

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019



PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pembroke Falls Homeowners Association, Inc.  
Pembroke Pines, Florida

We have audited the accompanying financial statements of Pembroke Falls Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses and changes in fund balance 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 Falls Homeowners Association, Inc. as of December 31, 2019, 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.

To the Board of Directors  
Pembroke Falls Homeowners Association, Inc.  
Pembroke Pines, Florida

***Report of Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses 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 supplementary information on future major repairs and replacements on page 16 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.

***Gladstone & Company, LLC***

Gladstone & Company, LLC  
Certified Public Accountants  
Sunrise, Florida  
March 31, 2020

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 668,403	\$ 584,179	\$ 1,252,582
Restricted Cash - Security Deposits	326,742	-	326,742
Certificates of Deposit	225,495	3,480,964	3,706,459
Member Assessments Receivable (Net of Allowance for Bad Debts of \$53,198)	130,438	-	130,438
Land	149,056	-	149,056
Prepaid Insurance	35,018	-	35,018
Prepaid Expenses	3,440	-	3,440
Utility Deposits	2,075	-	2,075
Due to Operating Fund	-	(21,590)	(21,590)
Due from Replacement Fund	21,590	-	21,590
 Total Assets	 <u>\$ 1,562,257</u>	 <u>\$ 4,043,553</u>	 <u>\$ 5,605,810</u>
 <b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 469,754	\$ 323,487	\$ 793,241
Prepaid Member Assessments	257,737	-	257,737
Clubhouse Rental Deposits	1,700	-	1,700
Insurance Loan Payable	57,312	-	57,312
Security Deposits	326,307	-	326,307
Contract Liabilities	-	<u>3,577,875</u>	<u>3,577,875</u>
 Total Liabilities	 <u>1,112,810</u>	 <u>3,901,362</u>	 <u>5,014,172</u>
 FUND BALANCE	 <u>449,447</u>	 <u>142,191</u>	 <u>591,638</u>
 Total Liabilities and Fund Balance	 <u>\$ 1,562,257</u>	 <u>\$ 4,043,553</u>	 <u>\$ 5,605,810</u>

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

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Replacement Fund	Total Funds
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES			
Member Assessments	\$ 6,000,204	\$ 531,671	\$ 6,531,875
Bad Debt Expense	<u>(24,116)</u>	<u>-</u>	<u>(24,116)</u>
Total Member Assessments	5,976,088	531,671	6,507,759
Access Control Credentials	33,147	-	33,147
Clubhouse Rental Income	75,148	-	75,148
Event Sponsorship Income	21,050	-	21,050
Interest Income	6,170	95,660	101,830
Late Fee and Fine Income	95,735	-	95,735
Camp Income	7,300	-	7,300
Miscellaneous Income	237	-	237
Screening Fees	4,888	-	4,888
Unit Owner Interest Income	4,110	-	4,110
Vending Machine Income	<u>1,250</u>	<u>-</u>	<u>1,250</u>
 Total Revenues	 <u>6,225,123</u>	 <u>627,331</u>	 <u>6,852,454</u>
EXPENSES			
General and Administrative	1,308,814	-	1,308,814
Clubhouse	121,633	-	121,633
General Maintenance	233,282	-	233,282
Grounds Maintenance	796,454	-	796,454
Replacement Fund Expenses	-	531,671	531,671
Security Access Control - Gatehouse	941,592	-	941,592
Utilities	<u>2,928,073</u>	<u>-</u>	<u>2,928,073</u>
 Total Expenses	 <u>6,329,848</u>	 <u>531,671</u>	 <u>6,861,519</u>
 Excess (Deficiency) of Revenue over Expenses	 (104,725)	 95,660	 (9,065)
 Fund Balance - Beginning of Year	 <u>554,172</u>	 <u>46,531</u>	 <u>600,703</u>
 Fund Balance - End of Year	 <u>\$ 449,447</u>	 <u>\$ 142,191</u>	 <u>\$ 591,638</u>

