

The Islander Owners Association, Inc.

Financial Statements and Supplementary Information

December 31, 2016



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The Islander Owners Association, Inc.
Financial Statements and Supplementary Information
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Independent Auditors' Report

To the Board of Directors and Members
The Islander Owners Association, Inc.
Destin, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of The Islander Owners Association, Inc., which comprise the Balance Sheet as of December 31, 2016, 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.

Auditors' 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 Islander Owners Association, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the December 31, 2015 financial statements of The Islander Owners Association, Inc., and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information contained in the Schedule of Changes in Replacement Fund Balance, which is the responsibility of the Association's management, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole.

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.

Carly Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 30, 2017

The Islander Owners Association, Inc.
Balance Sheet

<i>December 31,</i>	2016				2015	
	Operating Fund	Rental Fund	Replacement Fund	Total	Total (For Comparative Purposes)	
Assets						
Cash	\$ 72,462	\$ 160,486	\$ 185,714	\$ 418,662	\$ 572,975	
Certificates of deposit	-	-	791,256	791,256	385,693	
Accounts receivable, net	50,530	22,624	-	73,154	52,961	
Other receivables	-	-	131	131	131	
Prepaid expenses	37,914	10,616	-	48,530	51,043	
Other current assets	-	14,907	-	14,907	14,222	
Property and equipment, net	39,373	7,162	-	46,535	60,345	
Total assets	\$ 200,279	\$ 215,795	\$ 977,101	\$1,393,175	\$ 1,137,370	
Liabilities and fund balance						
Liabilities						
Accounts payable	\$ 6,121	\$ 41,826	\$ -	\$ 47,947	\$ 30,307	
Other current liabilities	-	22,602	-	22,602	18,871	
Income tax payable	-	7,538	-	7,538	9,659	
Deferred revenue	4,634	-	-	4,634	28,956	
Advance deposits	-	116,140	-	116,140	96,723	
Short-term borrowings	77,971	-	-	77,971	103,899	
Note payable	250,878	-	-	250,878	281,335	
Total liabilities	339,604	188,106	-	527,710	569,750	
Fund balance (deficit)	(139,325)	27,689	977,101	865,465	567,620	
Total liabilities and fund balance	\$ 200,279	\$ 215,795	\$ 977,101	\$1,393,175	\$ 1,137,370	

The accompanying notes are an integral part of these financial statements.

The Islander Owners Association, Inc.
Statement of Revenues, Expenses, and Changes in Fund Balance

<i>Year ended December 31,</i>	2016			2015	
	Operating Fund	Rental Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Revenues					
Regular assessments	\$ 645,878	\$ -	\$ 276,218	\$ 922,096	\$ 896,188
Special assessments	28,956	-	-	28,956	281,868
Special parcel assessments	476,913	-	-	476,913	-
Insurance recovery	-	-	32,893	32,893	-
Rental management commissions	-	543,197	-	543,197	528,108
Housekeeping services	-	321,595	-	321,595	310,398
Amenities	-	89,290	-	89,290	82,963
Interest income	96	426	4,808	5,330	3,100
Other revenues	81,347	221,623	-	302,970	334,004
Total revenues	1,233,190	1,176,131	313,919	2,723,240	2,436,629
Expenses					
Administrative	25,416	121,835	-	147,251	164,765
Courtesy patrol/security supplies	-	-	-	-	903
Depreciation	9,653	4,157	-	13,810	13,809
Income tax	-	7,978	-	7,978	9,659
Insurance	125,145	-	-	125,145	141,636
Interest expense	9,951	-	-	9,951	15,588
Maintenance, repairs, and supplies	658,755	191,518	101,257	951,530	815,489
Personnel	162,654	352,556	-	515,210	476,634
Rental housekeeping and amenities	-	419,732	-	419,732	384,131
Utilities	156,705	78,083	-	234,788	233,523
Total expenses	1,148,279	1,175,859	101,257	2,425,395	2,256,137
Excess (deficit) of revenues over expenses	84,911	272	212,662	297,845	180,492
Beginning fund balance (deficit)	(224,236)	27,417	764,439	567,620	387,128
Ending fund balance (deficit)	\$ (139,325)	\$ 27,689	\$ 977,101	\$ 865,465	\$ 567,620

The accompanying notes are an integral part of these financial statements.

