

The Pelican Bay Foundation, Inc.

Financial Report
September 30, 2020

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RSM US LLP

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, 2020, 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, 2020, 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 15 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 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated December 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived, with the exception of changes related to the adoption of the Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (see Note 1).

RSM VS LLP

Naples, Florida
December 16, 2020

The Pelican Bay Foundation, Inc.

Balance Sheet

September 30, 2020

With Comparative Totals for September 30, 2019

	Operating Fund	Capital Fund	Replacement Fund	Combined Funds	
				2020	2019
Assets					
Current assets:					
Cash (Note 1)	\$ 720,604	\$ 53,438	\$ 360,849	\$ 1,134,891	\$ 1,658,139
Investments	3,355,862	1,243,036	2,673,707	7,272,605	9,904,113
Accounts receivable, net of allowance for doubtful accounts of \$14,952 in 2020	98,503	-	-	98,503	73,088
Inventories	150,154	-	-	150,154	100,361
Prepaid expenses	676,496	-	-	676,496	657,497
Total current assets	5,001,619	1,296,474	3,034,556	9,332,649	12,393,198
Property and equipment, net of accumulated depreciation (Note 2)	-	241,463	30,396,125	30,637,588	28,014,680
Other assets	5,402	22,017	89,054	116,473	60,596
Total assets	\$ 5,007,021	\$ 1,559,954	\$ 33,519,735	\$ 40,086,710	\$ 40,468,474
Liabilities and Fund Balances					
Accounts payable (Note 4)	\$ 640,645	\$ 117,212	\$ 28,452	\$ 786,309	\$ 2,178,910
Accrued expenses	881,613	195	-	881,808	1,022,203
Deferred revenue	1,035,483	-	-	1,035,483	866,453
Total liabilities	2,557,741	117,407	28,452	2,703,600	4,067,566
Commitment and contingencies (Notes 4 and 8)					
Fund balances:					
Undesignated	1,149,280	1,442,547	33,491,283	36,083,110	35,100,908
Designated fund (Note 7)	1,300,000	-	-	1,300,000	1,300,000
Total fund balances	2,449,280	1,442,547	33,491,283	37,383,110	36,400,908
Total liabilities and fund balances	\$ 5,007,021	\$ 1,559,954	\$ 33,519,735	\$ 40,086,710	\$ 40,468,474

See notes to financial statements.

The Pelican Bay Foundation, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended September 30, 2020
With Comparative Totals for Year Ended September 30, 2019

	Operating Fund	Capital Fund	Replacement Fund	Combined Funds	
				2020	2019
Revenues:					
Membership assessments (Note 1)	\$ 9,424,334	\$ -	\$ -	\$ 9,424,334	\$ 8,759,427
Grant revenue (Notes 1 and 8)	1,126,760	-	-	1,126,760	-
Food sales	2,913,686	-	-	2,913,686	3,786,281
Beverage sales	1,453,360	-	-	1,453,360	1,853,062
Tennis fees and retail sales, including beach store	267,970	-	-	267,970	320,768
Fitness and community center	343,306	-	-	343,306	462,284
Guest card fees	466,883	-	-	466,883	553,332
Investment income	27,200	10,583	25,671	63,454	290,173
Other, including member rental application fees	422,587	-	-	422,587	398,016
	16,446,086	10,583	25,671	16,482,340	16,423,343
Expenses:					
Restaurants	6,140,017	-	-	6,140,017	6,381,302
Transportation	1,276,746	-	-	1,276,746	1,358,512
Facilities maintenance	1,126,364	-	-	1,126,364	1,033,982
Tennis	711,197	-	-	711,197	746,146
Beach operations	317,478	-	-	317,478	336,846
General and administrative	3,058,241	-	-	3,058,241	2,901,452
Information technology	852,834	-	-	852,834	784,224
Fitness and community center	820,692	-	-	820,692	805,034
Covenant enforcement and security	776,556	-	-	776,556	727,838
Legal fees	176,646	-	-	176,646	193,546
Insurance	615,733	-	-	615,733	576,417
Other	-	1,187	268,143	269,330	115,525
	15,872,504	1,187	268,143	16,141,834	15,960,824
Excess (deficiency) of revenues over expenses before other expenses	573,582	9,396	(242,472)	340,506	462,519
Other expenses:					
Depreciation	-	-	(3,328,704)	(3,328,704)	(2,846,502)
Loss on disposition of property and equipment (Note 2)	-	-	(186,367)	(186,367)	(976,167)
	-	-	(3,515,071)	(3,515,071)	(3,822,669)
Excess (deficiency) of revenues over expenses	573,582	9,396	(3,757,543)	(3,174,565)	(3,360,150)
Fund balances:					
Beginning	1,875,698	8,257,716	26,267,494	36,400,908	35,580,241
Capital resale contributions (Note 1)	-	2,259,820	-	2,259,820	2,160,160
Replacement reserve assessment (Notes 1 and 6)	-	-	1,896,947	1,896,947	2,020,657
Property and equipment purchases transferred to Replacement Fund	-	(9,084,385)	9,084,385	-	-
Ending	\$ 2,449,280	\$ 1,442,547	\$ 33,491,283	\$ 37,383,110	\$ 36,400,908

See notes to financial statements.

