

**Longboat Harbour Owners
Association, Inc.**

Financial Statements

December 31, 2015

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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, 2015, 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, 2015, 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, 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sarasota, Florida
March 8, 2016

A handwritten signature in black ink that reads "Carraraugh & Co. LLP". The signature is written in a cursive, flowing style.

Longboat Harbour Owners Association, Inc.

Balance Sheet
December 31, 2015

ASSETS

	2015					2014
Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund	Total	Total (For Comparative Purposes Only)
Assets:						
Cash and cash equivalents	\$ 592,642	41,721	1,281	96,509	413,345	1,145,498
Assessments receivable	5,566	-	-	-	-	5,566
Prepaid insurance	267,590	-	-	-	-	267,590
Other prepaids	11,187	-	-	-	-	11,187
Due from other fund	-	-	-	6,369	585	6,954
Income tax receivable	-	-	-	-	-	-
Property and equipment, net	17,134	-	-	-	-	17,134
Total assets	\$ 894,119	41,721	1,281	102,878	413,930	1,453,929

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable	\$ 31,778	-	-	-	-	31,778
Accrued expenses	14,496	-	-	-	-	14,496
Income tax payable	1,647	-	-	-	-	1,647
Prepaid assessments	75,747	11,895	-	-	-	87,642
Deferred special assessment	-	-	-	516	-	516
Due to other fund	6,954	-	-	-	-	6,954
Total liabilities	130,622	11,895	-	516	-	143,033
Fund balances	763,497	29,826	1,281	102,362	413,930	1,310,896
Total liabilities and fund balances	\$ 894,119	41,721	1,281	102,878	413,930	1,453,929

See accompanying notes to financial statements.

Longboat Harbour Owners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances
Year Ended December 31, 2015

	2015					2014 Total (For Comparative Purposes Only)	
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund		Total
Revenues:							
Maintenance assessments	\$ 1,712,246	-	-	-	180,000	1,892,246	2,992,422
Yacht club committee	-	23,353	-	-	-	23,353	27,274
Recreation committee	-	-	-	-	-	-	10,712
Laundry	23,160	-	-	-	-	23,160	20,297
Beach property use	19,350	-	-	-	-	19,350	17,700
Other (i.e. gate revenue)	13,992	-	-	-	-	13,992	19,493
Bad debt recoveries	-	-	-	-	-	-	11,249
Unit rental	13,728	-	-	-	-	13,728	17,226
Interest	177	-	-	195	633	1,005	2,573
Total revenues	<u>1,782,653</u>	<u>23,353</u>	<u>-</u>	<u>195</u>	<u>180,633</u>	<u>1,986,834</u>	<u>3,118,946</u>
Expenses:							
Advertising	1,810	-	-	-	-	1,810	712
Building maintenance	132,519	-	-	-	-	132,519	93,757
Cable TV	96,514	-	-	-	-	96,514	94,306
Carport and tennis court	(420)	-	-	-	-	(420)	-
Depreciation	5,836	-	-	-	-	5,836	15,966
Dues and subscriptions	5,383	-	-	-	-	5,383	10,831
Electricity	46,454	-	-	-	-	46,454	46,737
Elevator and equipment maintenance	36,834	-	-	-	-	36,834	44,924
Fire extinguishers and alarms	3,733	-	-	-	-	3,733	4,992
Gas - heating and pool	16,877	-	-	-	-	16,877	27,515
Housekeeping	6,799	-	-	-	-	6,799	9,971
Income tax	1,647	-	-	-	-	1,647	-
Insurance - employee	22,846	-	-	-	-	22,846	62,694
Insurance	458,754	-	-	-	-	458,754	422,957
Lawn maintenance	127,939	-	-	-	-	127,939	152,251

