

**Longboat Harbour Owners  
Association, Inc.**

**Financial Statements**

December 31, 2013

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**CAVANAUGH & CO, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Longboat Harbour Owners Association, Inc.

***Report on the Financial Statements***

We have audited the accompanying financial statements of Longboat Harbour Owners Association, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses and changes in fund balance 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 Longboat Harbour Owners Association, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements 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 Longboat Harbour Owners Association, Inc.'s December 31, 2012 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated February 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sarasota, Florida  
February 25, 2014

Cavanaugh & Co. LLP

**Longboat Harbour Owners Association, Inc.**

**Balance Sheet**

December 31, 2013

ASSETS

	2013					2012
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund	Total (For Comparative Purposes Only)
Assets:						
Cash and cash equivalents	\$ 857,726	28,675	1,571	130,832	170,035	735,491
Assessments receivable	9,569	-	-	916,954	-	8,521
Prepaid insurance	180,793	-	-	-	-	166,053
Other prepaids	922	-	-	-	-	8,150
Due from other fund	-	-	-	295,264	-	7,500
Income tax receivable	6,273	-	-	-	-	6,609
Property and equipment, net	20,920	-	-	-	-	27,425
<b>Total assets</b>	<u>\$ 1,076,203</u>	<u>28,675</u>	<u>1,571</u>	<u>1,343,050</u>	<u>170,035</u>	<u>959,749</u>

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable	\$ 36,778	-	-	112,191	-	27,921
Accrued expenses	2,253	-	-	-	-	1,910
Prepaid assessments	39,474	9,305	-	12,884	-	43,950
Deferred special assessment	-	-	-	1,202,449	-	-
Due to other fund	292,674	2,590	-	-	-	7,500
<b>Total liabilities</b>	<u>371,179</u>	<u>11,895</u>	<u>-</u>	<u>1,327,524</u>	<u>-</u>	<u>81,281</u>
<b>Fund balance</b>	<u>705,024</u>	<u>16,780</u>	<u>1,571</u>	<u>15,526</u>	<u>170,035</u>	<u>878,468</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,076,203</u>	<u>28,675</u>	<u>1,571</u>	<u>1,343,050</u>	<u>170,035</u>	<u>959,749</u>

See accompanying notes to financial statements.

**Longboat Harbour Owners Association, Inc.**

**Statement of Revenues, Expenses and Changes in Fund Balances**  
Year Ended December 31, 2013

	2013					2012
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund	Total (For Comparative Purposes Only)
<b>Revenues:</b>						
Maintenance assessments	\$ 1,399,231	-	-	1,067,376	170,000	1,569,528
Yacht club committee	-	23,806	-	-	-	23,806
Recreation committee	-	-	13,390	-	-	13,390
Laundry	23,064	-	-	-	-	23,064
Beach property use	17,500	-	-	-	-	17,500
Other	17,503	-	-	-	-	17,503
Unit rental	22,462	-	-	-	-	22,462
Interest	330	-	-	-	35	365
<b>Total revenues</b>	<b>1,480,090</b>	<b>23,806</b>	<b>13,390</b>	<b>1,067,376</b>	<b>170,035</b>	<b>1,690,181</b>
<b>Expenses:</b>						
Advertising	141	-	-	-	-	141
Building maintenance	91,112	-	-	-	-	91,112
Cable TV	91,532	-	-	-	-	91,532
Carport and tennis court	-	-	-	-	-	-
Depreciation	9,016	-	-	-	-	9,016
Dues and subscriptions	2,696	-	-	-	-	2,696
Electricity	44,052	-	-	-	-	44,052
Elevator and equipment maintenance	50,365	-	-	-	-	50,365
Fire extinguishers and alarms	4,327	-	-	-	-	4,327
Gas - heating and pool	22,870	-	-	-	-	22,870
Housekeeping	7,936	-	-	-	-	7,936
Income tax	4,006	-	-	-	-	4,006
Insurance - employee	61,886	-	-	-	-	61,886
Insurance	395,361	-	-	-	-	395,361
Lawn maintenance	144,923	-	-	-	-	144,923
						496
						50,414
						88,856
						1,823
						17,003
						1,598
						43,745
						38,166
						6,487
						18,868
						7,885
						4,471
						64,541
						347,493
						146,430

See accompanying notes to financial statements.

