

**LANTANA OCEANFRONT CONDOMINIUM  
ASSOCIATION, INC.**

**Financial Statements and Supplementary Information  
with  
Independent Auditors' Report**

December 31, 2019

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**KMETZ-ELWELL-GRAHAM & ASSOCIATES, PLLC**  
*Certified Public Accountants*

**Independent Auditors' Report**

To the Board of Directors  
Lantana Oceanfront Condominium Association, Inc.  
Indian Harbour Beach, Florida

We have audited the accompanying financial statements of Lantana Oceanfront Condominium Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses, and changes in fund balances 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 Lantana Oceanfront Condominium Association, Inc. as of December 31, 2019, 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.

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To the Board of Directors  
Lantana Oceanfront Condominium Association, Inc.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of operating fund revenues and expenses and the schedule of changes in contract liabilities and replacement fund balances on pages 13-15, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited", is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property on page 16 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, which considers it to be an essential part of the 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.

*Kmetz, Elwell, Graham & Associates*

Kmetz, Elwell, Graham & Associates, PLLC  
Certified Public Accountants

June 22, 2020



Lantana Oceanfront Condominium Association, Inc.  
 Balance Sheet  
 December 31, 2019

	2019		
	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash	\$ 121,878	\$ 115,591	\$ 237,469
Assessments receivable	4,393	-	4,393
Prepaid insurance	87,392	-	87,392
Interfund borrowings	(18,064)	18,064	-
	\$ 195,599	\$ 133,655	\$ 329,254
<b>Liabilities and Fund Balance</b>			
Accounts payable	\$ 4,285	\$ -	\$ 4,285
Prepaid assessments	16,765	-	16,765
Note payable-insurance	58,125	-	58,125
Note payable-line of credit	129,991	-	129,991
Contract Liabilities (assessments in advance of expenses)	-	131,941	131,941
	209,166	131,941	341,107
<b>Fund Balance (Deficit)</b>	(13,567)	1,714	(11,853)
	\$ 195,599	\$ 133,655	\$ 329,254

See accompanying notes to financial statements.



**Lantana Oceanfront Condominium Association, Inc.**  
**Statement of Revenues and Expenses and Changes in Fund Balances**  
**Year ended December 31, 2019**

	2019		
	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Regular assessments	\$ 455,676	\$ 205,920	\$ 661,596
Interest and other income	1,913	599	2,512
	457,589	206,519	664,108
<b>Expenses</b>			
General and administrative	138,855	-	138,855
Building operations	233,170	-	233,170
Landscape and grounds	39,576	-	39,576
Utilities	84,880	-	84,880
Special assessment expense	15,468	-	15,468
Reserve expenses	-	205,920	205,920
	511,949	205,920	717,869
<b>Excess (deficit) of revenues over expenses</b>	(54,360)	599	(53,761)
<b>Fund Balance, beginning of year</b>	40,793	1,115	41,908
<b>Fund Balance (Deficit), end of year</b>	\$ (13,567)	\$ 1,714	\$ (11,853)

See accompanying notes to financial statements.



Lantana Oceanfront Condominium Association, Inc.  
Statement of Cash Flows  
Year ended December 31, 2019

	2019		
	Operating Fund	Replacement Fund	Total
<b>Cash flows from operating activities:</b>			
Assessments collected	\$ 454,460	\$ 185,767	\$ 640,227
Interest and other income received	1,913	599	2,512
Cash paid for expenditures	(507,962)	(226,246)	(734,208)
<b>Net cash used for operating activities</b>	<b>(51,589)</b>	<b>(39,880)</b>	<b>(91,469)</b>
<b>Cash flows from financing activities:</b>			
Line of credit	129,991	-	129,991
Interfund borrowings	18,064	(18,064)	-
<b>Net cash provided by (used for) financing activities</b>	<b>148,055</b>	<b>(18,064)</b>	<b>129,991</b>
<b>Net increase (decrease) in cash</b>	<b>96,466</b>	<b>(57,944)</b>	<b>38,522</b>
<b>Cash, beginning of year</b>	<b>25,412</b>	<b>173,535</b>	<b>198,947</b>
<b>Cash, end of year</b>	<b>\$ 121,878</b>	<b>\$ 115,591</b>	<b>\$ 237,469</b>
<b>Reconciliation of excess (deficit) of revenues over expenses to net cash provided by (used for) operating activities:</b>			
Excess (deficit) of revenues over expenses	\$ (54,360)	\$ 599	\$ (53,761)
Adjustments:			
(Increase) decrease in:			
Assessments receivable	(384)	-	(384)
Prepaid insurance	(402)	-	(402)
Increase (decrease) in:			
Accounts payable	(534)	(20,326)	(20,860)
Income tax payable	(685)	-	(685)
Prepaid assessments	(832)	-	(832)
Insurance payable	5,608	-	5,608
Contract Liabilities	-	(20,153)	(20,153)
<b>Net cash provided by (used for) operating activities</b>	<b>\$ (51,589)</b>	<b>\$ (39,880)</b>	<b>\$ (91,469)</b>

