

**THE ISLANDER OWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

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FINANCIAL STATEMENTS  
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# NEUSCHWANDER, FAIRCLOTH & HARDY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.nfhcpa.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**The Islander Owners Association, Inc.**  
502 Gulfshore Drive  
Destin, FL 32541

We have audited the accompanying balance sheet of The Islander Owners Association, Inc. as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Islander Owners Association, Inc. as of December 31, 2011, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 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.

*Neuschwander, Faircloth & Hardy, P.C.*

Neuschwander, Faircloth & Hardy, P.C.  
March 30, 2012

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2011**

	<u>Operating</u>	<u>Reserve</u>	<u>Rental</u>	<u>Total</u>
<b>ASSETS</b>				
<b><u>Current Assets</u></b>				
Cash - Unrestricted	\$ 1,738	\$ -	\$ 36,176	\$ 37,914
Cash - Restricted	-	227,452	-	227,452
Accounts Receivable	83,739	1,612	-	85,351
Accrued Interest	-	773	-	773
Due from Other Funds	8,368	1,375	-	9,743
Inventory	-	-	4,720	4,720
Prepaid Expenses	35,466	-	16,968	52,434
Total Current Assets	129,311	231,212	57,864	418,387
<b><u>Property and Equipment</u></b>				
Buildings	100,873	-	-	100,873
Furniture and Fixtures	66,730	-	2,379	69,109
Machinery and Equipment	55,350	-	1,711	57,061
Office Equipment	-	-	16,347	16,347
Less: Accumulated Depreciation	(96,430)	-	(18,509)	(114,939)
Software	600	-	-	600
Less: Accumulated Amortization	(500)	-	-	(500)
Net Property and Equipment	126,623	-	1,928	128,551
<b><u>Other Assets</u></b>				
Security Deposits	4,425	-	-	4,425
<b>TOTAL ASSETS</b>	<b>\$ 260,359</b>	<b>\$ 231,212</b>	<b>\$ 59,792</b>	<b>\$ 551,363</b>

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2011**

<b>LIABILITIES AND FUND BALANCE</b>	<u>Operating</u>	<u>Reserve</u>	<u>Rental</u>	<u>Total</u>
<b><u>Current Liabilities</u></b>				
Accounts Payable	\$ 15,248	\$ -	\$ 27,910	\$ 43,158
Accrued Liabilities	-	-	4,177	4,177
Payroll Taxes Payable	-	-	39,891	39,891
Due to Other Funds	-	-	9,743	9,743
Sales Tax Payable	-	-	2,660	2,660
Deferred Revenue	7,977	816	61,933	70,726
Line of Credit	50,000	-	-	50,000
Current Portion of Long-Term Liabilities	41,931	-	-	41,931
Total Current Liabilities	<u>115,156</u>	<u>816</u>	<u>146,314</u>	<u>262,286</u>
<b><u>Long-Term Liabilities</u></b>				
Notes Payable	394,171	-	-	394,171
Less: Current Portion of Long-Term Liabilities	(41,931)	-	-	(41,931)
Total Long-Term Liability	<u>352,240</u>	<u>-</u>	<u>-</u>	<u>352,240</u>
<b>TOTAL LIABILITIES</b>	<b>467,396</b>	<b>816</b>	<b>146,314</b>	<b>614,526</b>
<b><u>Fund Balance</u></b>				
Fund Balance (Deficit)	<u>(207,037)</u>	<u>230,396</u>	<u>(86,522)</u>	<u>(63,163)</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 260,359</u></b>	<b><u>\$ 231,212</u></b>	<b><u>\$ 59,792</u></b>	<b><u>\$ 551,363</u></b>

