

The Pelican Bay Foundation, Inc.

Financial Report
September 30, 2019

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Independent Auditor's Report

Board of Directors
The Pelican Bay Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Pelican Bay Foundation, Inc. (the Foundation), which comprise the balance sheet as of September 30, 2019, 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 The Pelican Bay Foundation, Inc. as of September 30, 2019, and the changes in its fund balances and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 12 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.

Report on Summarized Comparative Information

We have previously audited The Pelican Bay Foundation, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated December 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Naples, Florida
December 13, 2019

The Pelican Bay Foundation, Inc.

Balance Sheet

September 30, 2019

With Comparative Totals for September 30, 2018

| | Operating Fund | Capital Fund | Replacement Fund | Combined Funds | |
|--|---------------------|---------------------|----------------------|----------------------|----------------------|
| | | | | 2019 | 2018 |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash (Note 1) | \$ 2,709,325 | \$ 3,357,272 | \$ 3,612,034 | \$ 9,678,631 | \$ 10,175,976 |
| Certificates of deposit (Notes 2 and 7) | 815,886 | 547,675 | 520,060 | 1,883,621 | 2,086,219 |
| Accounts receivable, net of allowance for doubtful accounts of \$14,952 in 2019 | 73,088 | - | - | 73,088 | 70,778 |
| Inventories | 100,361 | - | - | 100,361 | 117,567 |
| Prepaid expenses | 657,497 | - | - | 657,497 | 642,777 |
| Total current assets | 4,356,157 | 3,904,947 | 4,132,094 | 12,393,198 | 13,093,317 |
| Property and equipment, net of accumulated depreciation (Note 3) | - | 5,501,184 | 22,513,496 | 28,014,680 | 24,910,249 |
| Other assets | 41,154 | - | 19,442 | 60,596 | 230,529 |
| Total assets | \$ 4,397,311 | \$ 9,406,131 | \$ 26,665,032 | \$ 40,468,474 | \$ 38,234,095 |
| Liabilities and Fund Balances | | | | | |
| Accounts payable (Notes 3 and 5) | \$ 633,877 | \$ 1,147,495 | \$ 397,538 | \$ 2,178,910 | \$ 996,283 |
| Accrued expenses | 1,021,283 | 920 | - | 1,022,203 | 871,973 |
| Deferred revenue | 866,453 | - | 266,905 | 1,133,358 | 939,840 |
| Total liabilities | 2,521,613 | 1,148,415 | 664,443 | 4,334,471 | 2,808,096 |
| Commitment and contingency (Notes 3 and 5) | | | | | |
| Fund balances: | | | | | |
| Undesignated | 575,698 | 8,257,716 | 26,000,589 | 34,834,003 | 34,367,432 |
| Designated fund (Note 8) | 1,300,000 | - | - | 1,300,000 | 1,058,567 |
| Total fund balances | 1,875,698 | 8,257,716 | 26,000,589 | 36,134,003 | 35,425,999 |
| Total liabilities and fund balances | \$ 4,397,311 | \$ 9,406,131 | \$ 26,665,032 | \$ 40,468,474 | \$ 38,234,095 |

See notes to financial statements.

The Pelican Bay Foundation, Inc.

**Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended September 30, 2019
With Comparative Totals for Year Ended September 30, 2018**

