

Pastelle Property Owners Association, Inc.

December 31, 2014

Audited Financial Statements

Prepared by Lanter Leonardo & Levy LLC
1800 NW Corporate Blvd, Suite 303
Boca Raton, Florida 33431



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pastelle Property Owners Association, Inc.
Delray Beach, Florida

We have audited the accompanying financial statements of Pastelle Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2014, 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 Pastelle Property Owners Association, Inc. as of December 31, 2014, 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.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedule of Operating Expenses - Actual and Budget 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 Schedule of Future Major Repairs and Replacements on page 13 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, who 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 & Levy, LLC

Certified Public Accountants
Boca Raton, Florida
May 26, 2015

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Balance Sheet
As of December 31, 2014

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 175,778	\$ 50,422	\$ 226,200
Assessments receivable, net of allowance for bad debt of \$43,023	27,933	-	27,933
Prepaid insurance	8,000	-	8,000
Prepaid expense	6,127	-	6,127
Utility deposits	1,647	-	1,647
Do to / (from) funds	9,453	(9,453)	-
Total Assets	\$ 228,938	\$ 40,969	\$ 269,907
 Liabilities			
Accounts payable	\$ 14,912	\$ -	\$ 14,912
Prepaid assessment	57,590	-	57,590
Insurance payable	2,536	-	2,536
Due to developer	102,805	-	102,805
	177,843	-	177,843
Fund Balances	51,095	40,969	92,064
Total Liabilities and Fund Balance	\$ 228,938	\$ 40,969	\$ 269,907

See accompanying notes and independent auditors' report

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Maintenance	\$ 692,556	\$ 17,844	\$ 710,400
Late fee and interest	7,467	-	7,467
Application fees	4,200	-	4,200
Pool and gate card income	630	-	630
Bank interest income	322	180	502
Miscellaneous income	250	-	250
Capital contributions	5,700	-	5,700
2013 Surplus Rollover	31,473	-	31,473
Bad debt recovery	18,745	-	18,745
Fine income	1,000	-	1,000
	<u>762,343</u>	<u>18,024</u>	<u>780,367</u>
Expenses			
(See Supplementary Information)			
Administrative	84,328	-	84,328
Contract	243,794	-	243,794
Repairs and maintenance	90,961	-	90,961
Grounds	26,410	-	26,410
Utilities	295,097	-	295,097
	<u>740,590</u>	<u>-</u>	<u>740,590</u>
Excess of Revenues over Expenses	21,753	18,024	39,777
Beginning - Fund Balances	60,815	22,945	83,760
2013 Surplus Rollover	<u>(31,473)</u>	<u>-</u>	<u>(31,473)</u>
Ending - Fund Balances	<u>\$ 51,095</u>	<u>\$ 40,969</u>	<u>\$ 92,064</u>

See accompanying notes and independent auditors' report

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Excess / (Deficit) of revenues over expenses	\$ 21,753	\$ 18,024	\$ 39,777
Adjustments to Reconcile Excess / (Deficit) of Revenues over Expenses to Net Cash Provided by Operating Activities:			
2013 Surplus Rollover	(31,473)	-	(31,473)
(Increase) Decrease in:			
Assessments receivable, net	17,265	-	17,265
Prepaid insurance	717	-	717
Prepaid expense	(4,788)	-	(4,788)
Increase (Decrease) in:			
Accounts payable	4,706	-	4,706
Prepaid assessment	1,742	-	1,742
Insurance payable	(270)	-	(270)
Net Cash Provided by (Used in) Operating Activities	<u>9,653</u>	<u>18,024</u>	<u>27,677</u>
Net Increase (Decrease) in Cash	9,653	18,024	27,677
Cash - Beginning of Period	<u>166,125</u>	<u>32,398</u>	<u>198,523</u>
Cash - End of Period	<u>\$ 175,778</u>	<u>\$ 50,422</u>	<u>\$ 226,200</u>

See accompanying notes and independent auditors' report

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2014

Note 1 - Nature of the Organization

Organization

Pastelle Property Owners Association, Inc. (the Association), formerly known as The Oaks at Hobe Sound Homeowners' Association, Inc., was incorporated on April 2, 2004, under the laws of the State of Florida as a not-for-profit corporation for the purpose of administering and operating the property located in Hobe Sound, Florida. The Association's name, Pastelle Property Owners Association, Inc., was adopted on January 18, 2005, through an amendment to the Articles of Incorporation. On November 18, 2005, the Association filed their Declaration of Restrictions and Protective Covenants as a Homeowners Association, under Florida Statute Section 720. On December 27, 2007, M/I Homes of West Palm Beach, LLC assigned all of its rights and obligations as the Developer under the terms of the Declaration to Oaks 2007, LLC and its affiliates.

The Association consists of 240 residential homes and a commercial parcel located in Martin County, Florida. The Developer turned over control of the Association to a member Board on January 3, 2013.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Association uses the accrual methods of accounting, i.e., revenues are recognized as earned and expenses are recorded in the period in which they are 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 repairs and replacements.