See accompanying notes to financial statements.



**Lantana Oceanfront Condominium Association, Inc.**  
Notes to Financial Statements  
For the year ended December 31, 2019

**Note 1 – Nature of Organization**

Lantana Oceanfront Condominium Association, Inc. (the Association) was incorporated under the laws of the State of Florida on July 16, 1997 under Chapter 617 of the Florida Statutes as a not-for-profit organization. The Association is responsible for the preservation and maintenance of the common property in accordance with the terms of the Florida Statutes in Chapter 718. The Association is located in Indian Harbour Beach, Florida and consists of 96 residential units.

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

**Basis of Accounting**

The Association prepares its financial statements on the accrual basis of accounting.

**Fund Accounting**

The Association presents separate funds based on its different funding policies for operations and capital replacements.

The operating fund reflects the operating assessments paid by unit owners to meet the regular, recurring costs of operations. Expenditures of this fund are limited to those connected with the day-to-day operations and the replacements, major repairs and the purchase of additional commonly owned assets for which no replacement fund component has been established. Assessments are calculated equally for each unit owner.

The replacement fund is composed of all capital assessments paid by unit owners to fund future replacements and major repairs of certain commonly owned assets. Expenditures from this fund are restricted to those items for which assessments were levied.

All assessments receivable and prepaid assessments are deemed due to or from the operating fund. The Association's policy is to fund fully within the replacement funds each month without regard to underpayments or overpayments by members to the operating fund.

**Contract Liabilities (Assessments received in advance – replacement fund)**

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of the performance obligations related to replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year are \$152,094 and \$131,931 respectively.

**Excess Operating Funds**

The Association retains excess operating funds, if any, at the end of the operating year for use in future operating periods.

**Common Property**

Ownership of commonly owned assets is vested directly or indirectly in the unit owners and these assets are not deemed to be severable. As a result, commonly owned assets are not capitalized in the Association's financial statements.

**Accounting 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.



**Note 2 – Summary of Significant Accounting Policies** (continued)

**Fair Value of Financial Instruments**

The financial position of the Association at December 31, 2019, includes certain financial instruments that may have a fair value that is different from the value currently reflected in the financial statements. In reviewing the financial statements of the Association, certain assumptions and methods were used to determine the fair value of each category of financial instruments for which it is practicable to estimate that value.

The carrying amounts of the Association's financial instruments generally approximate their fair values at December 31, 2019.

**Subsequent Events**

Management has evaluated subsequent events through June 22, 2020, the date the financial statements were available to be issued.

In March 2020, a global pandemic was declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The pandemic has significantly impacted the economic conditions in the United States, including disrupting supply chains and affecting production and sales across a range of industries. The extent of the ultimate effects of COVID-19 on the Association's operating and financial performance cannot be predicted at this time, as they are dependent on many factors, including, but not limited to: (i) the duration and spread of the outbreak, (ii) the impact on our owners and residents, management personnel and service providers, and (iii) the impact on the local, state, national and global economies.

**Note 3 – Cash Balances**

Financial instruments which potentially subject the Association to a concentration of credit risk include cash held at financial institutions, which may exceed FDIC insurance limits or be subject to risks associated within the underlying securities. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash balances.

**Note 4 – Income Taxes**

Associations may elect to be taxed under Internal Revenue Code ("IRC") Section 277, which applies to certain membership organizations, or under IRC Section 528, which applies specifically to homeowner associations as that term is defined for tax purposes. For the year ended December 31, 2019, the Association was taxed under the provisions of IRC Section 528 (Federal Form 1120-H). Under IRC Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made.