The Pelican Bay Foundation, Inc.

**Statement of Cash Flows
Year Ended September 30, 2020
With Comparative Totals for Year Ended September 30, 2019**

	Operating Fund	Capital Fund	Replacement Fund	Combined Funds	
				2020	2019
Cash flows from operating activities:					
Excess (deficiency) of revenues over expenses	\$ 573,582	\$ 9,396	\$ (3,757,543)	\$ (3,174,565)	\$ (3,360,150)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:					
Depreciation	-	-	3,328,704	3,328,704	2,846,502
Loss on disposition of property and equipment	-	-	186,367	186,367	976,167
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(25,415)	-	-	(25,415)	(2,310)
Inventories	(49,793)	-	-	(49,793)	17,206
Prepaid expenses	(18,999)	-	-	(18,999)	(14,720)
Other assets	35,752	(22,017)	-	13,735	(35,689)
Increase (decrease) in:					
Accounts payable	6,768	(346,366)	(5,802)	(345,400)	415,621
Accrued expenses	(139,670)	345,642	-	205,972	(287,546)
Deferred revenue	169,030	-	-	169,030	80,855
Net cash provided by (used in) operating activities	551,255	(13,345)	(248,274)	289,636	635,936
Cash flows from investing activities:					
Disbursements for property and equipment	-	(4,854,948)	(2,706,699)	(7,561,647)	(5,726,752)
Proceeds from the sale of equipment	-	-	30,100	30,100	4,434
Purchases of investments	(8,983,193)	(2,199,050)	(1,886,081)	(13,068,324)	(9,904,005)
Redemptions of investments	8,443,354	4,349,752	2,906,726	15,699,832	2,086,111
(Increase) decrease in other assets	-	-	(69,612)	(69,612)	205,622
Net cash used in investing activities	(539,839)	(2,704,246)	(1,725,566)	(4,969,651)	(13,334,590)
Cash flows from financing activities:					
Proceeds from capital resale contributions	-	2,259,820	-	2,259,820	2,160,160
Proceeds from replacement reserve assessment	-	-	1,896,947	1,896,947	2,020,657
Net cash provided by financing activities	-	2,259,820	1,896,947	4,156,767	4,180,817
Net increase (decrease) in cash	11,416	(457,771)	(76,893)	(523,248)	(8,517,837)
Cash:					
Beginning	709,188	511,209	437,742	1,658,139	10,175,976
Ending	\$ 720,604	\$ 53,438	\$ 360,849	\$ 1,134,891	\$ 1,658,139
Supplemental schedules of noncash investing and financing activities:					
Property and equipment included in accounts payable	\$ -	\$ 27,827	\$ 5,818	\$ 33,645	\$ 116,172
Construction in progress and construction retainage included in accounts payable	\$ -	\$ 89,384	\$ 22,936	\$ 112,320	\$ 1,423,361
Transfer of property and equipment purchases from the Capital Fund to the Replacement Fund	\$ -	\$ (9,084,385)	\$ 9,084,385	\$ -	\$ -

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 (U.S. GAAP) 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.

Ownership transactions: Proceeds from capital resale contributions and replacement reserve assessments are accounted for as owner transactions. Members are deemed owners based on having one or more of the following criteria: member is subject to operating and/or capital assessments as approved by the Board of Directors (Board) or membership; the member has the ability to vote on certain Foundation related matters; and/or members have liquidation rights in the event of dissolution of the Foundation.

Capital resale contributions: The Foundation currently levies a resale capital contribution 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 contribution. Resale capital contributions are accounted for in the Capital Fund and are designated for the Foundation's future capital acquisitions and are recognized when received. Total capital resale contributions received for the year ended September 30, 2020 were \$2,259,820.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

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

Replacement reserve assessments: The Foundation also levies an annual replacement reserve assessment (\$272 per unit for 2020), which is accounted for in the Replacement Fund and is designated for the future replacement of capitalized assets (see Note 6). The Foundation recognizes the assessments when received and determines the annual replacement fund assessment using the pooling method. The Foundation collected from its members \$1,896,947 in replacement fund assessments for the year ended September 30, 2020.