| | Operating Fund | Capital Fund | Replacement Fund | Combined Funds | |
|---|---------------------|---------------------|----------------------|----------------------|----------------------|
| | | | | 2019 | 2018 |
| Revenues: | | | | | |
| Membership assessments and resale capital fees (Notes 1 and 7) | \$ 8,759,427 | \$ 2,160,160 | \$ 1,907,994 | \$ 12,827,581 | \$ 11,985,775 |
| Food sales | 3,786,281 | - | - | 3,786,281 | 3,577,415 |
| Beverage sales | 1,853,062 | - | - | 1,853,062 | 1,717,751 |
| Tennis fees and retail sales, including beach store | 320,768 | - | - | 320,768 | 348,682 |
| Fitness and community center | 462,284 | - | - | 462,284 | 486,331 |
| Guest card fees | 553,332 | - | - | 553,332 | 554,680 |
| Investment income (Note 2) | 87,827 | 115,614 | 86,732 | 290,173 | 174,213 |
| Other, including member rental application fees | 398,016 | - | - | 398,016 | 288,681 |
| | 16,220,997 | 2,275,774 | 1,994,726 | 20,491,497 | 19,133,528 |
| Expenses: | | | | | |
| Restaurants | 6,381,302 | - | - | 6,381,302 | 6,249,397 |
| Transportation | 1,358,512 | - | - | 1,358,512 | 1,322,385 |
| Facilities maintenance | 1,033,982 | - | - | 1,033,982 | 895,204 |
| Tennis | 746,146 | - | - | 746,146 | 686,436 |
| Beach operations | 336,846 | - | - | 336,846 | 338,377 |
| General and administrative | 2,901,452 | - | - | 2,901,452 | 2,579,081 |
| Information technology | 784,224 | - | - | 784,224 | 689,932 |
| Fitness and community center | 805,034 | - | - | 805,034 | 817,630 |
| Covenant enforcement and security | 727,838 | - | - | 727,838 | 683,408 |
| Legal fees | 193,546 | - | - | 193,546 | 322,094 |
| Insurance | 576,417 | - | - | 576,417 | 517,121 |
| Renovation related expenses | - | - | - | - | 53,275 |
| Other | - | 617 | 114,908 | 115,525 | 40,922 |
| | 15,845,299 | 617 | 114,908 | 15,960,824 | 15,195,262 |
| Excess of revenues over expenses before other expenses | 375,698 | 2,275,157 | 1,879,818 | 4,530,673 | 3,938,266 |
| Other expenses: | | | | | |
| Depreciation | - | - | (2,846,502) | (2,846,502) | (2,977,774) |
| Loss on disposition of property and equipment (Note 3) | - | - | (976,167) | (976,167) | (253,279) |
| Hurricane expenses | - | - | - | - | (181,309) |
| | - | - | (3,822,669) | (3,822,669) | (3,412,362) |
| Excess (deficiency) of revenues over expenses | 375,698 | 2,275,157 | (1,942,851) | 708,004 | 525,904 |
| Fund balances: | | | | | |
| Beginning | 1,807,842 | 6,105,025 | 27,513,132 | 35,425,999 | 34,900,095 |
| Board approved transfer from Operating Fund to Replacement Fund | (307,842) | - | 307,842 | - | - |
| Property and equipment purchases transferred to Replacement Fund | - | (122,466) | 122,466 | - | - |
| Ending | \$ 1,875,698 | \$ 8,257,716 | \$ 26,000,589 | \$ 36,134,003 | \$ 35,425,999 |

See notes to financial statements.

The Pelican Bay Foundation, Inc.