The Islander Owners Association, Inc.
Statement of Cash Flows

<i>Year ended December 31,</i>	2016			2015	
	Operating Fund	Rental Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Operating activities					
Revenues collected	\$ 1,200,331	\$ 1,163,953	\$ 309,111	\$2,673,395	\$ 2,461,229
Interest income received	96	426	4,808	5,330	3,795
Cash paid for income taxes	-	(10,099)	-	(10,099)	(3,246)
Cash paid for interest expense	(9,951)	-	-	(9,951)	(15,588)
Cash paid for other expenses	(1,136,541)	(1,138,606)	(101,257)	(2,376,404)	(2,266,448)
Advance deposits, net	-	19,417	-	19,417	(6,077)
Net cash provided (used) by operating activities	53,935	35,091	212,662	301,688	173,665
Investing activities					
Purchase certificates of deposit	-	-	(405,563)	(405,563)	(226,982)
Redeem certificates of deposit	-	-	-	-	325,000
Net cash provided (used) by investing activities	-	-	(405,563)	(405,563)	98,018
Financing activities					
Cash from issuance of debt	-	-	-	-	179,892
Payments on debt	(50,438)	-	-	(50,438)	(149,054)
Interfund transfers and balances	(5,097)	5,097	-	-	-
Net cash provided (used) by financing activities	(55,535)	5,097	-	(50,438)	30,838
Net increase (decrease) in cash	(1,600)	40,188	(192,901)	(154,313)	302,521
Cash at beginning of year	74,062	120,298	378,615	572,975	270,454
Cash at end of year	\$ 72,462	\$ 160,486	\$ 185,714	\$ 418,662	\$ 572,975

(continued)

The accompanying notes are an integral part of these financial statements.

The Islander Owners Association, Inc.
Statement of Cash Flows (Continued)

<i>Year ended December 31,</i>	2016				2015	
	Operating Fund	Rental Fund	Replacement Fund	Total	Total (For Comparative Purposes)	
Reconciliation of excess (deficit) of revenues over expenses to net cash provided (used) by operating activities						
Excess (deficit) of revenues over expenses	\$ 84,911	\$ 272	\$ 212,662	\$ 297,845	\$ 180,492	
Adjustments to reconcile excess (deficit) of revenues over expenses:						
Depreciation	9,653	4,157	-	13,810	13,809	
Changes in operating assets and liabilities:						
Accounts receivable	(8,441)	(11,752)	-	(20,193)	(1,256)	
Other receivables	-	-	-	-	695	
Prepaid expenses	4,316	(1,803)	-	2,513	4,636	
Other current assets	-	(685)	-	(685)	(2,881)	
Accounts payable	(6,235)	23,875	-	17,640	(47,198)	
Other current liabilities	-	3,731	-	3,731	(10,787)	
Income tax payable	-	(2,121)	-	(2,121)	6,413	
Deferred revenue	(24,322)	-	-	(24,322)	28,956	
Advance deposits	-	19,417	-	19,417	(6,077)	
Insurance financing liability	(5,947)	-	-	(5,947)	6,863	
 Net cash provided (used) by operating activities	 \$ 53,935	 \$ 35,091	 \$ 212,662	 \$ 301,688	 \$ 173,665	

The accompanying notes are an integral part of these financial statements.