**Longboat Harbour Owners Association, Inc.**

**Statement of Revenues, Expenses and Changes in Fund Balances-Continued**  
Year Ended December 31, 2013

	2013					2012
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund	Total (For Comparative Purposes Only)
<b>Expenses continued:</b>						
Legal and accounting	15,635	-	-	-	-	15,635
Loss on sale of assets	-	-	-	-	-	-
Miscellaneous	10,785	-	-	-	-	10,785
Newsletter and postage	4,577	-	-	-	-	4,577
Office	8,618	-	-	-	-	8,618
Operating committee	3,390	-	-	-	-	3,390
Payroll taxes	31,572	-	-	-	-	31,572
Pest control	16,800	-	-	-	-	16,800
Pool maintenance	23,054	-	-	-	-	23,054
Salaries and wages	368,051	-	-	-	-	368,051
Taxes and licenses	1,200	-	-	-	-	1,200
Telephone	7,198	-	-	-	-	7,198
Trash removal	28,599	-	-	-	-	28,599
Water and sewer	172,041	-	-	-	-	172,041
Bad debt	5,356	-	-	-	-	5,356
Yacht club	-	16,797	-	-	-	16,797
Recreation	-	-	12,957	-	-	12,957
Special assessment	-	-	-	1,067,376	-	1,067,376
<b>Total expenses</b>	<u>1,627,099</u>	<u>16,797</u>	<u>12,957</u>	<u>1,067,376</u>	<u>-</u>	<u>2,724,229</u>
<b>Excess (deficiency) of revenues over expenses</b>	(147,009)	7,009	433	-	170,035	30,468
<b>Fund balance - January 1</b>	<u>852,033</u>	<u>9,771</u>	<u>1,138</u>	<u>15,526</u>	<u>-</u>	<u>878,468</u>
<b>Fund balance - December 31</b>	<u>\$ 705,024</u>	<u>16,780</u>	<u>1,571</u>	<u>15,526</u>	<u>170,035</u>	<u>908,936</u>

See accompanying notes to financial statements.

Longboat Harbour Owners Association, Inc.

Statement of Cash Flows  
Year Ended December 31, 2013

	2013					2012
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund	Total (For Comparative Purposes Only)
<b>Cash flows from operating activities:</b>						
Maintenance assessments collected	\$ 1,698,291	-	-	1,365,755	170,000	3,234,046
Interest received	330	-	-	-	35	365
Yacht club committee revenue collected	-	21,201	-	-	-	21,201
Recreation committee revenue collected	-	-	13,390	-	-	13,390
Other income received	80,529	-	-	-	-	80,529
Operating expenses paid	(1,612,389)	(21,707)	(12,957)	(1,242,949)	-	(2,890,002)
Income tax paid	(3,670)	-	-	-	-	(3,670)
Cash flows from operating activities	163,091	(506)	433	122,806	170,035	455,859
<b>Cash flows from investing activities:</b>						
Purchase of property and equipment	(2,511)	-	-	-	-	(2,511)
Cash flows from investing activities	(2,511)	-	-	-	-	(2,511)
Increase (decrease) in cash and cash equivalents	160,580	(506)	433	122,806	170,035	453,348
Cash and cash equivalents - January 1	697,146	29,181	1,138	8,026	-	735,491
Cash and cash equivalents - December 31	\$ 857,726	28,675	1,571	130,832	170,035	1,188,839
<b>Reconciliation of excess (deficiency) of revenues over expenses to cash flows from operating activities:</b>						
Excess (deficiency) of revenues over expenses	\$ (147,009)	7,009	433	-	170,035	30,468
Adjustments:						
Depreciation	9,016	-	-	-	-	9,016
Loss on sale of property and equipment	-	-	-	-	-	-
(Increase) decrease in:						
Assessments receivable	(1,048)	-	-	(916,954)	-	(918,002)
Prepaid insurance	(14,740)	-	-	-	-	(14,740)
Other prepaids	7,228	-	-	-	-	7,228
Income tax receivable	336	-	-	-	-	336
Due from other fund	292,674	-	-	(287,764)	-	4,910
Increase (decrease) in:						
Accounts payable	8,857	-	-	112,191	-	121,048
Accrued expenses	343	-	-	-	-	343
Income tax payable	-	-	-	-	-	-
Prepaid assessments	7,434	(2,605)	-	12,884	-	17,713
Deferred special assessment	-	-	-	1,202,449	-	1,202,449
Due to other fund	-	(4,910)	-	-	-	(4,910)
Total adjustments	310,100	(7,515)	-	122,806	-	425,391
Cash flows from operating activities	\$ 163,091	(506)	433	122,806	170,035	455,859

See accompanying notes to financial statements.



