

Sea Winds Condominium Association of
St. Augustine Beach, Inc.

Financial Statements and Independent Auditor's Report

For the Year Ended June 30, 2011

Sea Winds Condominium Association of St. Augustine Beach, Inc.
Financial Statements and Independent Auditor's Report
June 30, 2011

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheet	2
Statement of Revenues, Expenses, and Changes in Fund Balance	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Supplementary Information	
Future Major Repairs and Replacements	9

W. H. O'CONNELL & ASSOCIATES PA

Certified Public Accountants

2825 Lewis Speedway, Suite 104

St. Augustine, FL 32084

Phone (904) 829-0082 Fax 904 829-5030 e-mail:henry@whocpa.com

October 31, 2011

To the Board of Directors

Sea Winds Condominium Association of St. Augustine Beach, Inc.,

We have audited the accompanying balance sheet of Sea Winds Condominium Association of St. Augustine Beach, Inc. (the Association) as of June 30, 2011, and the related statements of revenues, expenses and changes in fund balance; 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 Sea Winds Condominium Association of St. Augustine Beach, Inc. as of June 30, 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.

The supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements, but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



W.H. O'Connell & Associates, PA
Certified Public Accountants

SEA WINDS CONDOMINIUM ASSOCIATION OF
ST. AUGUSTINE BEACH, INC.
BALANCE SHEET
JUNE 30, 2011

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>RENTAL FUND</u>	<u>TOTAL</u>
ASSETS				
Cash and Cash Equivalents				
Checking Accounts	\$ 19,608	\$ 333,211	\$ 27,390	\$ 380,209
Cash on Hand	-	-	150	150
Certificates of Deposit	-	-	-	-
Total Cash and Cash Equivalents	<u>\$ 19,608</u>	<u>\$ 333,211</u>	<u>\$ 27,540</u>	<u>\$ 380,359</u>
Other Assets				
Regular Assessments Receivable	\$ 18,500	\$ -	\$ -	\$ 18,500
Special Assessments Receivable	226,976	-	-	226,976
Due From General Fund	-	5,663	-	5,663
Due From Rental Escrow	-	-	2,000	2,000
Prepaid Insurance	30,000	-	-	30,000
Prepaid Expenses	8,028	-	-	8,028
Total Other Assets	<u>\$ 283,504</u>	<u>\$ 5,663</u>	<u>\$ 2,000</u>	<u>\$ 291,167</u>
TOTAL ASSETS	<u><u>\$ 303,112</u></u>	<u><u>\$ 338,874</u></u>	<u><u>\$ 29,540</u></u>	<u><u>\$ 671,526</u></u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ 5,968	\$ -	\$ 899	\$ 6,867
Due to Replacement Fund	5,663	-	-	5,663
Assessments Received in Advance	14,621	-	-	14,621
Construction Loan Payable	304,221	-	-	304,221
TOTAL LIABILITIES	<u>\$ 330,473</u>	<u>\$ -</u>	<u>\$ 899</u>	<u>\$ 331,372</u>
FUND BALANCE				
Fund Balance	<u>\$ (27,361)</u>	<u>\$ 338,874</u>	<u>\$ 28,641</u>	<u>\$ 340,154</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 303,112</u></u>	<u><u>\$ 338,874</u></u>	<u><u>\$ 29,540</u></u>	<u><u>\$ 671,526</u></u>

The accompanying "Notes to the Financial Statements"
form an integral part of this statement.

SEA WINDS CONDOMINIUM ASSOCIATION OF
ST. AUGUSTINE BEACH, INC.
STATEMENT OF REVENUES, EXPENSE AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>RENTAL FUND</u>	<u>TOTAL</u>
REVENUES				
Regular Assessments	\$ 285,508	\$ 70,820	\$ -	\$ 356,328
Insurance Special Assessment	62,240	-	-	62,240
Special Assessment	100,000	-	-	100,000
Investment Interest	615	2,497	-	3,112
Interest on Special Assessments	26,382	-	-	26,382
Rental Income	12,720	-	92,402	105,122
Late Fees and Other Income	3,107	-	-	3,107
TOTAL REVENUES	\$ 490,572	\$ 73,317	\$ 92,402	\$ 656,291
EXPENSES				
<u>General & Administrative</u>				
Insurance	\$ 78,289	\$ -	\$ -	\$ 78,289
Management Fees	26,523	-	12,000	38,523
Contribution to Association	-	-	12,720	12,720
Licenses and Fees	1,036	-	-	1,036
Bank and Credit Card Fees	831	-	4,227	5,058
Interest Expense	30,786	-	-	30,786
Professional Fees	19,047	-	-	19,047
Office Supplies & Expenses	25,606	-	1,307	26,913
Office Salary	-	-	12,478	12,478
Security	2,904	-	-	2,904
Advertising	-	-	2,480	2,480
<u>Repairs & Maintenance</u>				
Major Repairs and Replacements	-	21,056	-	21,056
Maintenance Salary	41,417	-	-	41,417
General Maintenance	4,235	-	30,802	35,037
Pest Control/Termites	5,612	-	-	5,612
Pool	8,162	-	-	8,162
Building	8,568	-	-	8,568
Grounds	44,317	-	-	44,317
<u>Utilities</u>				
Water and Sewer	45,357	-	-	45,357
Telephone	2,290	-	78	2,368
Electricity	9,223	-	-	9,223
Cable TV	35,778	-	-	35,778
TOTAL EXPENSES	\$ 389,981	\$ 21,056	\$ 76,092	\$ 487,129
CHANGES IN FUND BALANCE	\$ 100,591	\$ 52,261	\$ 16,310	\$ 169,162
FUND BALANCE, JULY 1, 2010 - restated	\$ (127,952)	\$ 286,613	\$ 12,331	\$ 170,992
FUND BALANCE, JUNE 30, 2011	\$ (27,361)	\$ 338,874	\$ 28,641	\$ 340,154