The Islander Owners Association, Inc. Notes to Financial Statements

NOTE 1 – ORGANIZATION

The Islander Owners Association, Inc. (“Association”), a Florida not-for-profit corporation, was incorporated on May 22, 1981. Membership in the Association consists of the 127 residential unit owners of this Florida condominium. The condominium is located in Destin, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including land, building exteriors, foundations, roofs, elevators, lobbies, stairwells, rooms used for administrative, laundry, maintenance, and storage purposes, parking lot, and recreational areas (pools, tennis courts, shuffleboard courts, and pavilion). Disposition of common area property is governed by the Association’s declaration of condominium and Florida Statutes. The Association also provides utility 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 action is taken.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association’s significant accounting policies applied in the preparation of the accompanying financial statements is as follows.

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, revenues, and expenses as determined using the accrual basis of accounting. The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association’s financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Funds

The Association is a not-for-profit organization that employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors, the Association voting membership, or applicable Florida Statute. The financial statements segregate the accounting for such funds as Operating, Rental, and Replacement Funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.



The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Operating Fund is used to account for the financial resources available for the general operation of the Association. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors and the Association’s Manager.

The Association acts as rental agent for unit owners who have entered into agreements with the Association for this service. The Rental Fund is used to account for the rental commissions, housekeeping services, and other revenues earned by the Association as rental agent and the Association’s expenses incurred to operate the rental program. This fund does not include the gross rents from the rental of participating units, as these rents belong to the individual unit owners.

The Replacement Fund is used to account for assessments made for the major repair and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund during 2016 was retained in an unallocated component.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management’s Review

In preparing the financial statements, the Association’s management has evaluated events and transactions for potential recognition or disclosure through March 30, 2017, which is the date the financial statements were available to be issued.

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. All other revenues are recognized using the accrual method of accounting.

The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at the outstanding balance due from owners and others, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analyses of individual accounts. When the collectibility of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific amounts are deemed to be uncollectible, they are written off by charging the allowance and crediting the receivable. There was no allowance for doubtful accounts at December 31, 2016 because management believes all receivables are fully collectible.

Financial Instruments

Financial instruments are reported at cost, which approximates their fair value.

Capitalization and Depreciation of Property

Real property directly associated with the condominium units is not capitalized. Real property acquired by the Association that is not directly associated with the condominium units is only capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses of the fund making the expenditure. Real property not directly associated with the units described in Note 1 has not been capitalized. Real property that has been capitalized includes a maintenance building. Personal property acquired by the Association is capitalized at cost.

Capitalized assets are depreciated over their estimated useful lives using the straight-line method.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for 2016 was \$55,048, and is included in administrative expense of the Rental Fund in the accompanying financial statements.

The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 3 – OWNERS’ ASSESSMENTS

Revenues and expenses are allocated to unit owners equally, and accordingly, assessment rates are established using this formula. The Association’s regular monthly assessment rate was \$605 for 2016. Regular assessments for the year ended December 31, 2016 totaled \$922,096, of which \$36,732 was designated for the repayment of a loan from the U.S. Small Business Administration and \$276,218 was allocated to the Replacement Fund.

The Association levied a special assessment in 2015 of \$2,296 per unit for the purpose of replacing unit front doors. An additional special assessment of \$151 per unit was charged in 2015 for the purpose of installing pool lifts. Both projects were started in 2015 and the installation of the pool lifts was completed in 2016; however, the replacement of the unit front doors was still in progress at December 31, 2016. Revenue from these special assessments has been recognized as follows: \$281,868 was recognized as revenue in 2015 and the remaining \$28,956 was recognized as revenue in 2016. There is no deferred revenue associated with the outstanding door replacement project because costs have exceeded the related special assessment (see Note 14 for additional information).

During 2016, the Association levied a special parcel assessment to 110 unit owners in the amount of \$4,353 per unit for the purpose of replacing the sliding glass doors for each of these units. An additional assessment of \$280 per participating unit is due in January 2017 to cover the additional costs of this project. As of December 31, 2016, this project was still in progress; therefore, \$476,913 of the special parcel assessment was recognized as revenue in 2016, which represents the amount of the costs incurred through year-end. Completion of the project is expected in 2017, at which time special parcel assessment revenue and the related costs of \$32,629 will be recognized.