**THE ISLANDER OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2011**

	<u>Operating</u>	<u>Reserve</u>	<u>Rental</u>	<u>Total</u>
<b><u>Revenues</u></b>				
Amenity	\$ -	\$ -	\$ 62,459	\$ 62,459
Assessments	571,050	181,446	-	752,496
Beach Rentals	-	-	2,009	2,009
Gift Shop	-	-	7,797	7,797
Housekeeping Services	-	-	215,697	215,697
Interest	67	2,060	1,075	3,202
Maintenance Work Order	-	-	7,547	7,547
Miscellaneous	1,854	-	5,660	7,514
Rental	-	-	461,680	461,680
Sundries	-	-	3,254	3,254
Washer/Dryer	8,686	-	-	8,686
<b>Total Revenues</b>	<b>581,657</b>	<b>183,506</b>	<b>767,178</b>	<b>1,532,341</b>
<b><u>Operating Expenses</u></b>				
Accounting and Legal	23,150	-	-	23,150
Advertising	-	-	60,913	60,913
Amortization	200	-	-	200
Bad Debt	18,343	790	991	20,124
Bank Charges	485	-	2,176	2,661
Credit Card Fees	-	-	41,240	41,240
Depreciation	14,143	-	475	14,618
Gift Shop	-	-	6,557	6,557
Guest Amenities	-	-	63,843	63,843
Housekeeping	2,139	-	237,769	239,908
Insurance - Liability	80,376	-	-	80,376
Insurance - Health	6,968	-	10,776	17,744
Insurance - Workmans' Compensation	6,537	-	11,558	18,095
Interest	16,340	-	1,468	17,808
Maintenance Contracts	7,337	-	20,452	27,789
Miscellaneous	803	-	6,219	7,022
Office Expense	10,268	-	6,611	16,879
Pest Control	4,643	-	-	4,643
Major Repairs and Replacements	95,523	215,055	4,460	315,038
Salaries	153,995	-	270,570	424,565
Security	5,456	-	631	6,087
Taxes - Payroll	13,663	-	25,586	39,249
Taxes - Other	5,071	-	975	6,046
Telephone	28,412	-	4,301	32,713
Utilities	127,332	-	59,478	186,810
<b>Total Operating Expenses</b>	<b>\$ 621,184</b>	<b>\$ 215,845</b>	<b>\$ 837,049</b>	<b>\$ 1,674,078</b>

**THE ISLANDER OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND BALANCES - Continued  
YEAR ENDED DECEMBER 31, 2011**

	<u>Operating</u>	<u>Reserve</u>	<u>Rental</u>	<u>Total</u>
<b>Deficiency of Revenues Over Expenses</b>	\$ (39,527)	\$ (32,339)	\$ (69,871)	\$ (141,737)
<b>Fund Balance (Deficit), Beginning of Year</b>	(179,510)	262,735	(4,651)	78,574
<b>Transfer (To) From Other Funds</b>				
Lobby Rental	<u>12,000</u>	<u>-</u>	<u>(12,000)</u>	<u>-</u>
<b>Fund Balance (Deficit), End of Year</b>	<u>\$ (207,037)</u>	<u>\$ 230,396</u>	<u>\$ (86,522)</u>	<u>\$ (63,163)</u>

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2011**

	<u>Operating</u>	<u>Reserve</u>	<u>Rental</u>	<u>Total</u>
<b><u>Cash Flows from Operating Activities</u></b>				
Deficiency of Revenues Over Expenses	\$ (39,527)	\$ (32,339)	\$ (69,871)	\$ (141,737)
Adjustments to Reconcile Deficiency of Revenues Over Expenses to Net Cash Provided by (Used in) Operating Activities:				
Amortization	200	-	-	200
Depreciation	14,143	-	475	14,618
Decrease in Accounts Receivable	10,044	81,098	-	91,142
Increase in Inventory	-	-	(4,720)	(4,720)
Increase in Prepaid Insurance	(191)	-	(12,222)	(12,413)
Decrease in Accrued Interest	-	45	-	45
Increase (Decrease) in Accounts Payable	(715)	(19,117)	22,814	2,982
Increase (Decrease) in Deferred Revenue	7,977	(329,103)	23,514	(297,612)
Decrease in Accrued Expenses	(5,032)	-	(18,054)	(23,086)
Total Adjustments	26,426	(267,077)	11,807	(228,844)
<b>Net Cash Used in Operating Activities</b>	(13,101)	(299,416)	(58,064)	(370,581)
<b><u>Cash Flows from Investing Activities</u></b>				
Purchase of Property and Equipment	(34,836)	-	(880)	(35,716)
<b>Net Cash Used in Financing Activities</b>	(34,836)	-	(880)	(35,716)
<b><u>Cash Flows from Financing Activities</u></b>				
Transfers (to) from Other Funds	12,000	-	(12,000)	-
Repayment of Loans (to) from Other Funds	(29,536)	-	29,536	-
Net Change in Line of Credit	50,000	-	-	50,000
Advances on Notes Payable	73,110	-	-	73,110
Principal Payments on Notes Payable	(74,892)	-	-	(74,892)
<b>Net Cash Provided by Financing Activities</b>	30,682	-	17,536	48,218
<b>Net Decrease in Cash</b>	(17,255)	(299,416)	(41,408)	(358,079)
<b>Cash, Beginning of Year</b>	18,993	526,868	77,584	623,445
<b>Cash, End of Year</b>	<u>\$ 1,738</u>	<u>\$ 227,452</u>	<u>\$ 36,176</u>	<u>\$ 265,366</u>

See Accountants' Audit Report.