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

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (Deficiency) of Revenue over Expenses	\$ (104,725)	\$ 95,660	\$ (9,065)
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Bad Debt Expense	24,116	-	24,116
(Increase) Decrease in:			
Restricted Cash - Security Deposits	(6,561)	-	(6,561)
Member Assessments Receivable, Net	57,348	-	57,348
Prepaid Expenses	143,881	-	143,881
Prepaid Insurance	(9,156)	-	(9,156)
Utility Deposits	539	-	539
Interfund Balances	(21,590)	21,590	-
Increase (Decrease) in:			
Accounts Payable and Accrued Expenses	319,518	323,487	643,005
Prepaid Member Assessments	91,189	-	91,189
Clubhouse Rental Deposits	(3,535)	-	(3,535)
Security Deposits	6,807	-	6,807
Contract Liabilities	<u>-</u>	<u>73,229</u>	<u>73,229</u>
Net Cash Provided by Operating Activities	<u>497,831</u>	<u>513,966</u>	<u>1,011,797</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Redemption (Reinvestment) of Certificates of Deposit, Net	<u>1,097</u>	<u>(129,097)</u>	<u>(128,000)</u>
Net Cash Provided by (Used in) Investing Activities	<u>1,097</u>	<u>(129,097)</u>	<u>(128,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from Insurance Loan Payable	204,889	-	204,889
Repayments of Insurance Loan Payable	<u>(172,558)</u>	<u>-</u>	<u>(172,558)</u>
Net Cash Provided by Financing Activities	<u>32,331</u>	<u>-</u>	<u>32,331</u>
Net Increase in Cash and Cash Equivalents	531,259	384,869	916,128
Cash and Cash Equivalents - Beginning of Year	<u>137,144</u>	<u>199,310</u>	<u>336,454</u>
Cash and Cash Equivalents - End of Year	<u>\$ 668,403</u>	<u>\$ 584,179</u>	<u>\$ 1,252,582</u>
<b>SUPPLEMENTAL INFORMATION</b>			
Income Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Security Deposit cash represents escrow amounts held by the Association. The Cash does not belong to the Association and has therefore been excluded from total Cash and Cash Equivalents.

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

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

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

1. Organization - Pembroke Falls Homeowners Association, Inc. (the "Association"), f/k/a Pembroke Falls Master Association, Inc., was incorporated in February 9, 1995, in the State of Florida for the purpose of maintaining and preserving the common areas of the Association. The development consists of 2,085 residential homes located in Pembroke Pines, Florida.

2. 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 repairs and replacements.

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 - Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent, in accordance with the Association's late fee policy. At December 31, 2019, the Association had delinquent assessments of \$183,636 and has, therefore, set up an allowance for uncollectible accounts.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable, net of allowance for bad debt, as of the beginning and end of the year are \$211,902 and \$130,438, respectively.

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.



PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

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

6. Income Taxes - The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2019, no interest or penalties were paid or accrued.

The Association may be taxed either as a homeowners association or as a regular corporation. This election is made annually taking into account the best interest of the Association. For the year ended December 31, 2019, the Association elected to file as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that 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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. Under federal and state income tax laws, an entity's income tax returns are subject to examination by the applicable taxing authorities; however, there are currently no examinations for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2016.

7. Contract Liabilities – The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year are \$3,504,646 and \$3,577,875, respectively.

8. Recognition of Assets and Depreciation Policy - The Association has not capitalized the real property for which title was conveyed by the developer to the Association as those common areas are to be held by the Association for the benefit of the members of the Association. The Association has capitalized real property acquired subsequent to the original conveyance by the developer (See Note C).

9. Cash and Cash Equivalents - For purposes of the December 31, 2019 balance sheet and statement of cash flows for the year then ended, the Association considers all highly liquid investments, including money market funds invested with a brokerage firm and certificates of deposit ("CDs"), purchased with original maturities of three months or less to be cash equivalents.

10. Concentration of Credit Risk - 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.

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

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

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

12. Basis of Accounting – The books and records are maintained on the accrual basis of accounting which recognizes revenues when earned, regardless of when received, and expenses when incurred, regardless of when paid, which is in accordance with accounting principles generally accepted in the United States of America.

13. 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, 2019, there were no items that qualify as comprehensive income.

NOTE B – REPLACEMENT FUND

In accordance with Florida Statutes, the Association has established a pooled reserve. Accumulated funds are held in separate savings accounts and insured certificates of deposit and are generally not available for expenditures for normal operations.

The following disclosure is made in accordance with Florida Statute 720.303(6)(c)2:

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.

In 2016, an independent specialist conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. Accordingly, the funding requirements of \$604,900 and \$617,000, based on the pooled funding method, are included in each of the 2019 and 2020 budgets, respectively.

