

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

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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, 2018 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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated April 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

Charles Beck, CPA

March 14, 2019

**PALM CITY ASSOCIATION dba
PALM DESERT COUNTRY CLUB ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2018
(With Comparative Totals for 12/31/2017)**

	2018			2017
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 166,885	\$ 250,277	\$ 417,162	\$ 259,751
Certificates of Deposit		162,382	162,382	372,547
Assessments Receivable	15,666		15,666	24,185
Allowance for Doubtful Accounts	-		-	(8,407)
Prepaid Insurance	8,089		8,089	11,676
Prepaid Expenses	-		-	95
TOTAL ASSETS	\$ 190,640	\$ 412,660	\$ 603,300	\$ 659,847
 <u>LIABILITIES:</u>				
Accounts Payable	\$ 2,223	\$ -	\$ 2,223	\$ 6,432
Prepaid Assessments	43,478		43,478	27,334
Payroll Payable	-		-	7,749
Accrued PTO	6,053		6,053	6,432
Income Taxes Payable	8,298		8,298	2,422
Deposits	500		500	1,000
TOTAL LIABILITIES	60,552	-	60,552	51,369
FUND BALANCES	130,088	412,660	542,748	608,478
TOTAL LIABILITIES AND FUND BALANCES	\$ 190,640	\$ 412,660	\$ 603,300	\$ 659,847

See accompanying notes to financial statements

**PALM CITY ASSOCIATION dba
PALM DESERT COUNTRY CLUB ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for 12/31/2017)**

	2018			2017
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>REVENUES</u>				
Member Assessments	\$ 336,385	\$ 12,000	\$ 348,385	\$ 347,820
Interest Income	7	236	243	3,019
Rental Income	103,977		103,977	103,239
Newspaper	6,692		6,692	14,083
Collections and Violations	9,250		9,250	3,867
Escrows			-	1,888
Other Income	10,165		10,165	5,737
TOTAL REVENUES	466,476	12,236	478,712	479,653
<u>EXPENSES</u>				
Utilities				
Electricity	25,712		25,712	28,901
Gas	10,448		10,448	7,487
Telephone	7,091		7,091	5,091
Waste	1,642		1,642	776
Water	5,371		5,371	5,157
Maintenance				
Landscape Contract	10,800		10,800	12,035
Landscape Extras	5,355		5,355	5,570
Pool Contract	16,200		16,200	18,640
Pool Maintenance	2,683		2,683	5,822
Buildings & Equipment	17,733		17,733	23,746
Pest Control	1,290		1,290	1,220
Janitorial	21,992		21,992	18,893
Property Protection	32,972		32,972	26,536
Fire Prevention	1,728		1,728	1,785
Administrative				
Audit/Tax Prep/Rsv Study	2,925		2,925	2,500
Bad Debt	-		-	6,694
Insurance	24,133		24,133	22,150
Legal & Professional	46,195		46,195	38,344
Payroll Expenses	137,151		137,151	168,545
Management Accounting	34,752		34,752	34,752
Newspaper	16,289		16,289	34,611
Board Expenses	525		525	1,384
Taxes, Licenses & Permits	17,862		17,862	14,314
Office & Administrative	41,991		41,991	12,663
Major Repairs and Replacements		61,601	61,601	32,454
TOTAL EXPENSES	482,841	61,601	544,442	530,070
Excess of Revenues over Expenses or (Expenses over Revenue)	(16,365)	(49,365)	(65,730)	(50,417)
Beginning Fund Balances	146,453	462,025	608,478	658,895
Net Interfund Transfers	-	-	-	-
ENDING FUND BALANCES	\$ 130,088	\$ 412,660	\$ 542,748	\$ 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, 2018
(With Comparative Totals for 12/31/2017)**

	2018			2017
	Operating Fund	Replacement Fund	Total Funds	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ (16,365)	\$ (49,365)	\$ (65,730)	\$ (50,417)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Allowance for Doubtful Accounts	(8,407)		(8,407)	(39,214)
(Increase) decrease in:				
Assessments Receivable	8,519		8,519	25,349
Prepaid Insurance	3,587		3,587	(1,371)
Prepaid Expenses	95		95	696
Prepaid Taxes	-		-	4,892
Increase (decrease) in:				
Accounts Payable	(4,209)		(4,209)	(15,662)
Prepaid Assessments	16,144		16,144	(12,566)
Payroll Payable	(7,749)		(7,749)	7,402
Accrued PTO	(379)		(379)	6,432
Other Payable	(500)		(500)	790
Income Taxes Payable	5,876		5,876	2,422
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,388)	(49,365)	(52,753)	(71,247)
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in CD's		210,165	210,165	(372,547)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund transfers	-	-	-	-
Sub Total	(3,388)	160,800	157,412	(443,794)
NET INCREASE (DECREASE) IN CASH	(3,388)	160,800	157,412	(443,794)
CASH AT BEGINNING OF YEAR	170,273	89,477	259,750	703,544
CASH AT END OF YEAR	\$ 166,885	\$ 250,277	\$ 417,162	\$ 259,750
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	\$ 16,905	\$ -	\$ 16,905	\$ 4,603

PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY
(Continued)

Cash, Cash Equivalents, Certificates of Deposit

Per the provisions of U.S. generally accepted accounting principles cash and cash equivalents include the Association's cash, checking accounts, money market funds and certificates of deposits with original maturities of 90 days or less. Certificates of Deposit with original maturities over 90 days are listed separately as Certificates of Deposit.

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.

Summarized Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. It is being shown for informational purposes only. Accordingly, such information should be read in conjunction with the Association's financial statements for the prior year ended December 31, 2017, from which the summarized information was derived.

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.

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 – RELATED PARTY

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

Security	\$ 34,119
Building maintenance	896
Alarm monitoring	1,584
Collections	8,550
TOTAL	\$ 45,149

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 2018 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 the following for major repairs and replacements during the year:

Roof	\$ 3,160
Pool/Spa	4,845
Landscape	3,474
Electrical	10,349
General Repairs	39,773
Total	\$ 61,601

**PALM CITY ASSOCIATION dba PALM DESERT COUNTRY CLUB ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018
(UNAUDITED)**

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 2018. 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.

Category	Estimated Remaining Useful Lives(Years)	Estimated Current Replacement Costs	Annual Funding Requirement	Fully Funded Reserve Requirement
?Access System	6-10	\$ 16,928	\$ 389	\$ 3,520
Asphalt/Concrete/Pav	0-19	103,195	5,778	71,117
Buildings, Roof	1-23	74,470	5,238	67,782
Electrical/Lights	1-28	60,105	3,178	40,082
Fence/Gates/Walls	3-23	22,890	780	9,659
Golf Cart	3	3,212	158	1,606
Irrigation	4-6	12,100	585	7,000
Landscape	6	49,966	1,840	19,986
Paint	3-11	49,680	741	5,028
Patio Area	3-14	5,300	235	2,960
Pool Building	1-12	23,002	967	11,855
Pools & Spa	0-10	279,716	27,790	216,016
Recreation Building	1-29	322,311	14,141	171,565
Signage	13	4,500	143	1,726
Storage Building	12	2,700	111	1,404
Totals		\$ 1,030,075	\$ 62,073	\$ 631,306

As of December 31, 2018, the annual allocation to replacements is \$12,000 and the cash, cash equivalents, and certificates of deposit in replacement funds as of December 31, 2018 total \$412,660.

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)