

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5
OF ST. PETERSBURG, INC.**

FINANCIAL STATEMENTS

MARCH 31, 2018

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5
OF ST. PETERSBURG, INC.**

FINANCIAL STATEMENTS

MARCH 31, 2018

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| BALANCE SHEET | 3 |
| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES | 4 |
| STATEMENT OF CASH FLOWS | 5 |
| NOTES TO THE FINANCIAL STATEMENTS | 6-9 |
| SUPPLEMENTARY INFORMATION | |
| SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL | 10 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS | 11 |



3815 W. Humphrey St.
Suite 101
Tampa, Florida 33614

(813) 932-2116
(813) 930-0489 Fax

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.

We have audited the accompanying financial statements of PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC. (the 'Association'), which comprise the balance sheet as of March 31, 2018, 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.

Auditors' 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 auditors' 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 PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC. as of March 31, 2018, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of revenues and expenses - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property 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.

Marsocci, Appleby + Company P.A

Marsocci, Appleby and Company, P. A.
Tampa, Florida
June 18, 2018

PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
BALANCE SHEET
MARCH 31, 2018

| | Operating Fund | Replacement Fund | Total |
|--|-------------------|---------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 220,927 | \$ 294,709 | \$ 515,636 |
| Assessments receivable, net | 1,338 | - | 1,338 |
| Prepaid expenses and other assets | 28,975 | - | 28,975 |
| TOTAL ASSETS | \$ 251,240 | \$ 294,709 | \$ 545,949 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Accounts payable | \$ 7,654 | \$ - | \$ 7,654 |
| Prepaid assessments | 12,712 | - | 12,712 |
| TOTAL LIABILITIES | 20,366 | - | 20,366 |
| Fund balances | 230,874 | 294,709 | 525,583 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 251,240 | \$ 294,709 | \$ 545,949 |

See independent auditors' report and notes to the financial statements.

PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2018

| | Operating Fund | Replacement Fund | Total |
|---|-------------------|---------------------|-------------------|
| REVENUE: | | | |
| Members' assessments | \$ 528,763 | \$ 108,000 | \$ 636,763 |
| Rental income | 8,500 | - | 8,500 |
| Interest income | 715 | 1,993 | 2,708 |
| Other income | 3,859 | - | 3,859 |
| TOTAL REVENUES | 541,837 | 109,993 | 651,830 |
| EXPENSES: | | | |
| Administrative | 155,903 | - | 155,903 |
| Operating | 376,080 | 66,078 | 442,158 |
| TOTAL EXPENSES | 531,983 | 66,078 | 598,061 |
| EXCESS OF REVENUES OVER EXPENSES | 9,854 | 43,915 | 53,769 |
| FUND BALANCES, beginning of year | 221,020 | 250,794 | 471,814 |
| FUND BALANCES, end of year | \$ 230,874 | \$ 294,709 | \$ 525,583 |

See independent auditors' report and notes to the financial statements.

PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2018

| | Operating Fund | Replacement Fund | Total |
|---|-------------------|---------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Excess of revenues over expenses | \$ 9,854 | \$ 43,915 | \$ 53,769 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | | |
| Changes in operating assets and liabilities: | | | |
| Assessments receivable, net | 2,178 | - | 2,178 |
| Prepaid expenses and other assets | 8,181 | - | 8,181 |
| Accounts payable | (4,339) | - | (4,339) |
| Prepaid assessments | (4,698) | - | (4,698) |
| | 11,176 | 43,915 | 55,091 |
| Net cash provided by operating activities | | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 11,176 | 43,915 | 55,091 |
| CASH AND CASH EQUIVALENTS, beginning of year | 209,751 | 250,794 | 460,545 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 220,927 | \$ 294,709 | \$ 515,636 |

See independent auditors' report and notes to the financial statements.