Pursuant to FASB ASC 606, the Association recognizes replacement fund revenue from members as the related performance obligations are satisfied. For the year ended December 31, 2019, the Association recognized \$531,671 of member assessment revenue.

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

NOTE B – REPLACEMENT FUND (Continued)

The activity in the Replacement fund was as follows:

Components	Fund Balance 1/1/2019	Contract Liabilities Balance 1/1/2019	Budgeted Assessments	Interest Income	Expenses	Contract Liabilities Balance 12/31/2019	Fund Balance 12/31/2019
Pooled Reserves	\$ -	\$2,381,618	\$ 604,900	\$ -	\$(471,370)	\$2,515,148	\$ -
Roof Clubhouse and Guardhouse	-	69,314	-	-	(31,918)	37,396	-
Fleet	-	880	-	-	-	880	-
Pump and Motors	-	342,892	-	-	(28,383)	314,509	-
Hurricane Ins Deductible	-	102,392	-	-	-	102,392	-
Roadway and Paving	-	582,338	-	-	-	582,338	-
Clubhouse Awning	-	16,394	-	-	-	16,394	-
Storm Drain Maintenance	-	8,818	-	-	-	8,818	-
Interest	<u>46,531</u>	<u>-</u>	<u>-</u>	<u>95,660</u>	<u>-</u>	<u>-</u>	<u>142,191</u>
Total	<u>\$46,531</u>	<u>\$3,504,646</u>	<u>\$ 604,900</u>	<u>\$95,660</u>	<u>\$(531,671)</u>	<u>\$3,577,875</u>	<u>\$ 142,191</u>

NOTE C – LAND

In September 2005, the Association acquired land located at the main entrance to the property at a net cost of \$149,056.

NOTE D – AGREEMENTS

Management Services:

The Association entered into an agreement with Castle Management, LLC (“Castle”) with an effective date of January 1, 2016 for financial and administrative management services. In addition, the costs of all Castle on-site personnel are reimbursed by the Association at actual cost, plus an overhead factor of 25.75% for administrative personnel and 29.5% for all other personnel. The rates noted above will increase to 32% for non-administrative personnel on the second year of the agreement, and to 35% on the third year of the agreement. The agreement, which extends through December 31, 2018, may be cancelled by either party, pursuant to the termination provisions set forth in the agreement. Should this agreement not be amended or extended it shall be automatically extended for successive periods of 30 days. For the year ended December 31, 2019, amounts paid to Castle under this agreement aggregated approximately \$988,880.

The Association has various agreements for the maintenance of the common property and for other services, the most significant of which are for cable television and internet services and grounds maintenance.

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

NOTE D – AGREEMENTS (Continued)

On April 3, 2013, the Association entered into an agreement for cable television, high speed internet access services, and other services as offered by Hotwire Communications, Ltd. The contract extends through January 2021. Thereafter, the Agreement shall automatically renew with the same terms for periods of one-year. After the first three-year automatic renewal period, either party may terminate the agreement with a minimum ninety (90) days' notice of its intention not to renew at the end of the then current term. For the year ended December 31, 2019, amounts paid under this agreement aggregated approximately \$2,047,777.

On February 29, 2016, a contract with Creative North was signed for Grounds maintenance services. The agreement, which had an effective date of April 1, 2016, extends for a two-year period, unless one party provides written notice to the other party, at least thirty days prior to the end of the then current term, of its intent not to renew. For the year ended December 31, 2019, amounts paid under this agreement aggregated approximately \$367,194.

In September 2019, a contract with Landscape Service Professionals Inc. for landscape management and maintenance services. The agreement is for a period of 2 years, beginning in September 2019, unless terminated earlier by either party. The agreement will automatically renew for a consecutive period of one year and then again after each successive one-year period thereafter, unless either party provides written notice of non-renewal at least 30 days prior to expiration of term. For the year ended December 31, 2019, amounts paid under this agreement aggregated approximately \$61,804.

Generally, all other agreements for maintenance of the common property and for other services may be cancelled by written notice of either party, with the exception of the agreement for alarm monitoring service, which extends to 2025.

