

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION

We have audited the accompanying financial statements of PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION which comprise the balance sheet as of DECEMBER 31, 2017 and the related statement 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 controls 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 of 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 PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION as of December 31, 2017, and the results of its operations and its cash flows for the years 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 are adequate to meet future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

PALM CITY ASSOCIATION DBA PALM DESERT COUNTRY CLUB ASSOCIATION
Independent Auditor's Report
(Continued)

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 on the last page 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 consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

Beck and Company, CPA's, Inc.

April 19, 2018

**PALM CITY ASSOCIATION dba
PALM DESERT COUNTRY CLUB ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017**

	2017		
	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 170,273	\$ 89,478	\$ 259,751
Certificates of Deposit		372,547	372,547
Assessments Receivable	24,185		24,185
Allowance for Doubtful Accounts	(8,407)		(8,407)
Prepaid Insurance	11,676		11,676
Prepaid Expenses	95		95
TOTAL ASSETS	\$ 197,822	\$ 462,025	\$ 659,847
<u>LIABILITIES:</u>			
Accounts Payable	\$ 6,432	\$ -	\$ 6,432
Prepaid Assessments	27,334		27,334
Payroll Payable	7,749		7,749
Accrued PTO	6,432		6,432
Income Taxes Payable	2,422		2,422
Deposits	1,000		1,000
TOTAL LIABILITIES	51,369	-	51,369
FUND BALANCES	146,453	462,025	608,478
TOTAL LIABILITIES AND FUND BALANCES	\$ 197,822	\$ 462,025	\$ 659,847

**PALM CITY ASSOCIATION dba
PALM DESERT COUNTRY CLUB ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2017**

	2017		
	Operating Fund	Replacement Fund	Total Funds
REVENUES			
Member Assessments	\$ 335,820	\$ 12,000	\$ 347,820
Interest Income	1,616	1,403	3,019
Rental Income	103,239		103,239
Newspaper	14,083		14,083
Collections and Violations	3,867		3,867
Escrows	1,888		1,888
Other Income	5,737		5,737
TOTAL REVENUES	466,250	13,403	479,653
EXPENSES			
Utilities			
Electricity	28,901		28,901
Gas	7,487		7,487
Telephone	5,091		5,091
Waste	776		776
Water	5,157		5,157
Maintenance			
Landscape Contract	12,035		12,035
Landscape Extras	5,570		5,570
Pool Contract	18,640		18,640
Pool Maintenance	5,822		5,822
Buildings & Equipment	23,746		23,746
Pest Control	1,220		1,220
Janitorial	18,893		18,893
Property Protection	26,536		26,536
Fire Prevention	1,785		1,785
Administrative			
Audit/Tax Prep/Rsv Study	2,500		2,500
Bad Debt	6,694		6,694
Insurance	22,150		22,150
Legal & Professional	38,344		38,344
Payroll Expenses	168,545		168,545
Management Accounting	25,252		25,252
Newspaper	34,611		34,611
Board Expenses	1,384		1,384
Taxes, Licenses & Permits	14,314		14,314
Office & Administrative	22,163		22,163
Major Repairs and Replacements		32,454	32,454
TOTAL EXPENSES	497,616	32,454	530,070
Excess of Revenues over Expenses or (Expenses over Revenue)	(31,366)	(19,051)	(50,417)
Beginning Fund Balances	185,140	473,755	658,895
Net Interfund Transfers	(7,321)	7,321	-
ENDING FUND BALANCES	\$ 146,453	\$ 462,025	\$ 608,478

See accompanying notes to financial statements

**PALM CITY ASSOCIATION dba
PALM DESERT COUNTRY CLUB ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

	2017		
	Operating Fund	Replacement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ (31,366)	\$ (19,051)	\$ (50,417)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase) decrease in:			
Assessments Receivable	25,349		25,349
Allowance for Doubtful Accounts	(39,214)		(39,214)
Prepaid Insurance	(1,371)		(1,371)
Prepaid Expenses	696		696
Prepaid Taxes	4,892		4,892
Increase (decrease) in:			
Accounts Payable	(15,662)		(15,662)
Prepaid Assessments	(12,566)		(12,566)
Payroll Payable	7,402		7,402
Accrued PTO	6,432		6,432
Other Payable	790		790
Income Taxes Payable	2,422		2,422
	(52,196)	(19,051)	(71,247)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Activity in CD's		(372,547)	(372,547)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	(7,321)	7,321	0
Sub Total	(59,517)	(384,277)	(443,794)
NET INCREASE (DECREASE) IN CASH	(59,517)	(384,277)	(443,794)
CASH AT BEGINNING OF YEAR	229,790	473,755	703,545
CASH AT END OF YEAR	\$ 170,273	\$ 89,478	\$ 259,751
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ 4,603	\$ -	\$ 4,603

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 – ORGANIZATION

PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION is a planned unit development association incorporated in California on March 2, 1961. Its primary purpose is to act as “management body” for the preservation, maintenance and architectural control of the common areas within the project. There are 1054 residential units in the development located in Palm Desert, California.