## Longboat Harbour Owners Association, Inc.

### Notes to Financial Statements

December 31, 2013

#### Note 1 – Nature of Operation:

Longboat Harbour Owners Association, Inc., a Florida not-for-profit corporation formed on April 4, 1972, merged with First Longboat Condominium, Inc. and Second Longboat Condominium, Inc. in a statutory merger on November 15, 2000. The surviving corporation was Longboat Harbour Owners Association, Inc. ("the Association"). The Association is responsible for the operation and maintenance of the common property of Longboat Harbour Owners Association. The Association consists of 300 condominium units located in Longboat Key, Florida.

#### Note 2 – Summary of Significant Accounting Policies:

##### Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting, and prepares its financial statements on the accrual basis of accounting.

##### Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

##### Yacht Club Committee Fund

This fund is used to account for financial resources available for the Yacht Club Committee operations of the Association.

##### Recreation Committee Fund

This fund is used to account for the financial resources available for the Recreation Committee operations of the Association.

##### Special Assessment Fund

This fund is used to account for the financial resources available from Special Assessments levied by the Association.

##### Replacement Fund

This fund is used to account for the financial resources designated for future major repairs and replacements.

##### Member Assessments

The Association's organizing documents require the Association to prepare budgets and propose assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The assessment to owners ranged from \$364 to \$490 per month, based on unit size and location, for the year ended December 31, 2013. Of the assessment, a range of \$39 to \$53 is designated for a Replacement Fund. Any excess of assessments at year end is retained by the Association for use in the succeeding year.

##### Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes property and equipment costing over \$500 and with a useful life of over two years. Property and equipment is recorded at cost and depreciated over their useful lives of 5 to 10 years using the straight line method of depreciation.

Longboat Harbour Owners Association, Inc.

Notes to Financial Statements – Continued  
December 31, 2013

**Note 2 – Summary of Significant Accounting Policies – Continued:**

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2013. It does not qualify as a tax exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions and capital transactions.

For federal and state tax purposes, the Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and any net membership losses may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated tax rates of 14% to 39% that are applied to net taxable income. Income tax expense for the year ended December 31, 2013 was \$4,006.

Management has evaluated the effect of an accounting standard relating to accounting for uncertainty in income taxes. Management has determined that the Association had no uncertain income tax positions that could have a significant effect on the financial statements for the year ended December 31, 2013. The Association's federal income tax returns for the years ended 2012, 2011 and 2010 are subject to examination by the Internal Revenue Service, generally for three years after the federal income tax returns were filed.

Allocation of Income and Expenses

The allocation of income and expenses to Association members is based on the documents, which state that Association members share in the income and expenses of the Association according to percentages based on unit size and location.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 – Uninsured Cash Balances:**

The Association maintains its cash balances at various financial institutions located in Sarasota and Manatee Counties, Florida. The Federal Deposit Insurance Corporation ("FDIC") insures up to an amount of \$250,000 per bank. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. Management considers the risk to be minimal. As of December 31, 2013, the Association had no cash balances in excess of FDIC insurance.

Longboat Harbour Owners Association, Inc.

Notes to Financial Statements – Continued  
December 31, 2013

**Note 4 – Property and Equipment:**

Property and equipment at December 31, 2013, consisted of the following:

Office equipment	\$ 9,498
Laundry room equipment	51,822
Fitness equipment	4,873
Maintenance equipment	35,227
Kitchen equipment	8,001
Pool furniture	7,294
Computers and software	<u>10,455</u>
Total cost	124,659
Accumulated depreciation	<u>(103,739)</u>
Net property and equipment	<u>\$ 20,920</u>

Depreciation expense for the year ended December 31, 2013 was \$9,016.

**Note 5 – Future Major Repairs and Replacements:**

The Association's bylaws and Florida Statutes require that the Association prepare its annual budget with calculations of estimates of future costs for the repair and/or replacement of certain common property. These calculations provide the basis for the establishment and ratable funding of reserves over a period of time. The budget must include amounts representing full funding of reserves, however, the membership may vote to reduce or eliminate the funding of these amounts as called for in the budget. This vote must be at a duly called meeting before the budget is in place and is valid for one year only.