NOTE E – HURRICANE INSURANCE DEDUCTIBLE

The insurance policy for windstorm coverage renewed March 11, 2020. The deductible amount for named hurricane storms is estimated at \$362,428, which represents 5% of the insured value of the common property, which is estimated to be \$7,248,565. The Association has established an insurance component in the replacement fund for this deductible amount. As of December 31, 2019, \$102,392 has been set aside for the deductible. The insurance coverage does not apply to the fencing and walls at the perimeter of, and within, the community, the replacement cost of which is estimated to be approximately \$2,373,020.

NOTE F – UNINSURED AND INSURED CASH BALANCES

The Association maintains cash at several financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC) up to \$250,000 and \$500,000 respectively. The Association invested additional funds in cash alternatives during 2019 which are neither insured or guaranteed by the FDIC or any other government agency. At December 31, 2019, the Association had \$466,933 in excess of the FDIC insurance and collateral. The Association believes it is not exposed to any significant credit risk on cash and has not incurred losses related to these investments.

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

NOTE G - CERTIFICATES OF DEPOSIT

At December 31, 2019, the Association had \$3,706,459 in certificates of deposit with interest rates ranging from 1.55% - 2.95% and various maturity dates through August 2021. It is the intent of the Association to hold these certificates until maturity. If these certificates are liquidated prior to maturity, they would be subject to market fluctuations and possible early withdrawal penalties.

NOTE H - INSURANCE LOAN PAYABLE

On March 22, 2019, the Association entered into a master line of credit revolving promissory note to finance the cost of insurance premiums. The agreement stipulated a down payment of \$0 with eleven monthly payments of \$19,101 including interest of 4.250% per annum beginning April 22, 2019. The remaining payments due at December 31, 2019, totaled \$57,312.

NOTE I - LEGAL MATTERS

*Plaintiff vs Pembroke Falls Homeowners Association, Inc.*

The Association is party to a trip and fall claim filed against the Association's insurance. The insurance company recently settled this claim. The file is open pending receipt of the signed release. Upon receipt the insurance company will issue the settlement check and close the file. The Association is liable for a \$3,000 deductible related to this claim.

*Plaintiff vs Pembroke Falls Homeowners Association, Inc.*

The Association is involved in a civil lawsuit for personal injuries. In November 2019, the Association's attorney was informed in November 2019 that the Plaintiff passed away. The Association's attorney believes that Plaintiff's counsel will seek to have the Complaint amended to state a cause of action for wrongful death. The Association's attorney intends to oppose this new action as they have opposed the original action on the basis of a lack of any evidence of negligence and a lack of probable causation between the injuries and treatment claimed and the subject accident. Discovery in this case is not even halfway completed so no evaluation can be offered at this time apart from stating that Plaintiff has failed to prove up any causative defect so far. This matter is being defended under a commercial general liability policy with coverage up to \$1,000,000. Additionally, there is an excess/umbrella layer of coverage which would presumably apply as well.

*Other*

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE J - OTHER COMMITMENTS AND CONTINGENCIES

The Association has contracted with various vendors for various services to maintain the common property related to certain administrative, building operations and maintenance, and contract expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

NOTE K – ACQUISITION OF TITLE ON FORECLOSED PROPERTY

The Association acquired title to a home, via foreclosure, for past due maintenance assessments. The Association has the right, per Florida Statute 720.3085, to file a lien against the property and to foreclose the lien, in the same way that a mortgage holder does. The Association has title to the home subject to the first mortgage holder only. The first mortgage holder is in the process of foreclosing the mortgage against the former owner.

The Association has the right to purchase units in the Association and to acquire and hold, lease, mortgage, or convey it. The Association has not leased the foreclosed property. The Association issued a quit claim deed for this property to a third party on September 11, 2019 for consideration of \$100.

NOTE L – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Total Fund Balance, as previously reported, at January 1, 2019	\$ 4,105,349
Adjustment	<u>(3,504,646)</u>
Total Fund Balance, as adjusted, at January 1, 2019	<u>\$ 600,703</u>

The effect of the adoption is a decrease in the amount of 2019 replacement fund member assessments recognized as revenue by \$73,229 and a recording of contract liabilities at December 31, 2019 of \$3,577,875. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2019