The Association prepares its financial statements on the accrual basis of accounting in accordance with the "Real Estate – Common Interest Realty Association's topic of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC").

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the Association considers demand deposits with banks, certificates of deposit, money market funds and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2014

Note 2 - Summary of Significant Accounting Policies and General Matters - Continued

Income Taxes

The Association is subject to federal and state taxation and has essentially two methods to determine the amount of tax, if any, it must pay. Under one method, the excess of revenues from members over related expenditures is subject to taxation unless such excess is returned to the unit owners or applied to the following year's assessments.

The other method enables the Association to elect to exclude from taxation exempt function income, which generally consists of revenue from unit owner assessments. Under either method, the Association may be subject to tax on investment income and other non-exempt income, but at different tax rates. The Association filed its 2014 income tax return on Form 1120-H, under Section 528 of the Internal Revenue Code. The Association could be subject to federal and state income tax examinations for its open tax years (2012, 2013 and 2014).

Capitalization and Depreciation Policy

The Association follows prevalent industry practice, as contained in the "Real Estate - Common Interest Realty Associations topic of the FASB ASC" in accounting for common property of the Association. Property that is not directly associated with the units is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can dispose of the property at the discretion of the Board of Directors or the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. As a result, commonly owned assets are not recorded on the Association's financial statements. Assets not recorded on the books of the Association include buildings, gatehouses and roadways. Property directly associated with the units is not capitalized.

Note 3 - Assessments Receivable

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are based upon the approved annual operating budget of expenses, prorated over the number of units. Assessments are billed quarterly in advance and recognized as revenue when earned. The 2014 quarterly assessment of \$740 was determined based upon the approved budget. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the property of unit owners whose assessments are thirty days or more delinquent. However, the likelihood of collection of delinquent assessments is in doubt for those units that are in bank foreclosure and/or bankruptcy proceedings. The Board estimated an allowance for uncollectible assessments in the amount of \$43,023. The assessments receivable balance, less an allowance for uncollectible assessments, is \$27,933 at December 31, 2014.

Note 4 - Concentration of Credit Risk from Cash Deposits in Excess of Insured Limits

Financial instruments which potentially subject the Association to concentrations of credit risk are primarily cash and cash equivalents and unit owner receivables. The Association invests its excess cash in deposits with major financial institutions and the carrying value approximates fair value. Deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC). FDIC insurance coverage is limited to \$250,000 per bank institution. At December 31, 2014, the Association had no balances in excess of federally insured amounts (FDIC).

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2014

Note 5 - Future Major Repairs and Replacements

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements and the Association has not established statutory reserves from the developer or through a vote of the membership. However, the Board of Directors adopted a budget to fund several replacement fund components in the annual budget as deemed necessary. The Board of Directors approved \$17,844 in funding for the Replacement Fund in the 2014 budget.

The Board of Directors has provided estimates based on historical information for the remaining useful lives and the replacement costs of the components of common property. The table included in the supplementary information on future major repairs and replacements is based upon these estimates.

Actual expenditures may vary from estimated future expenditures and the variations may be material. When funds are needed for those purposes, the Association has the right to increase the regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The following table presents the activity of the significant components of common property:

	Balance 1/1/14	Assessments	Transfers	Balance 12/31/14
Road resurfacing	\$ 20,596	\$ 12,544	\$ 1,395	\$ 34,535
General	954	3,800	-	4,754
Pool resurfacing	-	1,500	-	1,500
Interest, unallocated	1,395	180	(1,395)	180
	<u>\$ 22,945</u>	<u>\$ 18,024</u>	<u>\$ -</u>	<u>\$ 40,969</u>

The Association does not allocate interest earned on the replacement fund to specific components as earned, but does so periodically depending on projected requirements.

Note 6 - Capital Contributions

The Association's governing documents allow for the collection of a capital contribution on the initial sale from the developer and subsequent resale of all homes in an amount of \$300. The Association accumulates the contributions in the Operating Fund to be used for certain improvements to common areas as determined by the Board of Directors or as approved of in the annual budget. In 2014, the Association assessed \$5,700 in capital contributions.

Note 7 - Insurance Financed

The Association financed \$8,876 of the insurance premiums under an agreement that calls for monthly installments, aggregating to \$1,268, including interest at 1.7%, per annum, through February 2015. The financing company has a security interest in the unearned premiums of the related insurance policies. The insurance payable balance is \$2,536 as of December 31, 2014.

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2014

Note 8 – 2013 Surplus Rollover

In 2013, as part of the budgeting process, the Association voted to rollover \$31,473 of the 2013 operating fund surplus into the 2014 budget. The \$31,473 is reflected in the statement of revenues, expenses and changes in fund balances as 2013 surplus rollover income, and “below the line” as an adjustment to prior year operating fund balance.