The accompanying "Notes to the Financial Statements"
form an integral part of this statement.

SEA WINDS CONDOMINIUM ASSOCIATION OF
ST. AUGUSTINE BEACH, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>OPERATING</u> <u>FUND</u>	<u>REPLACEMENT</u> <u>FUND</u>	<u>RENTAL</u> <u>FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Fund Balance	\$ 100,591	\$ 52,261	\$ 16,310	\$ 169,162
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Changes in Assets and Liabilities:				
Assessments Receivable	(16,657)	-	-	(16,657)
Special Assessment Receivable	128,594	-	-	128,594
Due From Operating Fund	-	103,693	-	103,693
Due From Rental Fund	2,461	-	-	2,461
Prepaid Insurance	7,624	-	-	7,624
Prepaid Expenses	(3,944)	-	-	(3,944)
Accounts Payable	5,938	-	(1,655)	4,283
Assessments Received in Advance	6,824	-	-	6,824
Due to Operating Fund	-	-	(2,461)	(2,461)
Due from Rental Escrow	-	-	(2,000)	(2,000)
Due to Reserve Fund	(71,087)	-	-	(71,087)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 160,344	\$ 155,954	\$ 10,194	\$ 326,492
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Construction Loan	\$ (192,336)	\$ -	\$ -	\$ (192,336)
NET INCREASE (DECREASE) IN CASH	\$ (31,992)	\$ 155,954	\$ 10,194	\$ 134,156
CASH JULY 1, 2010	<u>\$ 51,600</u>	<u>\$ 177,257</u>	<u>\$ 17,346</u>	<u>\$ 246,203</u>
CASH JUNE 30, 2011	<u>\$ 19,608</u>	<u>\$ 333,211</u>	<u>\$ 27,540</u>	<u>\$ 380,359</u>

SUPPLEMENTAL DISCLOSURES:

Interest paid during the period as expense \$ 30,786
No Income Taxes were paid during the period.

The accompanying "Notes to the Financial Statements"
form an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
SEA WINDS CONDOMINIUM ASSOCIATION OF ST. AUGUSTINE BEACH, INC
JUNE 30, 2011

NOTE 1 – ORGANIZATION:

Sea Winds Condominium Association of St. Augustine Beach, Inc. (the “Association”) was organized under the laws of the State of Florida in 1983 as a not-for-profit corporation. The Association is responsible for the operation and maintenance of the common property of Sea Winds condominium. The Association consists of 80 residential units on several acres located in St. Augustine Beach, Florida.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying financial statements have been issued in accordance with the “Audit and Accounting Guide for Common Interest Realty Associations” issued by the American Institute of Certified Public Accountants, which recommends the use of the accrual basis of accounting.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, are classified separately for accounting and reporting purposes.

The operating fund reflects the operating assessments paid by the homeowners to meet the regular recurring costs of operation. Expenditures of this fund are limited to those connected with the day-to-day operation, and are generally at the discretion of the Board of Directors and property managers.

The replacement fund is composed of assessments paid by homeowners to fund future replacements and major repairs. Interest earned on the replacement funds is retained in the fund. Expenditures from this fund are restricted for designated purposes.

The rental fund reflects the operating activity of the rental management provided by the Association to unit owners. Expenditures from this fund are limited to those connected with the operation of the rental management activity.

Cash and Cash Equivalents

The Association considers cash, money market investment accounts and certificates of deposit as cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS
SEA WINDS CONDOMINIUM ASSOCIATION OF ST. AUGUSTINE BEACH, INC
JUNE 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

The Association's financial instruments that are exposed to concentrations of credit risk primarily consist of cash. The Association places its cash with high credit quality financial institutions. At times, such balances may exceed FDIC insurance limits. Management does not believe the Association is exposed to any significant credit risk with respect to cash and cash equivalents.

