	-	20,456
Wetlands and Lake Treatment	39,535	-	39,535

The accompanying notes are an integral part of the financial statements.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES (Continued)
For the Year Ended December 31, 2017

EXPENSES (continued)	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cable TV	491,332	-	491,332
Gas and Oil	4,866	-	4,866
Alarm Monitoring	32,546	-	32,546
Gate Repairs	28,575	-	28,575
Administrative	23,858	-	23,858
Hurricane Related Expenses	85,218	-	85,218
Reserve Expenditures	<u>-</u>	<u>143,360</u>	<u>143,360</u>
Total Expenses	<u>2,019,684</u>	<u>143,360</u>	<u>2,163,044</u>
 Excess (Deficiency) of Revenues over Expenses	 (338,826)	 9,965	 (328,861)
 Fund Balances - Beginning of Year	 719,522	 562,145	 1,281,667
 Prior Period Adjustment	 <u>(5,576)</u>	 <u>-</u>	 <u>(5,576)</u>
 Fund Balances - End of Year	 <u>\$ 375,120</u>	 <u>\$ 572,110</u>	 <u>\$ 947,230</u>

The accompanying notes are an integral part of the financial statements.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Member Assessments Collected	\$ 1,657,637	\$ 153,032	\$ 1,810,669
Interest Received	327	293	620
Late Fees Received	13,400	-	13,400
Gate Cards and Clickers Income	5,794	-	5,794
Other Receipts	79,750	-	79,750
Cash Paid for Operating Expenditures	(1,934,666)	-	(1,934,666)
Cash Paid for Replacement Fund Expenditures	<u>-</u>	<u>(143,360)</u>	<u>(143,360)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(177,758)</u>	<u>9,965</u>	<u>(167,793)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund Borrowings	<u>(38,617)</u>	<u>38,617</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>(38,617)</u>	<u>38,617</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(216,375)	48,582	(167,793)
Cash and Cash Equivalents - Beginning of Year	<u>915,095</u>	<u>562,145</u>	<u>1,477,240</u>
Cash and Cash Equivalents - End of Year	<u>\$ 698,720</u>	<u>\$ 610,727</u>	<u>\$ 1,309,447</u>

The accompanying notes are an integral part of the financial statements.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Reconciliation of Excess (Deficiency) of Revenues over Expenses to Net Cash Provided by (Used in) Operating Activities:			
Excess (Deficiency) of Revenues over Expenses	\$ (338,826)	\$ 9,965	\$ (328,861)
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash Provided by (Used in) Operating Activities:			
Bad Debt Provision	(24,098)	-	(24,098)
Prior Period Adjustment	(5,576)	-	(5,576)
(Increase) Decrease in Assets:			
Assessments Receivable	25,133	-	25,133
Prepaid Insurance	6,093	-	6,093
Prepaid Expense	(3,822)	-	(3,822)
Other Receivables	49,666	-	49,666
Utility Deposits	100	-	100
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	112,321	-	112,321
Prepaid Assessments	21,180	-	21,180
Deferred Cable Revenue	<u>(19,929)</u>	<u>-</u>	<u>(19,929)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (177,758)</u>	<u>\$ 9,965</u>	<u>\$ (167,793)</u>

The accompanying notes are an integral part of the financial statements.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization - Pembroke Shores Community Association, Inc. (Association) is a homeowners association incorporated in 1995 in the state of Florida as a not-for-profit corporation under the terms and provisions of Chapter 720, Florida Statutes. The Association, which operates under Florida Statutes 720, is responsible for the operation and maintenance of the common property within the development. The development consists of 1,182 residential units located in Fort Lauderdale, Florida.
2. Fund Accounting - The Association uses fund accounting, which requires that funds, such as the operating fund and the fund designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and property manager. Disbursements from the replacement fund may be made only for their designated purposes.
3. Use of Estimates in the Preparation of Financial Statements - 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.
4. Member Assessments - Member assessments are billed quarterly based upon their proportionate share of ownership and are recognized as revenue on a pro rata basis over the period covered by the billing. Member assessments are based upon estimates of amounts necessary to provide funds for the Association's operating expenses and future major repairs and replacements. Assessments receivable from members are reported at the outstanding balance due from the members. It is the Association's policy to retain legal counsel and place liens on the units of members whose assessments are delinquent. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. As of December 31, 2017, some accounts are deemed uncollectible and, thus, an allowance for doubtful accounts in the amount of \$123,131 has been established. Any excess assessments at year end are retained by the Association for reduction of member assessments in future years.
5. Interest Income - The Board of Directors' policy is to allocate to the operating and replacement funds all interest earned on their respective cash accounts.
6. Income Taxes - In 2017, the Association elected to file as a homeowners' association in accordance with Internal Revenue Service Code section 528. Under this section, the Association excludes from taxation exempt function income, which generally consists of revenue from assessments to owners. The Association's investment income and other nonexempt income are subject to tax at a rate of 30%, net of any applicable expenses.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Concentration of Credit Risk - The financial instruments which potentially subject the Association to concentrations of credit risk are primarily cash and assessments receivable. The Association invests its excess cash in both deposits and high quality short-term liquid money market instruments with major financial institutions and the carrying value approximates market value. The Association has not experienced losses related to these investments. The Association believes it is not exposed to any significant credit risk on cash and assessments receivable.