Note 9 – Commitments

On October 1, 2014, there was an addendum and the Association entered into a new cable service agreement with Comcast. It's a seven (7) year term agreement and shall automatically renew for successive periods of 2 years unless either party provides a minimum 60 day notice of intent not to renew before the end of term. The cable expense was \$146,502 for 2014.

The Association has additional contracts to maintain the common property that include but are not limited to management services, landscaping and security monitoring. These contracts have different expiration dates and renewal terms.

Note 10 - Developer Turnover Issues

The Developer turned over control of the Association to a member Board on January 3, 2013. At December 31, 2012, the Association calculated \$102,805 in the prior year audit that was due to the Developer. The amount was still outstanding on the date of turnover and at December 31, 2014.

Note 11 - Sea Branch Master Fees

The governing documents requires the Association to pay Seabranh Blvd. Master Maintenance Association, Inc. to maintain seabranh blvd. which is used and accessible to the Association. The Association paid master fees of \$18,149 for 2014.

Note 12 – Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 26, 2015, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Schedule of Operating Expenses – Actual and Budget
December 31, 2014

	<u>2014 Actual</u>	<u>2014 Budget</u>	<u>(Over) / Under Variance</u>
Administrative			
Office Expense	\$ 6,366	\$ 3,200	\$ (3,166)
Bad Debt	-	44,400	44,400
Accounting	15,413	14,730	(683)
Legal Fees	21,284	28,000	6,716
Insurance - Common Area	10,847	10,938	91
Insurance - D & O and Crime	3,370	2,044	(1,326)
Licenses, Fees, and Taxes	499	261	(238)
Social Expense	379	1,500	1,121
Sea branch Master Fees	18,149	17,061	(1,088)
Miscellaneous	8,021	-	(8,021)
	<u>84,328</u>	<u>122,135</u>	<u>37,807</u>
Contract Services			
Management Fees	16,180	16,080	(100)
Lanscaping - Homes	207,486	220,992	13,506
Pool and Spa Services, Chemical	7,528	6,960	(568)
Lake Maintenance	675	-	(675)
Preserve Maintenance and Monitoring	7,950	15,900	7,950
Janitorial Services	3,975	4,320	345
	<u>243,794</u>	<u>264,252</u>	<u>20,458</u>
Repairs and Maintenance			
General Repairs and Supplies	27,417	4,239	(23,178)
Irrigation Repairs - Seabranh	-	420	420
Gate Repairs and Maintenance	8,853	4,200	(4,653)
Irrigation Repairs	36,357	9,600	(26,757)
Pool Repairs	18,334	15,250	(3,084)
	<u>90,961</u>	<u>33,709</u>	<u>(57,252)</u>

See Independent Auditors' Report

Continued

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Schedule of Operating Expenses – Actual and Budget
December 31, 2014

	<u>2014 Actual</u>	<u>2014 Budget</u>	<u>(Over) / Under Variance</u>
Grounds Maintenance			
Landscape Extra	\$ 15,060	\$ 6,500	\$ (8,560)
Flowers	2,704	1,350	(1,354)
Mulch	4,796	4,640	(156)
Tree Trimming	3,850	1,500	(2,350)
	<u>26,410</u>	<u>13,990</u>	<u>(12,420)</u>
Utilities			
Electric Pool and Tot Lot	7,819	11,526	3,707
Electric - Gates	768	800	32
Electric - Street Lights and Signs	8,360	8,500	140
Electric - Lift Station	844	780	(64)
Water and Sewer	56,369	64,817	8,448
Propane Gas	9,618	-	(9,618)
Telephone - Gates	5,382	4,650	(732)
Cable Television	146,502	152,120	5,618
Security Monitoring	59,435	59,630	195
	<u>295,097</u>	<u>302,823</u>	<u>7,726</u>
Total Expenses	<u>\$ 740,590</u>	<u>\$ 736,909</u>	<u>\$ (3,681)</u>

See Independent Auditors' Report

PASTELLE PROPERTY OWNERS ASSOCIATION, INC.
Schedule of Future Major Repairs and Replacements
December 31, 2014

The Association has not conducted an independent study to estimate the remaining useful life and the replacement costs of the components of common property. Replacement costs were based on estimates from historical experience. As of December 31, 2014, owners have not elected to establish reserve accounts pursuant to the provisions of statute section 720.303 (6). However, the Board of Directors adopted a budget to fund several replacement fund components in the annual budget as deemed necessary. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

	Estimated Life	Estimated Replacement Cost	Actual Balance 12/31/14	2015 Full Funding
Road resurfacing	19	\$ 282,690	\$ 34,535	\$ 14,878
General	5	34,200	4,754	5,889
Pool resurfacing	4	9,500	1,500	2,000
Interest			180	
Total		<u>\$ 326,390</u>	<u>\$ 40,969</u>	<u>\$ 22,768</u>