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: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the standard on October 1, 2019.

The most significant impacts of adopting the new standard related to the following:

1. The Foundation recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:
 - Identify the contract with the customer
 - Identify the performance obligations in the contract
 - Determine the transaction price
 - Allocate the transaction price to the performance obligations in the contract
 - Recognize revenue when or as performance obligations are satisfied
2. The Foundation's revenue is derived from membership assessments, sales from food, beverage, sports and recreation activities and member services. The Foundation's products and services are marketed and sold to the Foundation's members. The results of operations are substantially affected by economic conditions and can be impacted by member disposable income levels and spending habits.

Nature of products and services

3. **Membership assessments:** The Foundation records membership assessments as revenue ratably over the period in which those billings relate, which is when the Foundation's performance obligation is satisfied. Operating assessments (\$1,304 per unit for 2020) 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 \$9,424,334 in operating assessments for the year ended September 30, 2020.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

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

4. Food, beverage, sports and recreation activities and member services: The Association records food, beverage, sports and recreation activities and member services revenue from Foundation facilities upon delivery of these goods and services to the member, which is when the Foundation's performance obligation is satisfied. Certain sports and recreation activities are recognized as revenue ratably over the period in which those billings relate, which is when the Foundation's performance obligation is satisfied.
5. Sales and use taxes: The Foundation collects and remits sales and use taxes from members at the point of sale for retail transactions and reports such amounts under the net method on the statement of revenues, expenses and changes in fund balances. Accordingly, these taxes are not included in gross revenue.
6. Total revenue recognized at a point in time and over time was as follows for the years ended September 30, 2020:

Revenue recognized at a point in time	\$ 7,058,006
Revenue recognized over time	9,424,334
	<u>\$ 16,482,340</u>

Transaction price

7. The transaction price of goods and services from food, beverage, sports and recreation activities and member services is the amount of consideration to which the Foundation expects to be entitled in exchange for transferring goods and services to the member. Revenue on food, beverage, sports and recreation activities and member services are recorded based on the fixed transaction price.
8. Members are granted the right to return merchandise. The Foundation does not deem recording of variable consideration on retail transactions necessary as merchandise returns have not historically had a significant impact on the Foundation's retail merchandise revenue.

Contract balances

9. The Foundation records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. When consideration is received and revenue has not yet been recognized, a contract liability (deferred revenue) is also recorded. The Foundation does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset. Opening balances as of October 1, 2019, were as follows:

Accounts receivable, net	\$ 73,088
Deferred revenue	866,453

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

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

Change in accounting principle

10. On October 1, 2019, in connection with the adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Foundation changed its method of presenting replacement reserve assessments, whereas in all prior years, the activity was presented on the statement of revenues, expenses and changes in fund balances as revenues. The Foundation also changed its method of recording these assessments, whereas in all prior years, the assessments collected for the next period were recognized over the billing period. The new method of accounting was adopted to align with the accounting for the assessments as ownership transactions and the financial statement of the prior year has been adjusted to apply the new method retrospectively. The following financial statement line items for the fiscal year 2019 were affected by the change in accounting principle:

	As Currently Reported	As Previously Reported	Effect of Change
Deferred revenue	\$ 866,453	\$ 1,133,358	\$ (266,905)
Replacement reserve assessment	2,020,657	1,907,994	112,663
Beginning fund balances	35,580,241	35,425,999	154,242

Grant revenue: There is no specific guidance in accounting principles generally accepted in the United States of America in regard to accounting for the Paycheck Protection Program (PPP) loan described in Note 8. Therefore, the Foundation is recognizing grant revenue by analogizing to International Accounting Standards (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. Under IAS 20, the forgivable loan is considered an income grant. As an income grant, the amounts received under the loan are reflected as a deferred income liability on the balance sheet and derecognized into income as the Foundation is incurring and recognizing the qualifying payroll and other operating costs. The statement of revenues, expenses and changes in fund balances for the year ended September 30, 2020 reflect \$1,126,760 of grant revenue. There is no deferred income liability on the balance sheet as of September 30, 2020.

Operating income (loss)/performance measurement: The Foundation considers the excess (deficiency) of revenues over expenses before other expenses to be operating income (loss) 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	
				2020	2019
Cash in banks	\$ 470,121	\$ 47,728	\$ 24,770	\$ 542,619	\$ 1,425,821
Money market funds	250,483	5,710	336,079	592,272	232,318
	<u>\$ 720,604</u>	<u>\$ 53,438</u>	<u>\$ 360,849</u>	<u>\$ 1,134,891</u>	<u>\$ 1,658,139</u>

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 FASB ASC.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

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

Investments: Investments consist of mutual funds and are recorded at fair value.