**Statement of Cash Flows
Year Ended September 30, 2019
With Comparative Totals for Year Ended September 30, 2018**

| | Operating Fund | Capital Fund | Replacement Fund | Combined Funds | |
|--|------------------|--------------------|--------------------|--------------------|--------------------|
| | | | | 2019 | 2018 |
| Cash flows from operating activities: | | | | | |
| Excess (deficiency) of revenues over expenses | \$ 375,698 | \$ 2,275,157 | \$ (1,942,851) | \$ 708,004 | \$ 525,904 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities: | | | | | |
| Depreciation | - | - | 2,846,502 | 2,846,502 | 2,977,774 |
| Loss on disposition of property and equipment | - | - | 976,167 | 976,167 | 253,279 |
| Changes in assets and liabilities: | | | | | |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (2,310) | - | - | (2,310) | 63,486 |
| Inventories | 17,206 | - | - | 17,206 | (19,024) |
| Prepaid expenses | (14,720) | - | - | (14,720) | (64,879) |
| Other assets | (35,689) | - | - | (35,689) | 22,194 |
| Increase (decrease) in: | | | | | |
| Accounts payable | 410,121 | - | 5,500 | 415,621 | 15,408 |
| Accrued expenses | (288,396) | 850 | - | (287,546) | 29,904 |
| Deferred revenue | 80,855 | - | 112,663 | 193,518 | (78,876) |
| Net cash provided by operating activities | 542,765 | 2,276,007 | 1,997,981 | 4,816,753 | 3,725,170 |
| Cash flows from investing activities: | | | | | |
| Disbursements for property and equipment | - | (3,868,704) | (1,858,048) | (5,726,752) | (2,924,834) |
| Proceeds from the sale of equipment | - | - | 4,434 | 4,434 | 2,400 |
| Purchases of certificates of deposit | (815,886) | (547,567) | (520,060) | (1,883,513) | (2,911,420) |
| Redemptions of certificates of deposit | - | 1,068,770 | 1,017,341 | 2,086,111 | 3,132,416 |
| Redemptions of U.S. Treasury Securities | - | - | - | - | 1,572,591 |
| (Increase) decrease in other assets | - | - | 205,622 | 205,622 | (171,154) |
| Net cash used in investing activities | (815,886) | (3,347,501) | (1,150,711) | (5,314,098) | (1,300,001) |
| Cash flows from financing activities: | | | | | |
| Interfund transfers | (311,792) | 228,729 | 83,063 | - | - |
| Net increase (decrease) in cash | (584,913) | (842,765) | 930,333 | (497,345) | 2,425,169 |
| Cash: | | | | | |
| Beginning | 3,294,238 | 4,200,037 | 2,681,701 | 10,175,976 | 7,750,807 |
| Ending | \$ 2,709,325 | \$ 3,357,272 | \$ 3,612,034 | \$ 9,678,631 | \$ 10,175,976 |
| Supplemental schedules of noncash investing and financing activities: | | | | | |
| Property and equipment included in accounts payable | \$ - | \$ 30,949 | \$ 85,223 | \$ 116,172 | \$ 334,751 |
| Construction in progress and construction retainage included in accounts payable | \$ - | \$ 1,116,546 | \$ 306,815 | \$ 1,423,361 | \$ - |
| Transfer of property and equipment purchases from the Capital Fund to the Replacement Fund | \$ - | \$ (122,466) | \$ 122,466 | \$ - | \$ - |

See notes to financial statements.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Pelican Bay Foundation, Inc. (the Foundation) is a master homeowners' association located in north Naples, Florida in Collier County, incorporated in the state of Florida on May 1, 1979. Pelican Bay is a private community situated alongside two and one-half miles of gulf beaches with a backdrop of native Florida mangroves and consists of approximately 7,200 units, including single family homes, condominium subdivisions and commercial units. The Foundation is responsible for operating and maintaining the common and recreational areas, property and equipment, providing security services to the common areas and operating restaurant facilities for its members. Members are restricted in the use of common property by the rules and regulations in the Foundation's governing documents.

A summary of the Foundation's significant accounting policies follows:

Fund accounting: The Foundation uses fund accounting as the manner of organizing and managing accounting transactions by which resources for various purposes are classified for financial accounting and reporting purposes. A fund is an accounting entity with a self-balancing set of accounts consisting of assets, liabilities and a fund balance. Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of the resources.

The funds of the Foundation are the Operating, Capital and Replacement Funds. The accounting and reporting purposes of each fund are as follows:

Operating Fund: Those activities which provide for the daily operations and maintenance of the common and recreational areas.

Capital Fund: Those activities associated with the enhancement and improvement of common and recreational areas. Capital purchases from the Capital Fund are transferred to the Replacement Fund when placed into service.

Replacement Fund: Those activities associated with the replacement of existing equipment, furnishings, land improvements and other facilities. The fund includes transfers of property and equipment from the Capital Fund, depreciation, accumulated depreciation and gain or loss on sale and write off of property and equipment.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Operating assessments: Operating assessments (\$1,212 per unit for 2019) are assessed of all members for the operating expenses associated with maintaining the common and recreation areas of the Foundation. The Foundation billed to its members \$8,759,427 in operating assessments for the year ended September 30, 2019.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Resale capital fees: The Foundation currently levies a resale capital fee on the transferee of a conveyance of a plot or unit of \$7,500, unless approved for a one-time only member exemption, which allows a member to move from one plot to another without the resale capital fee obligation. Resale capital fees are accounted for in the Capital Fund and are designated for the Foundation's future capital acquisitions. Total resale capital fees received for the year ended September 30, 2019 were \$2,160,160.