The Association's federal income tax returns for 2016, 2017, 2018 and 2019 are subject to examination by the IRS, generally for three years after they were filed. In addition, the Association's state tax returns for the same years are subject to examination by state tax authorities for similar time periods. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

**Lantana Oceanfront Condominium Association, Inc.**  
Notes to Financial Statements (continued)

**Note 5 – Note Payable**

On December 6, 2018, the Association incurred a short term note payable to First Insurance Funding Corporation to finance its annual insurance coverage for 2019. The total financed coverage was equal to \$57,288 at a 2.24% annual rate of interest. This note required a down payment of \$4,774, and 11 monthly installments equal to \$4,774. In December 2018, the Association made the down payment of principal, and the remaining 11 payments were due beginning January 31, 2019. The total interest incurred in 2019 was \$1,285, and was included in the insurance expense.

**Note 6 –Line of Credit**

On July 26, 2019, The Association obtained a line of credit from Valley Bank in the amount of \$250,000 to finance roof repairs. As of December 31, 2019, the balance due on this line of credit is \$129,991. The interest rate on the line of credit was 5.25% at December 31, 2019. The note is secured by the Association's rights to collect assessments, an assignment of lien rights, and a security agreement. The maturity date is December 31, 2039, or until such time as the parties agree in writing to terminate the agreement. Total interest paid on the line of credit in 2019 was \$2,010.

**Note 7 – Future Major Repairs and Replacements**

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and generally are not available for expenditures for normal operations.

In connection with preparing the budget, the Board of Directors contracted with Sedgwick Valuation Services to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. The reserve study report was issued September 25, 2018. According to the reserve study, the estimated ending balance in reserves for 2019 was \$144,617, whereas the actual balance was \$133,655, resulting in higher reserve funding for the 2020 budget. When applicable, estimates were obtained from licensed contractors who inspected the property. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Board is funding for major repairs and replacements. Accordingly, the funding requirement of \$235,625 has been included in the 2020 budget. Amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**Note 8 - FASB ASC 606 New Accounting Guidance implementation**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate – Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchanges for those goods or services.



**Lantana Oceanfront Condominium Association, Inc.**  
Notes to Financial Statements (continued)

**Note 8 - FASB ASC 606 New Accounting Guidance implementation (continued)**

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

Because the Association tracks interest income as a separate component, the funds previously identified as interest will remain in fund balance as of the initial adjustment to fund balance. The Association has determined that interest income will be expensed before the other components going forward.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance and contract liabilities as of January 1, 2019.

	Reserve Fund Balance	Contract Liabilities
Balance, as previously reported, at January 1, 2019	\$ 153,209	\$ -
Adjustment for non-interest components	<u>(152,094)</u>	<u>152,094</u>
Balance, as adjusted at January 1, 2019	\$ 1,115	\$ 152,094

The effect of the adoption is an decrease of contract liability at December 31, 2019, by \$20,153. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019 that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<b>Liabilities</b>			
Contract liabilities	\$ -	\$ 131,941	\$ 131,941
<b>Fund Balance</b>			
Ending fund balances	\$ 133,655	\$ (131,941)	\$ 1,714

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance.

**Lantana Oceanfront Condominium Association, Inc.**  
Notes to Financial Statements (continued)

**Note 8 - FASB ASC 606 New Accounting Guidance implementation (continued)**

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<b>Revenue</b>			
Reserve assessments	\$ 183,684	\$ 22,236	\$ 205,920
Excess (deficit) of revenues over expenses	\$ (21,637)	\$ 22,236	\$ 599
<b>Cash Flows</b>			
Excess (deficit) of revenues over expenses	\$ (21,637)	\$ (21,038)	\$ 599
Increase (decrease) in contract liabilities	\$ -	\$ (20,153)	\$ (20,153)