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, 2015

	2015					Total	2014 Total (For Comparative Purposes Only)
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund		
Expenses continued:							
Legal and accounting	15,358	-	-	-	-	15,358	22,353
Miscellaneous	12,382	-	-	-	-	12,382	1,006
Newsletter and postage	3,805	-	-	-	-	3,805	3,905
Office	11,857	-	-	-	-	11,857	10,116
Operating committee	8,771	-	-	-	-	8,771	9,114
Payroll taxes	31,076	-	-	-	-	31,076	33,097
Pest control	15,175	-	-	-	-	15,175	14,400
Pool maintenance	19,461	-	-	-	-	19,461	27,908
Salaries and wages	370,012	-	-	-	-	370,012	359,618
Taxes and licenses	2,802	-	-	-	-	2,802	1,200
Telephone	10,001	-	-	-	-	10,001	14,169
Trash removal	17,342	-	-	-	-	17,342	22,911
Water and sewer	162,833	-	-	-	-	162,833	165,195
Bad debt	6,542	-	-	-	-	6,542	11,000
Replacement fund	-	-	-	-	206,877	206,877	-
Yacht club	-	23,592	-	-	-	23,592	13,989
Recreation	-	-	66	-	-	66	10,936
Special assessment	-	-	-	955	-	955	1,112,858
Total expenses	1,650,942	23,592	66	955	206,877	1,882,432	2,821,388
Excess (deficiency) of revenues over expenses	131,711	(239)	(66)	(760)	(26,244)	104,402	297,558
Transfer	(100,000)	-	-	-	100,000	-	-
Fund balances - January 1	731,786	30,065	1,347	103,122	340,174	1,206,494	908,936
Fund balances - December 31	\$ 763,497	29,826	1,281	102,362	413,930	1,310,896	1,206,494

See accompanying notes to financial statements.

Longboat Harbour Owners Association, Inc.

Statement of Cash Flows
Year Ended December 31, 2015

	2015					Total	2014 Total (For Comparative Purposes Only)
	Operating Fund	Yacht Club Committee Fund	Recreation Committee Fund	Special Assessment Fund	Replacement Fund		
Cash flows from operating activities:							
Maintenance assessments collected	\$ 1,707,835	-	-	10,660	180,000	1,898,495	2,442,866
Interest received	177	-	-	195	633	1,005	2,573
Yacht club committee revenue collected	-	25,943	-	-	-	25,943	29,864
Recreation committee revenue collected	-	-	-	-	-	-	10,712
Other income received	70,230	-	-	-	-	70,230	74,716
Bad debt recoveries	-	-	-	-	-	-	11,249
Operating expenses paid	(1,836,444)	(26,182)	(66)	(6,158)	(62,733)	(1,931,583)	(2,667,668)
Income tax (paid) received	4,008	-	-	-	-	4,008	2,265
Cash flows from operating activities	<u>(54,194)</u>	<u>(239)</u>	<u>(66)</u>	<u>4,697</u>	<u>117,900</u>	<u>68,098</u>	<u>(93,423)</u>
Cash flows from investing activities:							
Purchase of property and equipment	385	-	-	-	-	385	(18,401)
Cash flows from investing activities	<u>385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>385</u>	<u>(18,401)</u>
Increase (decrease) in cash and cash equivalents	(53,809)	(239)	(66)	4,697	117,900	68,483	(111,824)
Cash and cash equivalents - January 1	646,451	41,960	1,347	91,812	295,445	1,077,015	1,188,839
Cash and cash equivalents - December 31	<u>\$ 592,642</u>	<u>41,721</u>	<u>1,281</u>	<u>96,509</u>	<u>413,345</u>	<u>1,145,498</u>	<u>1,077,015</u>
Reconciliation of excess (deficiency) of revenues over expenses to cash flows from operating activities:							
Excess (deficiency) of revenues over expenses	\$ 131,711	(239)	(66)	(760)	(26,244)	104,402	297,558
Adjustments:							
Depreciation	5,836	-	-	-	-	5,836	15,966
Transfer	(100,000)	-	-	-	100,000	-	-
(Increase) decrease in:							
Assessments receivable	(3,426)	-	-	10,144	-	6,718	914,239
Prepaid insurance	(88,546)	-	-	-	-	(88,546)	1,749
Other prepaids	(10,265)	-	-	-	-	(10,265)	-
Income tax receivable	4,008	-	-	-	-	4,008	2,265
Due from other fund	-	-	-	(5,203)	44,144	38,941	47,319
Increase (decrease) in:							
Accounts payable	31	-	-	-	-	31	(117,222)
Accrued expenses	5,795	-	-	-	-	5,795	6,448
Income tax payable	1,647	-	-	-	-	1,647	-
Prepaid assessments	37,956	-	-	-	-	37,956	(11,977)
Deferred special assessment	-	-	-	516	-	516	(1,202,449)
Due to other fund	(38,941)	-	-	-	-	(38,941)	(47,319)
Total adjustments	<u>(185,905)</u>	<u>-</u>	<u>-</u>	<u>5,457</u>	<u>144,144</u>	<u>(36,304)</u>	<u>(390,981)</u>
Cash flows from operating activities	<u>\$ (54,194)</u>	<u>(239)</u>	<u>(66)</u>	<u>4,697</u>	<u>117,900</u>	<u>68,098</u>	<u>(93,423)</u>