**NOTE L – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (Continued)**

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<b>Amounts That Would Have Been Reported Under Former Guidance</b>	<b>Effects of Applying New Guidance</b>	<b>As Reported Under New Guidance</b>
<b>Liabilities:</b>			
Contract Liabilities	\$ -	\$ 3,577,875	\$ 3,577,875
Total Liabilities	\$ 1,436,297	\$ 3,577,875	\$ 5,014,172
<b>Fund Balance:</b>			
Ending Fund Balance	\$ 4,169,513	\$ (3,577,875)	\$ 591,638

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	<b>Amounts That Would Have Been Reported Under Former Guidance</b>	<b>Effects of Applying New Guidance</b>	<b>As Reported Under New Guidance</b>
<b>Revenues:</b>			
Total Member Assessments	\$ 6,605,104	\$ (97,345)	\$ 6,507,759
Excess (Deficiency) of Revenues over Expenses	\$ 64,164	\$ (73,229)	\$ (9,065)
<b>Cash Flows:</b>			
Excess (Deficiency) of Revenues over Expenses	\$ 64,164	\$ (73,229)	\$ (9,065)
Increase in Contract Liabilities	\$ -	\$ 73,229	\$ 73,229

**NOTE M – DATE OF MANAGEMENT’S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 31, 2020, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Actual
<b>GENERAL AND ADMINISTRATIVE</b>	
Accounting Fees	\$ 11,400
Fleet Expenses	6,557
Independent Accounting Contractor	15,191
Insurance Expense	200,393
Insurance Expense - Falls Room Events	9,211
Legal Fees	49,752
Management Fees	154,642
Office Equipment	7,856
Miscellaneous Office Supplies and Expenses	59,469
Staffing	794,343
Total General and Administrative	1,308,814
 <b>CLUBHOUSE</b>	
Clubhouse - Repairs and Maintenance	42,368
Clubhouse - A/C Repairs and Maintenance	2,683
Fitness Equipment Maintenance and Repairs	3,556
Pest Control - Clubhouse/Guardhouse	1,697
Pool Monthly Maintenance Contract	40,150
Repairs and Maintenance - Pool	9,373
Social Activities	21,806
Total Clubhouse	121,633
 <b>GENERAL MAINTENANCE</b>	
General Repairs and Maintenance	19,295
Holiday Lights	11,000
Lake Maintenance Contract	98,193
Pressure Cleaning	91,667
Waterfall Maintenance and Operating	13,127
Total General Maintenance	233,282

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Actual
<b>GROUNDS MAINTENANCE</b>	
Irrigation - Pump - Maintenance Contract	49,326
Landscape - Mulch	39,700
Landscape Replacement	92,102
Lawn Maintenance	592,819
Sidewalk Repairs and Trees	22,507
Total Grounds Maintenance	796,454
<b>SECURITY ACCESS CONTROL - GATEHOUSE</b>	
Gate Arm Repairs and Maintenance	22,896
Miscellaneous Gatehouse Repairs and Supplies	8,822
Security Personnel	856,149
Transponder - Resident Cards and Supplies	53,725
Total Security Access Control - Gatehouse	941,592
<b>UTILITIES</b>	
Cable TV	2,046,138
Electricity	466,146
Homeowner Alarm Systems	334,189
Pool Pumps and Heaters	2,980
Telephone	6,944
Trash Removal	7,435
Water and Sewer	64,241
Total Utilities	2,928,073
Total Expenses	\$ 6,329,848

PEMBROKE FALLS HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
 REPAIRS AND REPLACEMENTS

December 31, 2019

(Unaudited)

In 2016, an independent specialist conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. According to the study, remaining useful lives and current replacement costs were based on the independent specialist's proprietary database, historical costs and published sources. The annual funding requirement considers (i) current and future local costs of replacement, (ii) a 1.35% annual rate of return on invested funds, and (iii) a 3.0% future inflation rate.

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

<u>DESCRIPTION</u>	<u>Estimated Useful Life (Years)</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Replacement Cost</u>	<u>2020 Required Funding</u>
Clubhouse and Guard House:				\$ -
Exterior Building Elements	0 - 40	2-19	388,575	-
Interior Building Elements	0 - 30	1-13	419,820	-
Building Services Elements	0 - 25	4-19	116,500	-
Property Site Elements	0 - 65	1-48	14,178,520	-
Pool Elements	0 - 30	1-9	446,750	-
Pooled Reserve			<u>-</u>	<u>617,000</u>
Total			<u>\$ 15,550,165</u>	<u>\$ 617,000</u>