**THE ISLANDER OWNERS ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011**

**NOTE 1: NATURE OF ACTIVITIES**

Organization and Nature of Activities

The Islander Owners Association, Inc. (the Association), is a Florida Corporation formed on May 22, 1981, as a not-for-profit corporation for the operation, management, maintenance and control of The Islander Condominium.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including roofs, building exteriors, parking areas, recreation areas, pool, landscaping, etc. The Association also provides electricity, water, sewer, sanitation and pest control services for the individual units.

All policy decisions, including the annual budget and owners' assessments, are formulated by the Board of Directors. Major decisions are referred to the general Association membership before each action is taken.

**NOTE 2: DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 30, 2012, the date that the financial statements were available to be issued.

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

Reserve Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Rental Fund - This fund is used to account for financial resources available for rental activities of the Association. Disbursements from this fund are generally made at the discretion of the Board and manager.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2011, the Association had delinquent assessments of \$28,672. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Inventory

Inventory is stated at cost using the first-in, first-out (FIFO) method.

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS-Continued**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES-Continued**

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 personal property at cost and depreciates it. Personal property and equipment are originally recorded at acquisition cost. Repairs, maintenance and minor replacements are expensed as incurred. The property and equipment placed in service prior to December 31, 2009 are depreciated by the Association using the modified accelerated cost recovery system which utilizes accelerated methods over the estimated useful life of each asset (5 – 39 years). The property and equipment placed in service after December 31, 2009 are depreciated by the Association using the straight line method over the estimated useful life of each asset (5 – 15 years). Generally accepted accounting principles do not allow the use of the modified accelerated cost recovery system. However, the company has used this method in the past as there is not a material difference in the amount calculated using both methods.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet. Special assessments are recognized as revenue when the corresponding liabilities and expenses are incurred, with any excess revenue reported as deferred revenue on the balance sheet.

Rental Program

The Association acts as rental agents for unit owners who choose, and enter into an agreement with the Association. The Association receives a management fee of 28% of gross rents for rental from units on the program. This and other rental related revenue and expenses are reflected in the rental fund.

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchase with a maturity of three months or less to be cash equivalents.

Advertising

Advertising costs are expensed as incurred. Advertising costs were \$60,913 for the year ended December, 31 2011.

Compensated Absences

Employees of the Association are entitled to paid vacation, depending on length of service. It is not practical to estimate the amount of compensation for absences; accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

**NOTE 4: CONCENTRATIONS OF CREDIT RISK**

At the balance sheet date, the Company had cash deposits in excess of the federally insured limit of \$250,000 in the amount of \$0.

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS-Continued**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 5: INCOME TAXES**

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2011. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 5.5% by the State of Florida.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2009, 2010 and 2011 remain open to examination by the Internal Revenue Service; state income returns for 2009, 2010 and 2011 are open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

**NOTE 6: LONG-TERM LIABILITY**

Long-term liability is comprised of the following:

	<u>2011</u>
Note payable, due in monthly installments of \$3,061 including interest at 4.0%, secured by assets.	\$ 374,358
Note payable, due in monthly installments of \$6,662 including interest at 5.27%, unsecured.	\$ 19,813

Maturities of long-term liabilities are as follows:

Year ending December 31,	
2012	\$ 41,931
2013	23,062
2014	24,002
2015	24,980
2016 and Thereafter	<u>280,196</u>
Total	<u>\$ 394,171</u>

**NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents and Florida statutes require funds to be accumulated for future major repairs and replacements, unless otherwise decided by the voting membership. Accumulated funds, which aggregate approximately \$227,452 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent engineer who conducted a study in January 2011 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

**THE ISLANDER OWNERS ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS-Continued**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 8: SUPPLEMENTAL DISCLOSURES OF CASH FLOW STATEMENT**

During the year ended December 31, 2011 cash payments for interest expense were as follows:

Interest paid	<u>2011</u> <u>\$ 17,808</u>
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**THE ISLANDER OWNERS ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2011**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS (UNAUDITED)**

An independent engineer conducted a study in January 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance at December 31, 2011</u>
Roofing	7 to 25	\$ 572,000	\$ 97,449
Parking Lot	8	28,000	(13,681)
Pavers, Deck, Walls	10 to 30	247,623	2,064
Tennis Courts	10	10,000	13,182
Elevators	20 to 25	230,000	7,830
Painting	8 to 50	560,000	21,408
Replacements	25	30,000	4,878
Air Conditioning	-	-	(420)
Pool	10 to 25	220,000	10,989
Doors/Tile	10 to 30	62,000	364
Computers	-	-	8,287
Laundry Commercial	-	-	(744)
Laundry Coin	-	-	3,590
Mechanical Equipment	5 to 35	116,000	15,135
Site Improvements	8 to 40	95,000	37,335
Interior Remodeling	1 to 4	<u>32,000</u>	<u>22,730</u>
Total		<u>\$ 2,202,623</u>	<u>\$ 230,396</u>