The Association's governing documents state that reserve funds for future major repairs and replacements must be funded unless the members determine, by majority vote, to not fund reserves, or to partially fund reserves, for a fiscal year. The Board of Directors determined the future major repairs and replacement costs from information provided from a study originally prepared in 2013 by GAB Robins North America. The study determined a 2013 funding requirement of \$1,855,200 based on the pooling method adopted in 2006. The 2013 budget includes reserve funding of \$170,000. The study determined a 2014 funding requirement of \$2,252,546 based on the pooling method adopted in 2006. The 2014 budget includes reserve funding of \$170,000.

Actual expenditures may vary from the estimated replacement costs. These variances could be material. Consequently, the amounts accumulated in this fund may not be adequate to fund the major repair or replacement. If additional funds are needed, the Cooperative may increase regular assessments, pass a special assessment or delay the repair or replacement.

Longboat Harbour Owners Association, Inc.

Notes to Financial Statements – Continued  
December 31, 2013

**Note 6 – Member Assessments:**

The Association bills maintenance assessments in advance on a monthly basis based on budgeted annual maintenance and management costs. Management evaluates collectability of assessments receivable and provides for an allowance for uncollectible amounts based on an evaluation of each delinquent account. At December 31, 2013 there was no allowance for uncollectible assessments. The following amounts were billed for the year ended December 31, 2013:

	<u># of units</u>	<u>Monthly Assessment</u>	<u>Total Assessment</u>
Phase I			
1 bedroom	24	\$ 363	\$ 104,544
2 bedroom	84	428	431,424
End unit	42	493	248,472
Phase II			
1 bedroom	24	367	105,696
2 bedroom	84	429	432,432
End unit	42	490	246,960
Rounding			<u>(297)</u>
Total	<u>300</u>		<u>\$ 1,569,231</u>

**Note 7 – Special Assessments:**

In 2008 an \$800,000 special assessment was levied for seawall repair. The project was complete in 2009. The unspent funds are included in the fund balance and available for future special assessment projects.

In 2013, the Association approved a special assessment in the amount of \$2,270,000 for various reconstruction projects. The assessment is due over a two year period (\$1,401,000 in 2013 and \$869,000 in 2014) and has been allocated to each unit owner proportionate to each unit owners' share of the common elements. The Association expended a total of \$1,067,376 of special assessment funds during 2013 for these projects.

**Note 8 – Insurance Contingency:**

The Association's current windstorm insurance policy contains a 3% deductible clause. Based on the \$36,942,000 insured valuation of the buildings, the first 3% or \$1,108,260 would be the responsibility of the Association.

**Note 9 – Commitments:**

The Association is currently under contract with Comcast Cablevision of West Florida, Inc. through February 28, 2014. The monthly service fee for cable is based on the number of units times a base rate of \$19.70 per unit per month plus all applicable taxes and fees through February 28, 2010, thereafter the rate will increase 3% per year through the end of the contract term.

**Longboat Harbour Owners Association, Inc.**

**Notes to Financial Statements – Continued**  
December 31, 2013

**Note 10 – Owned Units:**

As a result of foreclosure proceedings the Association obtained title to two units during 2010. In February 2011 the Association obtained title to another unit through foreclosure. These units are also subject to bank foreclosures against the original borrowers. As a result, the association's ownership is subject to the primary lender's mortgage. Any assessments owed at the time of foreclosure and all those incurred thereafter have been written off as uncollectable and charged to operating expenses. No value is placed on the units and they are not presented on the balance sheet of the Association. Management is currently renting all three units to generate cash and is planning to dispose of the units as soon as practicable. Management also believes the Association is not exposed to any further losses from these units. In addition, maintenance assessments will not be collected on these units while the Association maintains ownership.

**Note 11 – Subsequent Events:**

Subsequent events have been evaluated through February 25, 2014, which is the date the financial statements were available to be issued.

Longboat Harbour Owners Association, Inc.

Supplementary Information on Future Major Repairs and Replacements  
December 31, 2013  
(Unaudited)

The following is information significant to reserves.

	<u>Estimated Remaining Life</u>	<u>Estimated Replacement Cost</u>
Carports	0 - 29	\$ 1,407,600
Common area interiors	0 - 19	344,052
Mechanical and electrical	9 - 17	811,800
Painting and waterproofing	2	362,700
Pavement	0 - 21	397,643
Pool resurface	0 - 7	50,771
Roof replacement	0 - 6	2,414,127
Screen cages and railings	0 - 24	585,800
Seawalls and docks	7 - 35	2,175,195
Site lighting	12	31,740