NOTE 4 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association’s governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for future major repairs and replacements through regular assessments based on a full funding plan. The estimated replacement costs and remaining useful lives of the components of common property presented in the unaudited Supplementary Information on Future Major Repairs and Replacements accompanying these financial statements are based on updates made by management in 2016 to a professional reserve study performed in 2015. The budgeted funding amount for 2016 of \$276,218 is based on a plan to fully fund such major repairs and replacements over the estimated useful lives of the components, considering amounts previously accumulated in the Replacement Fund. Actual expenditures may vary from the estimated replacement costs presented in the supplementary information and the variances may be significant. If additional funds are needed, the Association may increase its regular assessments, levy a special assessment, or delay the repairs and replacements until funds are available.

The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT

<i>December 31,</i>	2016
Computer software and equipment	\$ 9,933
Equipment	37,978
Furniture and fixtures	35,521
Maintenance building	40,934
Total property and equipment	124,366
Less accumulated depreciation	(77,831)
Property and equipment, net	\$ 46,535

NOTE 6 – SHORT-TERM BORROWINGS

The Association has a line of credit (“LOC”) with Trustmark National Bank that has a maximum borrowing potential of \$125,000. The LOC agreement requires the Association to pay interest monthly at the bank’s prime rate plus 1% and principal is due at maturity. The LOC is secured by the Association’s accounts, contract rights, assessments, and assignment of insurance proceeds. The LOC had an outstanding balance of \$34,911 at December 31, 2016. The LOC is renewed annually.

The Association obtained short-term insurance financing from U.S. Premium Finance during 2016 that requires monthly payments of \$8,612 through May 2017. The loan has an interest rate of 3.3% and an outstanding balance of \$43,060 at December 31, 2016. It is secured by unearned insurance premiums.

The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 7 – NOTE PAYABLE

In 1996, the Association obtained a 30-year loan from the U.S. Small Business Administration. The loan has an interest rate of 4% and is secured by an assignment of assessments. Principal and interest of \$3,061 is paid monthly. It is anticipated the loan will be paid in full approximately one year prior to its original maturity date of February 1, 2026. The following table presents information on the future maturity of this loan.

<i>Years ending December 31,</i>	
2017	\$ 27,517
2018	28,313
2019	29,467
2020	30,667
2021	31,916
Thereafter	102,998
Total	\$ 250,878

NOTE 8 – INSURANCE RECOVERY AND OTHER REVENUES

The Association received \$32,893 from an insurance claim for damages to the exterior wall caused by a storm in 2016. This money plus funds accumulated in the Replacement Fund were used to repair the damages, which cost \$87,600.

Other revenues for 2016 include \$110,331 in charges to owners for unit replacement items, work orders, and other vendor services and \$116,434 in damage waiver fees charged to unit rental guests. The remaining \$76,205 in other revenues is comprised of real estate brokerage commissions, washer/dryer income, Palm Room rents, and other miscellaneous sales and fees.

NOTE 9 – INCOME TAXES

The Association is taxed as a regular corporation and must comply with Internal Revenue Code (IRC) Section 277, which applies to certain membership organizations. Under IRC Section 277, the Association is required to separate membership income and expenses from nonmembership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended December 31, 2016, the Association's net nonmembership income was \$51,551, which resulted in income tax of \$7,978.

The Association is not aware of any uncertain tax positions that would require accrual or disclosure in the financial statements.

The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 10 – RETIREMENT PLAN

The Association has a defined contribution retirement plan under which it makes contributions of 2% of the eligible employee's gross pay. Total contribution expense for 2016 was \$7,037.

NOTE 11 – RELATED PARTIES

The Association engaged Emerald Green Cleaners LLC to provide housekeeping services for the Association's rental management program. This entity is owned by the Association's general manager and his wife. During 2016, Emerald Green Cleaners charged the Association \$328,020 for these services. Accounts payable includes \$7,100 due to this vendor at December 31, 2016.