Recognition of Assets and Depreciation Policy

Ownership of the commonly owned assets is vested directly or indirectly in the members and those assets are not deemed to be severable. As a result, commonly owned assets, except for personal property purchased by the Association, are not capitalized in the financial statements. Replacements, major repairs and the purchase of additional commonly owned assets are accounted for as replacement fund expenditures. Capitalized personal property is depreciated over estimated useful life using the straight-line method.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from members. Assessments received in advance at the balance sheet date represent fees paid in advance by members. The Association's policy is to retain legal counsel and place liens on the properties of the owners who are in arrears. The policy does not guarantee that all assessments will be collected.

The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the year, if any, for use in future periods.

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 the reported amounts of 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.

NOTES TO THE FINANCIAL STATEMENTS
SEA WINDS CONDOMINIUM ASSOCIATION OF ST. AUGUSTINE BEACH, INC
JUNE 30, 2011

NOTE 3 – ASSESSMENTS:

Monthly assessments to members ranged from \$349 to \$457 during the year ended June 30, 2011 depending on the unit's size. Of this amount, approximately \$74 per unit per month was designated for the replacement fund. Receivables are presented on the balance sheet net of an allowance for bad debt of \$123,202. This allowance consists of \$11,400 for regular assessments and \$111,802 for special assessments. Essentially the entire allowance represents assessments due on units currently in foreclosure.

NOTE 4 – SPECIAL ASSESSMENTS

The board of directors approved a special assessment totaling \$5,200,000 in July 2005 for building restoration and waterproofing. Owners had the option of paying in full or in monthly installments over ten years with interest at 7% per year on the unpaid balance. As of June 30, 2011, an aggregate balance of \$335,937 was due from owners who elected to pay in installments. A special assessment totaling \$62,240 was levied in July 2008 to provide additional funds for insurance premiums.

During September 2010, the Association levied a special assessment in the amount of \$100,000 to replenish the replacement fund for amounts utilized during prior years resulting from non-collection of assessment related to foreclosed properties.

NOTE 5 – NOTE PAYABLE

The Association is obligated under a loan payable to a bank for funding of major reconstruction work on the buildings (see Note 4). The borrowing originated as a line of credit and was converted to a conventional loan in March 2009. Interest is charged the rate of 7% per year. Interest paid during the year ended June 30, 2011 was \$30,786. The unpaid principal balance at June 30, 2011 was \$304,221 and monthly installment payments are \$5,723 including interest. The note has a final maturity date of November 15, 2015 and is collateralized by future assessments collected from owners.

NOTE 6 – MANAGEMENT FEES

The Association incurred management and administration fees of \$38,523 to Jacobs, Jacobs & Associates, Inc. for the year ended June 30, 2011 including \$12,000 for the rental program.

NOTE 7 – INCOME TAXES

Condominium associations may elect to be taxed as regular corporations or as condominium associations. The Association elected to be taxed as a regular corporation for the year ended June 30, 2011. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as investment interest and rental income, at regular

NOTES TO THE FINANCIAL STATEMENTS
SEA WINDS CONDOMINIUM ASSOCIATION OF ST. AUGUSTINE BEACH, INC
JUNE 30, 2011

NOTE 7 – INCOME TAXES (continued)

federal and state corporate rates. In general, the Association is required to separate its taxable income and deductions into membership, non-membership, and capital transactions. The Association is taxed on all net income from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses and any excess membership deductions may only be carried forward to offset membership income in future tax periods. The Association recorded income on its non-membership activities for the year ended June 30, 2011 totaling \$13,704, which was offset by net operating losses carried forward from prior years. The Association has remaining \$45,351 of net operating losses and these will be carried forward to offset non-membership income earned in future years.

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes require that funds be presented in the proposed operating budget for future major repairs and replacements. Accumulated funds, if any, are held in separate interest-bearing accounts, and are generally not available for expenditures for normal operations.

The table included in the Supplementary Information on Future Major Repairs and Replacements on page 9 is based on a 2004 engineering study with minor updates in 2007. Upon completion of the building restoration project (see Note 4), a more complete revision of the estimated remaining useful lives and replacement costs of the common property components will be undertaken to update the funding requirements. The funding program was included in the proposed budget for 2010-2011, which was presented to unit owners at the annual meeting.

NOTE 9 – SUBSEQUENT EVENTS

The Association evaluated subsequent events through October 31, 2011, the date which the financial statements were issued and did not identify any items requiring disclosure.

NOTE 10 – RESTATEMENT

Opening fund balance has been restated to properly reflect interfund liabilities and assets as of July 1, 2010. The total restatement increased fund balance by \$32,606 (\$15,788 in the operating fund and \$16,818 in the replacement fund).

Supplementary Information

SEAWINDS CONDOMINIUM ASSOCIATION OF
ST. AUGUSTINE BEACH, INC.
FUTURE MAJOR REPAIRS AND REPLACEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Components</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Replacement Cost</u>
Roofs	17 Years	\$ 220,000
Painting	8 Years	250,000
Paving	4 Years	85,000
Pool & Tennis	8 Years	40,000
Building & Grounds	18 Years	360,000
Boardwalk	18 Years	<u>124,000</u>
Total		<u>\$ 1,079,000</u>