**SUPPLEMENTARY INFORMATION**



**Lantana Oceanfront Condominium Association, Inc.**  
 Schedule of Operating Fund Revenues and Expenses

Year ended December 31,	2019		
	Actual	Budget	Variance Favorable (Unfavorable)
		(Unaudited)	(Unaudited)
<b>Revenues</b>			
Regular assessments	\$ 455,676	\$ 455,676	\$ -
Interest and other income	1,913	1,598	315
	457,589	457,274	315
<b>Expenses</b>			
<b>General and Administrative:</b>			
Professional fees	16,204	16,250	46
Licenses and fees	3,938	2,053	(1,885)
Insurance	87,918	83,100	(4,818)
Management fees	20,486	20,160	(326)
Office supplies and expenses	2,741	1,950	(791)
Phone lines	4,749	4,734	(15)
Interest expense - line of credit	2,010	-	(2,010)
Other misc expense	809	675	(134)
	138,855	128,922	(9,933)
<b>Building Operations:</b>			
Repairs and maintenance	74,578	77,648	3,070
Roof repairs	56,100	1,000	(55,100)
Building cleaning	39,687	38,957	(730)
Elevator Maintenance	12,985	13,187	202
Fire prevention systems	33,892	26,053	(7,839)
Maintenance supplies	15,928	18,000	2,072
	233,170	174,845	(58,325)
<b>Landscape and Grounds:</b>			
Grounds maintenance	18,228	21,772	3,544
Dune trimming	13,500	12,500	(1,000)
Pest control-grounds	2,710	2,796	86
Fertilization	3,568	-	(3,568)
Plants, shrubs, trees	1,570	5,000	3,430
	39,576	42,068	2,492



**Lantana Oceanfront Condominium Association, Inc.**  
Schedule of Operating Fund Revenues and Expenses (continued)

Year ended December 31,	2019		
	Actual	Budget	Variance Favorable (Unfavorable)
		(Unaudited)	(Unaudited)
<b>Recreational:</b>			
Pool service	9,276	9,300	24
Pool supplies	6,192	1,500	(4,692)
	15,468	10,800	(4,668)
<b>Utilities:</b>			
Electricity	17,638	19,237	1,599
Gas	1,490	2,400	910
Trash removal	17,036	16,265	(771)
Water and sewer	48,716	62,737	14,021
	84,880	100,639	15,759
	511,949	457,274	(54,675)
<b>Excess (deficit) of revenues over expenses</b>	<b>\$ (54,360)</b>	<b>\$ -</b>	<b>\$ (54,360)</b>



**Lantana Oceanfront Condominium Association, Inc.**  
 Schedule of Changes in Contract Liabilities & Replacement Fund Balances  
 Year ended December 31, 2019

Component	Beginning Contract Liabilities	Increases	Decreases	Transfers	Ending Contract Liabilities
Pooled reserves	\$ 152,094	\$ 185,767	\$ 205,920	\$ -	\$ 131,941
	\$ 152,094	\$ 185,767	\$ 205,920	\$ -	\$ 131,941

  

Component	Beginning Fund Balance	Increases	Decreases	Transfers	Ending Fund Balance
Unallocated interest	\$ 1,115	\$ 599	\$ -	\$ -	\$ 1,714
	\$ 1,115	\$ 599	\$ -	\$ -	\$ 1,714

  

Total Contract Liabilities and Fund Balance	\$ 153,209	\$ 186,366	\$ 205,920	\$ -	\$ 133,655
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**Lantana Oceanfront Condominium Association, Inc.**  
 Supplementary Information on Future Major  
 Repairs and Replacements (Unaudited)

In connection with preparing the budget, the Board of Directors conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. When applicable, estimates were obtained from licensed contractors who inspected the property. The following table is based on the study and presents significant information about the components of common property:

Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2020 Partial Funding Requirement	Components of Contract Liabilities & Fund Balance 12/31/2019
Pooled reserves	n/a	\$ -	\$ 235,625	\$ 131,941
Landscape/Irrigation	3-10 years	50,000	-	-
A/C Units	1-6 years	24,880	-	-
Building exteriors	1-15 years	906,504	-	-
Common area interiors	4-13 years	70,252	-	-
Doors	1-10 years	15,000	-	-
Dune crossover repair	10-12 years	22,837	-	-
Elevator	4-28 years	360,000	-	-
Entry system	4-10 years	25,000	-	-
Fire system	6-20 years	161,700	-	-
Painting	2-10 years	241,529	-	-
Pavement	1-10 years	89,608	-	-
Pool	1-16 years	55,078	-	-
Roofs	3-26 years	568,992	-	-
Other	4-20 years	47,414	-	-
Unallocated interest	n/a	-	-	1,714
		\$ 2,638,794	\$ 235,625	\$ 133,655