The Association engaged Virtualize IT, LLC to create new virtual tours of the rental units for the Association's website. This company is owned by the husband of the Association's assistant general manager. The cost incurred for services provided in 2016 was \$12,064. Accounts payable includes \$2,518 due to this vendor at December 31, 2016.

NOTE 12 – RISKS AND UNCERTAINTIES

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual condominium units. Should the collection of any such liens be enforced by the sale of the unit, the collectibility of the receivable is dependent on the quick sale market value of the unit, and the amount of any other liens that have priority. Market value may be influenced by the real estate market in Destin, Florida.

The Association has a windstorm insurance policy that provides an aggregate coverage of \$18,611,175 on the buildings, their contents, and other structures. The policy has a named windstorm deductible of 3% per building or structure, with a minimum deductible of \$25,000 per building or structure. Windstorm deductible amounts range from \$25,000 to \$271,287, with an aggregate deductible amount of \$764,484 for all covered properties.

The Association maintains depository accounts at Regions Bank and Trustmark National Bank, which are insured by the Federal Deposit Insurance Corporation ("FDIC"). Bank balances on December 31, 2016 at Trustmark Bank exceeded the FDIC coverage limit of \$250,000 per depositor by \$222,149.



The Islander Owners Association, Inc.
Notes to Financial Statements

NOTE 13 – LETTER OF CREDIT

The Association has obtained an irrevocable standby letter of credit from Trustmark National Bank. The amount of the letter of credit is \$21,600 and the beneficiary is Gulf Power Company. The letter of credit was obtained in lieu of maintaining a security deposit with Gulf Power Company.

NOTE 14 – COMMITMENTS AND SUBSEQUENT EVENTS

In 2016, the Association replaced the original contractor engaged to replace the unit front doors because the original contractor was not properly licensed in Florida and did not obtain the proper permits for the project. Because of this change and other problems related to the installation of the doors, the Association estimates the project costs will exceed the original contract amount by \$117,038. The Association has engaged a law firm to pursue collection of these additional costs. In January 2017, the original contractor issued a check to the Association in the amount of \$33,528, which is being held in trust by the law firm. On March 13, 2017, the law firm issued a demand letter to the original contractor for the remaining \$83,510 in excess costs. No accrual has been made in the 2016 financial statements for any subsequent or pending recovery from the original contractor. The ultimate outcome of the Association's claim for \$83,510 against the original contractor is unknown at this time. The costs of the door replacement project, which was still in progress at December 31, 2016, are being recorded as they are incurred. Costs incurred through December 31, 2016 were \$303,964 and the remaining costs to complete the project in 2017 are estimated to be approximately \$90,000.

The Association filed a Deepwater Horizon Economic Damages claim against British Petroleum ("BP") for lost business income resulting from the Deepwater Horizon oil spill that occurred in 2010. At its February 2017 meeting, the Board of Directors voted to accept BP's settlement offer of \$1.2 million. The attorney handling the claim for the Association will receive 25% of this amount, resulting in an expected net settlement for the Association of approximately \$900,000. No accrual has been made in the accompanying financial statements for the anticipated recovery in 2017.

Supplementary Information

The Islander Owners Association, Inc.
Schedule of Changes in Replacement Fund Balance