Replacement fund assessments: The Foundation also levies an annual replacement fund assessment (\$264 per unit for 2019), which is accounted for in the Replacement Fund and is designated for the future replacement of capitalized assets (see Note 7). The Foundation determines the annual replacement fund assessment using the pooling method. The Foundation billed to its members \$1,907,994 in replacement fund assessments for the year ended September 30, 2019.

The state of Florida requires that entities with non-statutory reserves set forth the following disclosure:

The budget of the Foundation provides for limited voluntary deferred expenditure accounts, including capital expenditures and deferred maintenance, subject to limits on funding contained in the Foundation's 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 the statute, nor are reserves calculated in accordance with that statute (see Note 7).

Revenue recognition: The Foundation recognizes revenue when the goods or services are provided.

Deferred revenue: Deferred revenue consists primarily of fiscal year 2020 assessments billed and collected as of September 30, 2019.

Operating income/performance measurement: The Foundation considers the excess of revenues over expenses before other expenses to be operating income for performance measurement purposes as this is the line item budgeted for financial management and internal reporting purposes.

Cash concentration risk: The Foundation maintains funds in accounts which, at times, may exceed FDIC or SIPC insured limits. Accounts that may exceed the SIPC limit are investments in U.S. government-backed securities. The Foundation has not experienced any losses on such accounts.

| | Operating Fund | Capital Fund | Replacement Fund | Combined Funds | |
|--------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| | | | | 2019 | 2018 |
| Cash in banks | \$ 696,466 | \$ 396,245 | \$ 333,110 | \$ 1,425,821 | \$ 311,156 |
| Money market funds | 2,012,859 | 2,961,027 | 3,278,924 | 8,252,810 | 9,864,820 |
| | <u>\$ 2,709,325</u> | <u>\$ 3,357,272</u> | <u>\$ 3,612,034</u> | <u>\$ 9,678,631</u> | <u>\$ 10,175,976</u> |

Investments in certificates of deposit: Certificates of deposit are recorded at cost plus accrued interest. Individual certificates of deposit do not exceed the federally insured limit of \$250,000.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable, which consist principally of assessments from members, are carried at the original amount less an estimate made for doubtful receivables when applicable, based on a review of all outstanding amounts on a monthly basis. The Foundation does not maintain a member charge system for food and beverage or other charges to residents. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

An account receivable is considered to be past due if any portion of the receivable is outstanding for more than one month. Interest, at 18% annually, is recognized when charged on member receivables that are outstanding for more than one month.

Inventories: The food and beverage inventory is stated at an average cost. The retail inventory is stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and equipment: The Foundation's policy for recognizing common property as assets in its balance sheet is to recognize commonly-owned assets as common personal property and real property to which it has title. Property and equipment is recorded at cost.

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|--|--------------|
| Equipment and furniture | 3-15 |
| Transportation equipment | 3-7 |
| Boardwalks and other land improvements | 5-30 |
| Buildings and improvements | 3-39 |
| Tennis courts and equipment | 5-20 |

Income taxes: The Foundation is incorporated as a nonprofit corporation under the laws of the state of Florida, as contained in Chapter 720 of the Florida Statutes. However, the Foundation is not exempt from federal and state income taxes. For income tax purposes, the Foundation is required to segregate the results of its member activities from its nonmember activities, which includes interest income, and is subject to tax, if any, on nonmember activities.

Due to the nature of the Foundation's operations, the Foundation believes it is remote that it would utilize any loss carryforwards. As a result, it is the Foundation's policy not to record the deferred tax asset and related valuation allowances associated with the carryforwards.