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018**

NOTE A - NATURE OF ORGANIZATION:

Palma Del Mar Condominium Association No. 5 of St. Petersburg, Inc. (the 'Association') was incorporated as a corporation, not-for-profit, under the terms and provisions of Florida Statutes. The Association, which operates under Florida Statute 718, is responsible for the operation and maintenance of the common property within the development. The development consists of 140 residential units located in St. Petersburg, Florida.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting whereby all revenues are recorded when earned and all expenses recorded when incurred.

Fund Accounting

The Association's governing 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 fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repair and replacements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended March 31, 2018, the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association has no uncertain tax positions that it has taken and believes that it can defend its tax return in any jurisdiction. With few exceptions, the Association is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for years before 2015.

PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fair Value of Financial Instruments

The Association estimates that the fair value of all financial instruments as of March 31, 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

Interest Earned

The Association's policy is to allocate interest earned to the operating and replacement fund in proportion to the interest bearing deposits of each fund.

Assessments Receivable

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are seriously delinquent. As of March 31, 2018, the Association had net assessments receivable of \$1,338. It is the opinion of the Board that an allowance for doubtful accounts of approximately \$35,000 needed at March 31, 2018 to cover anticipated losses from doubtful accounts.

NOTE C - CONCENTRATION OF CREDIT RISK:

The Association maintains deposits in a financial institution that at times may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Association believes that there is no significant risk with respect to these deposits. The Association has not experienced any losses on its deposits with financial institutions.

NOTE D - MEMBERS ASSESSMENTS:

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in future years.

Monthly assessments to owners averaged approximately \$379 for 2018.

NOTE E - PROPERTY AND EQUIPMENT:

In conformity with industry practice, the Association's policy for recognizing common property as assets in its balance sheet is to recognize (a) common property and (b) real property to which it has title and that the Board can dispose of for cash while retaining the proceeds for the Association or that is used to generate significant cash flows from members on the basis of usage or from non-members.

Real and common property acquired by the original members from the developer is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition is restricted by the Board.

NOTE F - ASSOCIATION CONTROLLED UNITS:

The Association controlled one unit within the development for part of the year ended March 31, 2018. Rental income on this unit is included in the statement of revenues, expenses and changes in fund balances and amounted to \$8,500 for the year ended March 31, 2018.

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018**

NOTE F - ASSOCIATION CONTROLLED UNITS (CONTINUED):

It is the Association's policy to continue recording assessment revenue for this unit; however, a corresponding expense is included in repairs and maintenance expense. During the year ended March 31, 2018, approximately \$33,600 of assessments were charged to the Association for Association owned units.

NOTE G - FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association's governing documents provide certain guidelines for governing its financial activities. The Association maintains an operating fund available for general operations and a replacement fund designated for future major repairs and replacements. Replacement funds are held in separate bank accounts and generally are not available for expenditures for normal operations.

The Board, in conjunction with management and vendors, estimated the remaining useful lives and the replacement costs of the components of common property. At this time, the Board has not conducted an independent formal study of all the common property components which results may differ. The table included in the supplementary information on Future Major Repairs and Replacements is based on an informal study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the informal study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirements have been included in the next year's budget.

Funds are being accumulated in the 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. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacement until funds are available.

NOTE H - SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCES:

The balances of the components of the replacement fund at March 31, 2018 are as follows:

| Components | Balance 4/01/17 | Additions to Fund | Charges to Fund | Transfers | Balance 3/31/18 |
|-----------------------|--------------------|----------------------|--------------------|-------------|--------------------|
| Painting | \$ - | \$ - | \$ - | \$ - | \$ - |
| Paving | - | - | - | - | - |
| Roofing - tile | - | - | - | - | - |
| Roofing - flat | - | - | - | - | - |
| Furniture and equip. | - | - | - | - | - |
| Seawall | - | - | - | - | - |
| Building redecorating | - | - | - | - | - |
| Pool | - | - | - | - | - |
| Water intrusion | - | - | - | - | - |
| Deferred maintenance | - | - | - | - | - |
| Pooled reserves | 250,774 | 108,000 | (66,078) | - | 292,696 |
| Interest | 20 | 1,993 | - | - | 2,013 |
| | <u>\$ 250,794</u> | <u>\$ 109,993</u> | <u>\$ (66,078)</u> | <u>\$ -</u> | <u>\$ 294,709</u> |

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2018**

NOTE H - SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCES (CONTINUED):

The Association has budgeted \$114,000 for the year ended March 31, 2018 to fund the reserves noted above.