Year ended December 31,

2016

Component	Beginning Fund Balance	Revenues	Expenses	Ending Fund Balance
West pool building	\$ 2,574	\$ 397	\$ -	\$ 2,971
East pool building	2,574	397	-	2,971
Model unit 119	2,173	356	-	2,529
Maintenance building	4,119	635	-	4,754
Entrance sign/flagpole/shuffleboard	1,432	244	1,615	61
Tennis court surface	1,369	13,631	3,200	11,800
Tennis court lighting	2,138	7,861	-	9,999
Gate openers	11,737	2,751	-	14,488
Beach walkover structure/electrical	5,672	879	-	6,551
Beach walkover deck/rails/gates	7,301	4,293	-	11,594
Sidewalk pavers	8,513	6,148	-	14,661
Landscape and irrigation system	9,286	2,678	-	11,964
Landscape plant replacement	3,511	4,097	-	7,608
Fencing	8,230	2,558	-	10,788
Parking lot asphalt overlay	10,000	9,999	-	19,999
Parking lot lighting	3,755	249	-	4,004
Parking lot storm drain pump	6,032	6,245	-	12,277
Parking lot seal & stripe	13,237	11,984	-	25,221
West pool shell/pavers	9,932	3,023	-	12,955
West pool marcite surface	889	1,211	-	2,100
West pool filters/heater/lights	864	1,734	1,195	1,403
West pool furniture	2,268	841	-	3,109
West pool spa	4,520	2,096	-	6,616
East pool shell/pavers	11,875	3,585	-	15,460
East pool marcite surface	496	950	-	1,446
East pool filters/heater/lights	2,716	3,428	2,762	3,382
East pool furniture	2,268	966	-	3,234
East pool spa	2,788	2,442	-	5,230
Pavilion roof	2,390	391	-	2,781
Pavilion structure/light	15,255	3,849	-	19,104
Concrete restoration	23,623	5,150	-	28,773
Common service doors	6,257	1,091	-	7,348
Doors trash/automatic/store	8,464	1,893	-	10,357
Doors storefront and glass	3,992	593	-	4,585
Windows unit paint	5,226	3,097	-	8,323
Windows common paint	2,075	366	-	2,441
Master bedroom windows	-	-	-	-
Unit doors trim and paint	34,931	15,221	-	50,152
Unit sliding glass doors paint	16,602	2,925	-	19,527
Unit doors replacement	-	9,000	-	9,000

(continued)

The Islander Owners Association, Inc.
Schedule of Changes in Replacement Fund Balance (Continued)

<i>Year ended December 31,</i>	2016			
Component	Beginning Fund Balance	Revenues	Expenses	Ending Fund Balance
Unit sliding glass doors replacement	-	-	-	-
Palm room upgrades	1,363	2,955	-	4,318
Lobby/office/break room upgrades	10,361	1,975	-	12,336
Exercise equipment and space	2,778	2,778	-	5,556
Walkway railings paint	8,071	2,129	-	10,200
Balcony railings paint	5,263	1,316	-	6,579
Stairwell and interior railings paint	3,145	624	-	3,769
Flat roofs	53,500	11,357	-	64,857
Flat roofs	57,343	11,083	-	68,426
Trash room roofs	14,952	16	-	14,968
Core roofs	21,119	1,884	-	23,003
Stucco wall coatings	78,192	65,162	87,600	55,754
Caulking and patching	44,480	13,879	-	58,359
Balcony and walkway soffits	13,343	4,164	-	17,507
Walkway soffits	17,816	3,045	-	20,861
Balcony tile	12,496	1,389	-	13,885
Walkway tile	12,496	1,389	-	13,885
Domestic water system/backflow	10,674	75	-	10,749
Roof hatch/gutters/exit ladders	123	494	-	617
Trash and linen chutes and doors	24,642	10,464	-	35,106
Building graphic signs	3,578	761	-	4,339
Computers and software	8,606	3,197	-	11,803
Security system	940	1,133	-	2,073
Air conditioners	1,872	3,282	-	5,154
Commercial washers and dryers	15,488	3,837	-	19,325
Coin washers and dryers	6,196	4,402	-	10,598
Electrical system	5,433	889	-	6,322
Building lighting	7,882	1,508	-	9,390
Elevator doors in shaft	8,827	1,559	-	10,386
Elevator cabs	14,970	5,004	-	19,974
Elevator controller modernization	26,290	5,685	-	31,975
Fire pump and fire room equipment	5,214	2,066	-	7,280
Fire monitoring equipment	2,394	356	-	2,750
Unallocated interest	3,508	4,808	4,885	3,431
Total	\$ 764,439	\$ 313,919	\$ 101,257	\$ 977,101