The Foundation has evaluated its tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statement to comply with the provision of the Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Comparative amounts: The financial statements include certain prior-year summarized comparative information in total but not by funds. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2018, from which the summarized information was derived.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard outlines a single comprehensive model which the Foundation will be required to use in accounting for revenue from contracts with its members and supersedes the most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a member obtains control of a good or service. A member obtains control when they have the ability to direct the use and obtain benefits from the good or service. Transfer of control is not the same as transfer of risk and rewards, as it is considered in the current guidance. The Foundation will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. ASU No. 2014-09, as deferred by ASU No. 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (b) retrospective with cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU No. 2014-09. The Foundation does not believe the standard will have a material impact on the financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the guidance, lessees will be required to recognize at the commencement date for all leases (with the exception of short-term leases): (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. This standard will be effective for fiscal years beginning after December 15, 2020, with early application permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. During preliminary evaluation, the Foundation does not believe the standard will have a material impact on the financial statements.

Subsequent events: Management of the Foundation has evaluated subsequent events through December 13, 2019, the date on which the financial statements were available to be issued.

Note 2. Certificates of Deposit

As of September 30, 2019, certificates of deposit totaled \$1,883,621 (\$815,886 in the Operating Fund, \$547,675 in the Capital Fund and \$520,060 in the Replacement Fund) with maturity dates ranging from October 2019 through November 2019. As of September 30, 2019, the certificates of deposit earn interest at rates ranging from 2.45% to 2.60% and earned interest income of \$57,905 during the year then ended.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 3. Property and Equipment

Property and equipment consist of the following as of September 30, 2019:

| | |
|--|----------------------|
| Equipment and furniture | \$ 10,014,475 |
| Transportation equipment | 663,108 |
| Boardwalks and other land improvements | 10,841,462 |
| Buildings and improvements | 17,870,683 |
| Tennis courts and equipment | 1,406,120 |
| | <hr/> |
| | 40,795,848 |
| Less accumulated depreciation | 19,516,014 |
| | <hr/> |
| | 21,279,834 |
| Construction in progress, including \$5,501,184 in the Capital Fund and \$1,233,662 in the Replacement Reserve Fund | 6,734,846 |
| | <hr/> |
| | <u>\$ 28,014,680</u> |

During the year ended September 30, 2019, the Foundation disposed of property and equipment with a total original cost of \$5,619,437 and accumulated depreciation of \$4,638,836. The Foundation received cash proceeds of \$4,434 and recognized a loss on disposition of property and equipment of \$976,167.

During fiscal year 2019, the Foundation entered into construction contracts related to the South Beach renovation projects. As of September 30, 2019, approximately \$3,820,000 is outstanding with \$1,423,361 of construction in progress including construction retainage related to the contracts included in accounts payable on the balance sheet (\$1,116,546 in the Capital Fund and \$306,815 in the Replacement Fund). The South Beach renovation project will be placed into service in fiscal 2020.

Note 4. Line of Credit

The Foundation has a revolving line of credit agreement with a bank that provides for short-term borrowings up to \$5,000,000 bearing interest at a variable rate of the one month London Interbank Offered Rate plus 1.90% (3.99% as of September 30, 2019). The line of credit is collateralized by all annual or quarterly assessments and special assessments levied now or in the future and matures on September 23, 2021. As of September 30, 2019, there were no outstanding borrowings on the line of credit agreement and the Foundation made no borrowings under this line of credit in fiscal year 2019.

Note 5. Commitment and Contingency

Bulk media services: During the year ended September 30, 2019, the Foundation collected \$6,266,727 in bulk media fees billed to members and paid \$6,304,810 to vendors for bulk media fees. The Foundation bills members on September 1, and they have the option to pay annually or quarterly. The Foundation's policy is to pass through the cost of bulk media services to its members without profit or loss. Any differences in amounts incurred and billed annually are adjusted in the subsequent year. As such, neither revenues nor expenses are shown in the statement of revenues, expenses and changes in fund balances. As of September 30, 2019, \$399,693 of advanced collections are included in accounts payable in the Operating Fund. It has been determined there is no need for the Foundation to refund bulk media fees to members in the upcoming fiscal year.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 5. Commitment and Contingency (Continued)

Insurance matters: Because the Foundation resides along the Gulf Coast of Florida, catastrophic weather events do represent a risk to its property and equipment. The Foundation has a policy of partially insuring its major fixed assets against catastrophic weather events. A certain portion of its near-gulf capital assets are economically uninsurable. Losses incurred in excess of insurable amounts would be borne by the Foundation. As such, losses from future catastrophic weather events may require special membership assessments and/or funding from existing funds.