NOTE I - SUBSEQUENT EVENTS:

Management has assessed subsequent events through June 18, 2018, the date on which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. There were no material subsequent events that require recognition or additional disclosure.

SUPPLEMENTARY INFORMATION

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2018**

| | <u>Budget</u> | <u>Actual</u> | <u>(Under) Over Budget</u> |
|--------------------------------------|-----------------------------|-----------------------------|------------------------------------|
| REVENUE: | | | |
| Members' assessments | \$ 639,021 | \$ 636,763 | \$ (2,258) |
| Rental income | 10,200 | 8,500 | (1,700) |
| Interest income | 195 | 2,708 | 2,513 |
| Other income | - | 3,859 | 3,859 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL REVENUES | <u>\$ 649,416</u> | <u>\$ 651,830</u> | <u>\$ 2,414</u> |
| | | | |
| ADMINISTRATIVE EXPENSES: | | | |
| Management fees | \$ 20,440 | \$ 24,010 | \$ 3,570 |
| Administrative expenses | 16,886 | 12,970 | (3,916) |
| Insurance | 126,000 | 110,751 | (15,249) |
| Professional fees | 3,000 | 5,518 | 2,518 |
| Association owned units expense | 4,800 | 3,981 | (819) |
| Bad debt expense (recoveries) | 4,000 | (1,327) | (5,327) |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ADMINISTRATIVE EXPENSES | <u>175,126</u> | <u>155,903</u> | <u>(19,223)</u> |
| | | | |
| OPERATING EXPENSES: | | | |
| Utilities | 95,757 | 98,302 | 2,545 |
| Cable | 42,000 | 37,861 | (4,139) |
| Repairs and maintenance | 228,533 | 239,917 | 11,384 |
| Reserves | 108,000 | 66,078 | (41,922) |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL OPERATING EXPENSES | <u>474,290</u> | <u>442,158</u> | <u>(32,132)</u> |
| | | | |
| TOTAL EXPENSES | <u>\$ 649,416</u> | <u>\$ 598,061</u> | <u>\$ (51,355)</u> |

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**PALMA DEL MAR CONDOMINIUM ASSOCIATION NO. 5 OF ST. PETERSBURG, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
 MARCH 31, 2018**

The Board, in conjunction with management and vendors, estimated the remaining useful lives and the replacement costs of the components of common property. At this time the Board has not conducted an independent formal study of all the common property components, which results may differ. The informal study conducted may not be all inclusive. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

| Components | Estimated Useful Life | Estimated Remaining Useful Lives (years) | Estimated Current Replacement Costs | Replacement Fund Balance At 3/31/18 |
|-----------------------|--------------------------|---|--|---|
| Painting | 7 | 6 | \$ 170,000 | \$ - |
| Paving | 14 | 8 | 18,000 | - |
| Roofing - tile | 24 | 14 | 340,000 | - |
| Roofing - flat | 14 | 10 | 100,000 | - |
| Furniture and equip. | 9 | 2 | 225,000 | - |
| Seawall | 34 | 3 | 85,000 | - |
| Building redecorating | 14 | 9 | 115,000 | - |
| Pool | 5 | 4 | 20,000 | - |
| Water intrusion | 9 | 1 | 160,000 | - |
| Deferred maintenance | 1 | 1 | 1,000 | - |
| Pooled reserves | - | - | - | 292,696 |
| Interest | - | - | - | 2,013 |
| | | | \$ 1,234,000 | \$ 294,709 |