Fair value measurements: U.S. GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The Foundations recurring fair value measurement for the investments as of September 30, 2020, is considered a Level 1 input.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2019, from which the summarized information was derived. As discussed above, certain amounts have been changed in conjunction with the adoption of Topic 606.

Recent accounting pronouncement: 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, 2021, 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 16, 2020, the date on which the financial statements were available to be issued.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 2. Property and Equipment

Property and equipment consist of the following as of September 30, 2020:

Equipment and furniture	\$ 12,885,533
Transportation equipment	754,524
Boardwalks and other land improvements	11,840,284
Buildings and improvements	25,330,421
Tennis courts and equipment	1,415,320
	<u>52,226,082</u>
Less accumulated depreciation	<u>22,047,737</u>
	30,178,345
Construction in progress, including \$241,463 in the Capital Fund and \$217,780 in the Replacement Reserve Fund	459,243
	<u><u>\$ 30,637,588</u></u>

During the year ended September 30, 2020, the Foundation disposed of property and equipment with a total original cost of \$1,013,448 and accumulated depreciation of \$796,981. The Foundation received cash proceeds of \$30,100 and recognized a loss on disposition of property and equipment of \$186,367.

Note 3. 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% (2.06% as of September 30, 2020). 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, 2020, 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 2020.

Note 4. Commitment and Contingency

Bulk media services: During the year ended September 30, 2020, the Foundation collected \$5,243,716 in bulk media fees billed to members and paid \$5,205,481 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, 2020, \$437,928 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.

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.

The Pelican Bay Foundation, Inc.

Notes to Financial Statements

Note 5. 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 nine 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 2020, the Foundation's contributions for the year ended September 30, 2020, 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 \$169,891 for the year ended September 30, 2020.

Note 6. 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 investments in the Replacement Fund as of September 30, 2020, totaled \$3,034,556.

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 2020. These reviews include all the in service common property of the Foundation. 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. The fiscal 2021 budget includes \$2,052,539 (\$284 per unit) of replacement reserve assessments.

Note 7. 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, 2020.

Note 8. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern and, on March 11, 2020, declared it to be a global pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Foundation. As a result, the Foundation could be impacted and may experience a certain degree of business interruption. The extent to which the COVID-19 outbreak impacts the Foundation's operations will depend on future developments, which are highly uncertain and unpredictable as of December 16, 2020, the date the financial statements were available to be issued.

In April 2020, the Foundation applied for and received a Small Business Administration (SBA) PPP loan under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) for \$1,126,760. The interest on the loan is 1%. The loan proceeds were used for payroll costs. The Foundation will apply for forgiveness of the loan as soon as the bank's application process is available. For the year ended September 30, 2020, the Foundation recognized grant revenue of \$1,126,760 on the statement of revenues, expenses and changes in fund balances. To the extent that the SBA does not forgive the loan, the Foundation would be obligated to pay the lender, principal and interest payments over a 24-month period beginning in April 2021.

The Pelican Bay Foundation, Inc.

**Supplementary Information on Future Major Repairs and Replacements
September 30, 2020 (Unaudited)**

The Foundation engaged an independent replacement reserve analysis company to conduct a Full Reserve Study in fiscal year 2020 to estimate the remaining useful lives and the replacements costs of the components of common property. An inflation factor and rate of return of 2% were used by the replacement reserve analyst to determine the funding requirements.

The following table is based on the 2020 independent reserve study and presents significant information over a 30-year period on the fixed assets as of the fiscal year ended September 30, 2020:

	Estimated Remaining Lives (Years)	Estimated Future Replacement Costs
Apartments	1-65	\$ 6,922,075
Commons office	1-65	3,839,314
Community center	1-40	13,318,586
Computers and electronics	1-8	6,936,652
Furniture, beach, umbrellas, boxes and cabanas	1-6	2,540,731
Landscaping	1-30	1,137,464
Miscellaneous	1-30	1,911,790
North beach facility	1-40	14,402,537
North boardwalk	1-30	2,842,830
Parks	1-40	1,985,461
Security system	1-15	805,412
South beach facility	1-35	14,802,567
South boardwalk	2-30	3,305,648
South tennis center	1-30	2,927,329
Spa	1-40	681,866
Tram paths	1-30	1,157,790
Tram stations	1-65	1,835,155
Utility infrastructure	1-40	2,118,970
Vehicles	1-10	7,241,874
		<u>\$ 90,714,051</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, 2020, the Replacement Fund has net current assets (current assets less current liabilities) of \$3,006,104 for future major repairs and replacements.