8. Recognition of Assets - Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure.

9. Cash and Cash Equivalents - For purposes of the December 31, 2017 balance sheet and statement of cash flows for the year ended December 31, 2017, the Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

10. Fair Value of Financial Instruments - The carrying amounts of cash, cash equivalents, receivables, and payables approximate their fair values due to their short-term maturities.

11. Comprehensive Income - ASC 220 (formerly SFAS No. 130) requires "a full set of general-purpose financial statements to be expanded to include the reporting of comprehensive income." Comprehensive income is comprised of two components, net income and other comprehensive income. For the year ended December 31, 2017, there were no items that qualify as comprehensive income.

12. Revenue Recognition - Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

NOTE B - CASH BALANCES

The Association maintains its cash balances at several major financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Money market accounts that are with brokerage companies are covered under SIPC and not part of the FDIC. At December 31, 2017, the Association's cash balances of \$100,272 were uninsured. The Association has not incurred losses related to these investments.

NOTE C - REPLACEMENT FUND

The Association's governing documents and Florida statutes require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2017

NOTE C - REPLACEMENT FUND (continued)

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on an independent reserve study prepared in 2013 and updated in 2014 and considering amounts previously accumulated in the replacement fund. The table included in the unaudited supplementary information on future major repairs and replacements is based on these estimates. Accordingly the funding requirement of \$264,886 has been included in the 2018 budget.

THE BUDGET OF THE ASSOCIATION PROVIDES FOR LIMITED VOLUNTARY DEFERRED EXPENDITURE ACCOUNTS, INCLUDING CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE, SUBJECT TO LIMITS ON FUNDING CONTAINED IN OUR GOVERNING DOCUMENTS. BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, THESE FUNDS ARE NOT SUBJECT TO THE RESTRICTIONS ON USE OF SUCH FUNDS SET FORTH IN THAT STATUTE, NOR ARE RESERVES CALCULATED IN ACCORDANCE WITH THAT STATUTE.

The activity in the replacement fund was as follows:

<u>Components</u>	<u>Balance 1/01/17</u>	<u>Additions</u>	<u>Interest</u>	<u>Expenditures</u>	<u>Balance 12/31/17</u>
Betterments and Capital Improvements	\$ 561,537	\$153,032	\$ -	\$ 143,360	\$571,209
Unallocated Interest	<u>608</u>	<u>-</u>	<u>293</u>	<u>-</u>	<u>901</u>
	<u>\$ 562,145</u>	<u>\$ 153,032</u>	<u>\$ 293</u>	<u>\$ 143,360</u>	<u>\$ 572,110</u>

NOTE D - WINDSTORM INSURANCE

The insurance policy for windstorm coverage renewed February 10, 2017. The deductible amount for named hurricane storms is estimated at approximately \$1,202,470 aggregate for the year, which represents 5% of the insured value of the residential building, which is estimated to be \$24,049,396.

NOTE E - CABLE TELEVISION CONTRACT AND CONTRACTUAL OBLIGATIONS

In 2010 the Association entered into a contract with The Communications Consultants Group, Inc. (“CCG”) to assist the Association with negotiating and facilitating a cable contract for a few of 25% of any and all amounts received by the Association from the cable provider and 25% of any and all savings realized as a result of their efforts.

The Association entered into a contract with Comcast of Florida on January 31, 2012 for broadband communications services to the premises for a period of 10 years. The Association received \$236,200 from Comcast of Florida as part of this contract. If the contract is cancelled prior to termination, the Association shall refund Comcast of Florida a portion of funds received by the Association based on the number of years remaining in the contract. As a result, the Association will be recognizing this income over the length of the contract. The Association, prior to entering into the contract with CCG, had established a benchmark receivable from Comcast of \$88,575. The Association paid CCG \$36,906 corresponding to 25% of the amount received from Comcast in excess of the benchmark. The Association will be recognizing this expense over a period of 10 years.

The Association has recorded net deferred cable revenue of \$86,115 to be recognized in future years.

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2017

NOTE F - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 8, 2018, the date that the financial statements were available to be issued.

NOTE G - CONTINGENCIES

During the course of normal operations of the Association, lawsuits, claims, and other contingent liabilities may arise. Based upon information currently available with respect to the aforementioned contingencies, management believes that any resulting liability will not materially affect the financial position or operations of the Association.

NOTE H - PRIOR PERIOD ADJUSTMENT

An adjustment for \$5,576 was made to decrease the operating fund balance due to previous year's understatement of expenses. There is no effect on current year's net income.

SUPPLEMENTARY INFORMATION

PEMBROKE SHORES COMMUNITY ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2017

The Association had conducted an independent study in 2013 and updated in 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on this independent study. Actual expenditures may vary from these estimated amounts and the variance may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs.

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

Components	Remaining Estimated Useful Lives	Estimated Current Replacement Costs	Balance December 31, 2017	2018 Full Funding
Betterments and Capital Improvements	N/A	N/A	\$ 571,209	\$ 264,886
Master Reserve Components	1-18	1,102,405	-	-
Beaches Components	1-4	292,507	-	-
Harbour Side Estates Components	1-4	192,021	-	-
Sandal Bay Components	1-4	860,834	-	-
Sandal Cove Components	1-4	628,686	-	-
Estate of Pembroke Shores Components	1-4	770,522	-	-
Angel Cove Components	1-4	197,275	-	-
Interest	N/A	-	901	-
		<u>\$ 4,044,250</u>	<u>\$ 572,110</u>	<u>\$ 264,886</u>