Note 6. Retirement Plan

The Foundation sponsors a 401(k) employee savings and retirement plan for the benefit of its employees. All year-round employees at least 21 years of age and having 9 months of continuous service are eligible to participate in the plan. The Foundation has the right, but not the obligation, to elect annually to match employees' contributions to the plan for the benefit of its employees. In fiscal year 2019, the Foundation's contributions for the year ended September 30, 2019, matched 100% of the first 4% of each participant's compensation. The employer matching contributions vest immediately. Retirement plan expense recognized in the statement of revenues, expenses and changes in fund balances was \$162,026 for the year ended September 30, 2019.

Note 7. Major Repairs and Replacements

The Foundation has set aside funds for future repairs and replacements. Accumulated funds are held in separate accounts and are not available for normal operations. Cash and certificates of deposit in the Replacement Fund as of September 30, 2019, are \$3,612,034 and \$520,060, respectively.

The Foundation follows the policy of having its common property reviewed periodically by an independent replacement reserve analysis company, which was most recently completed in 2017 and internally updated in 2019. These reviews include all the common property of the Foundation in service, excluding any long-lived assets in excess of 30 years. The values ascribed to those appraised assets are determined using estimated current replacement costs. Additionally, estimated economic lives are ascribed for purposes of determining annual replacement reserve funding.

The Foundation is fully funding contributions resulting from the study. Accordingly, the Foundation billed and designated \$1,907,994 (\$264 per unit) of assessments during the year ended September 30, 2019, for future major repairs and replacements.

The fiscal 2020 budget includes \$1,965,812 (\$272 per unit) of Replacement Fund assessments.

Note 8. Designated Fund

In response to the Foundation Declaration 6.05(a), in January 2011, the Board of Directors of the Foundation approved establishing a contingency fund to enable the Foundation to operate for a period of three months in the event of disaster, or to provide funds for unanticipated operating expenses as determined by the Board. The contingency fund had a balance of \$1,300,000 as of September 30, 2019.

The Pelican Bay Foundation, Inc.

**Supplementary Information on Future Major Repairs and Replacements
September 30, 2019 (Unaudited)**

The Foundation engaged an independent replacement reserve analysis company to conduct a Full Reserve Study in fiscal year 2017 to estimate the remaining useful lives and the replacements costs of the components of common property. An inflation factor of 3% and a rate of return of 2.25% were used by the replacement reserve analyst to determine the funding requirements.

The following table is based on the 2017 independent reserve study which was internally updated in 2019 and presents significant information over a 30 year period on the fixed assets as of the fiscal year ended September 30, 2019:

| | Estimated Remaining Lives (Years) | Estimated Future Replacement Costs |
|--|--|---|
| Apartments | 1-30 | \$ 6,504,179 |
| Commons office | 1-30 | 3,982,233 |
| Community center | 1-29 | 14,782,254 |
| Computers and electronics | 1-8 | 7,704,368 |
| Furniture, beach, umbrellas, boxes and cabanas | 1-7 | 2,518,531 |
| Landscaping | 1-30 | 1,287,585 |
| Miscellaneous | 1-27 | 2,003,002 |
| North beach facility | 1-27 | 12,803,985 |
| North boardwalk | 1-13 | 2,144,082 |
| Parks | 1-30 | 1,427,912 |
| Security system | 1-5 | 978,577 |
| South beach facility | 1-11 | 7,838,189 |
| South boardwalk | 2-12 | 2,874,811 |
| South tennis center | 1-24 | 3,261,727 |
| Spa | 1-11 | 674,121 |
| Tram paths | 1-23 | 1,507,021 |
| Tram stations | 1-29 | 1,645,656 |
| Utility infrastructure | 1-40 | 2,398,634 |
| Vehicles | 1-9 | 6,953,967 |
| | | <u>\$ 83,290,834</u> |

The Foundation does not establish separate accounts for each major component of the Replacement Fund. The Foundation does calculate replacement costs for specific assets. As of September 30, 2019, the Replacement Fund has net current assets (current assets less current liabilities) of \$3,467,651 for future major repairs and replacements.