The Islander Owners Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Unaudited)

Component	Estimated Remaining Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at December 31, 2016
West pool building	24	\$ 12,500	\$ 2,971
East pool building	24	12,500	2,971
Model unit 119	21	10,000	2,529
Maintenance building	24	20,000	4,754
Entrance sign/flagpole/shuffleboard	34	10,000	61
Tennis court surface	5	15,000	11,800
Tennis court lighting	1	10,000	9,999
Gate openers	10	42,000	14,488
Beach walkover structure/electrical	21	25,000	6,551
Beach walkover deck/rails/gates	6	37,359	11,594
Sidewalk pavers	9	70,000	14,661
Landscape and irrigation system	3	20,000	11,964
Landscape plant replacement	5	20,000	7,608
Fencing	8	31,250	10,788
Parking lot asphalt overlay	8	110,000	19,999
Parking lot lighting	26	20,000	4,004
Parking lot storm drain pump	1	12,277	12,277
Parking lot seal & stripe	1	30,000	25,221
West pool shell/pavers	23	82,500	12,955
West pool marcite surface	9	13,000	2,100
West pool filters/heater/lights	6	13,000	1,403
West pool furniture	7	10,000	3,109
West pool spa	4	15,000	6,616
East pool shell/pavers	18	80,000	15,460
East pool marcite surface	9	10,000	1,446
East pool filters/heater/lights	5	13,000	3,382
East pool furniture	7	11,000	3,234
East pool spa	4	15,000	5,230
Pavilion roof	21	11,000	2,781
Pavilion structure/light	4	34,500	19,104
Concrete restoration	9	75,000	28,773
Common service doors	18	27,000	7,348
Doors trash/automatic/store	8	25,500	10,357
Doors storefront and glass	26	20,000	4,585
Windows unit paint	8	30,000	8,323
Windows common paint	6	5,000	2,441
Master bedroom windows	20	571,500	-
Unit doors trim and paint	5	135,000	50,152
Unit sliding glass doors paint	8	40,000	19,527
Unit doors replacement	25	225,000	9,000

(continued)

The Islander Owners Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Continued)
(Unaudited)

Component	Estimated Remaining Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at December 31, 2016
Unit sliding glass doors replacement	25	533,400	-
Palm room upgrades	7	25,000	4,318
Lobby/office/break room upgrades	14	40,000	12,336
Exercise equipment and space	7	25,000	5,556
Walkway railings paint	14	40,000	10,200
Balcony railings paint	14	25,000	6,579
Stairwell and interior railings paint	14	12,500	3,769
Flat roofs	13	212,500	64,857
Flat roofs	13	212,500	68,426
Trash room roofs	13	15,175	14,968
Core roofs	13	47,500	23,003
Stucco wall coatings	2	175,000	55,754
Caulking and patching	3	100,000	58,359
Balcony and walkway soffits	3	30,000	17,507
Walkway soffits	3	30,000	20,861
Balcony tile	44	75,000	13,885
Walkway tile	44	75,000	13,885
Domestic water system/backflow	1	10,825	10,749
Roof hatch/gutters/exit ladders	19	10,000	617
Trash and linen chutes and doors	3	66,500	35,106
Building graphic signs	14	15,000	4,339
Computers and software	1	15,000	11,803
Security system	7	10,000	2,073
Air conditioners	3	15,000	5,154
Commercial washers and dryers	2	28,000	19,325
Coin washers and dryers	2	15,000	10,598
Electrical system	21	25,000	6,322
Building lighting	14	30,500	9,390
Elevator doors in shaft	19	40,000	10,386
Elevator cabs	6	50,000	19,974
Elevator controller modernization	19	140,000	31,975
Fire pump and fire room equipment	11	30,000	7,280
Fire monitoring equipment	26	12,000	2,750
Unallocated interest	N/A	N/A	3,431
Total		\$ 4,156,286	\$ 977,101