See accompanying notes to financial statements.

Longboat Harbour Owners Association, Inc.

Notes to Financial Statements

December 31, 2015

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 \$438 to \$594 per month, based on unit size and location, for the year ended December 31, 2015. Of the assessment, a range of \$42 to \$57 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 \$2,500 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, 2015

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, 2015. 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, 2015 was \$1,647.

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, 2015. The Association's federal income tax returns 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, 2015, the Association had cash balances in excess of FDIC insurance of approximately \$58,600.

Longboat Harbour Owners Association, Inc.

Notes to Financial Statements – Continued

December 31, 2015

Note 4 – Property and Equipment:

Property and equipment at December 31, 2015, consisted of the following:

Office equipment	\$	12,356
Laundry room equipment		51,822
Fitness equipment		4,873
Maintenance equipment		47,160
Kitchen equipment		8,001
Pool furniture		10,904
Computers and software		<u>7,944</u>
Total cost		143,060
Accumulated depreciation		<u>(125,926)</u>
Net property and equipment	\$	<u>17,134</u>

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 and updated in 2014. The study determined a 2015 funding requirement of \$663,600 based on the pooling method. The 2015 budget includes reserve funding of \$180,000. The study determined a 2016 funding requirement of \$663,600 based on the pooling method. The 2016 budget includes reserve funding of \$183,700.

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, 2015

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, 2015 there was no allowance for uncollectible assessments. The following amounts were billed for the year ended December 31, 2015:

	# of units	Monthly Assessment	Total Assessment
Phase I			
1 bedroom	24	\$ 438	\$ 126,144
2 bedroom	84	516	520,128
End unit	42	594	299,376
Phase II			
1 bedroom	24	443	127,584
2 bedroom	84	517	521,136
End unit	42	590	297,360
Rounding			518
Total	<u>300</u>		<u>\$ 1,892,246</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 in 2013 and \$1,115,137 in 2014 of special assessment funds for these projects. The unspent funds are included in the fund balance and available for future special assessment 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, 2017. 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, 2015

Note 11 – Subsequent Events:

Subsequent events have been evaluated through March 8, 2016, 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, 2015
(Unaudited)

The following is significant information on reserves.

	<u>Estimated Remaining Life</u>	<u>Estimated Replacement Cost</u>
Carports	27 - 28	\$ 1,413,720
Common area interiors	0 - 17	345,782
Mechanical and electrical	7 - 15	835,320
Painting and waterproofing	0	366,300
Pavement	0 - 20	411,764
Pools	0 - 5	51,410
Roofs	0 - 4	2,450,808
Screen cages and railings	0 - 22	636,000
Seawalls and docks	5 - 33	2,209,158
Site lighting	10	31,991