NOTE 2 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, which is the date that the financial statements were available to be issued.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Fund Accounting

The Association’s accounting records are maintained on a modified accrual basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

Member Assessments

Association members are subject to an annual assessment to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of owners are determined by the Board of Directors who are elected by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods and/or transfers to reserves to keep current.

The Association’s policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. The Association uses a guideline of 100% provision for Allowance for Doubtful Accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

Property and Equipment

Real property and common areas acquired from the developer and related improvements are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY
(Continued)**

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

Certificates of Deposit

The Associations investments consist of Certificates of Deposit with intended maturity dates over 90 days and are considered long term holdings and classified separately from cash.

NOTE 4 – INCOME TAXES

The Association qualifies as a not-for-profit organization exempt from income tax under Section 501(c)(7) of the Internal Revenue Service Code and State Revenue & Tax Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest, rental, and advertising net income. Generally, the Association treats income tax expenses as an operating expense regardless of the fund through which the related taxable income was recognized.

The Association's income tax returns are subject to examination by the Internal Revenue Service generally for three years after they were filed and by the Franchise Tax Board for four years after they were filed. In evaluating the Association's tax positions and accruals, the Association believes that the estimates are appropriate based on the current facts and circumstances. The Association has elected IRS Rev. Ruling 70-604 to move any excess operating funds to the reserve fund.

NOTE 5 – CONCENTRATION OF CREDIT RISK

The Association maintains its cash accounts at local commercial banks. These accounts are guaranteed by the Federal Deposit Insurance Company (FDIC) up to \$250,000. The Association has maintained balances in the accounts below the federally insured limits.

NOTE 6 – RELATED PARTY

The Association paid the following expenses to entities related to the management company:

R & M	\$ 1,085
Security	5,169
Building maintenance	288
Alarm monitoring	720
Collections	250
TOTAL	\$ 7,512

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate interest bearing accounts and are generally not available for operating purposes.

The Association engaged an independent reserve specialist who conducted a study in October of 2017 to estimate the remaining useful lives and the replacement costs of the common property components. The Association should fund such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacements costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary materially from the estimates. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds turn out to be necessary, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$32,454 for major repairs and replacements during the year as follows:

Pool/Spa	\$ 3,389
Electrical	13,646
Security	8,834
General Repairs	6,579
Contingency	6
	<u>\$ 32,454</u>

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(COMPILED)**

The Association engaged an independent reserve specialist to estimate the remaining useful lives and the replacement costs of the common area replacement components during October of 2017. The estimates were based on inspection by the independent consultant, and the information provided by the Board of Directors, property manager and others familiar with the development. Replacement costs were based on the estimated costs to repair or replace the common area replacement components at the time 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 information is based on the study and presents significant information about the components of common property.

	Estimated	Estimated		Fully
	Remaining	Current	Annual	Funded
	Useful	Replacement	Funding	Reserve
Category	Lives(Years)	Costs	Requirement	Requirement
Access System	4-11	\$ 16,912	\$ 51	\$ 1,826
Asphalt/Concrete/Pav	1-25	83,842	978	66,011
Buildings, Roof	0-15	103,305	1,098	70,113
Electrical/Lights	2-29	49,969	543	36,989
Fence/Gates/Walls	4-24	22,890	135	8,735
Golf Cart	4	3,212	23	1,071
Irrigation	3-11	12,500	101	6,227
Landscape	7	49,966	280	14,990
Paint	0-4	49,680	900	41,386
Patio Area	1-15	5,300	45	2,970
Pool Building	1-13	24,202	172	10,907
Pools & Spa	0-11	261,595	4,603	202,934
Recreation Building	0-27	310,061	3,027	190,420
Signage	14	4,500	24	1,512
Storage Building	13	2,700	20	1,296
Totals		<u>\$ 1,000,634</u>	<u>\$ 12,000</u>	<u>\$ 657,387</u>

As of December 31, 2017, the annual allocation to replacements is \$12,000 and the cash balances in replacement funds as of December 31, 2017 total \$89,478 and the total reserve fund balance is \$462,025.

California Civil Code requires a physical inspection every three years. The reserve study must be reviewed annually and updated as necessary. The report must be available to all owners. Although the code does not require adequate funding, disclosure must be made.

(See accompanying notes and Independent Auditor's Report)