

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2016

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Neptune House Owners Association
Block Island, Rhode Island

We have reviewed the accompanying financial statements of Neptune House Owners Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in fund balance for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

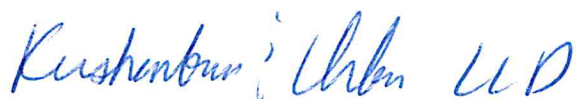
The supplementary information included in the Schedule of Operating Fund Revenues and Expenses --- Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information (except for the budget information, which we have not audited or reviewed and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it) and, based on our review, we are not aware of any material modifications that should be made to the supplementary information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the supplementary information and, accordingly, do not express an opinion on it.

Required Supplementary Information

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by that missing information.

Known Departure From Accounting Principles Generally Accepted in the United States of America

A statement of cash flows for the year ended December 31, 2016, has not been presented. Accounting principles generally accepted in the United States of America require that such a statement be presented when financial statements purport to present financial position and results of operations.

A handwritten signature in blue ink that reads "Kirshenbaum & Urban LLP". The signature is written in a cursive, flowing style.

Kirshenbaum & Urban, LLP
January 31, 2017

**NEPTUNE HOUSE OWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2016**

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash	\$ 364,150	\$ 120,952	\$ 485,102
Assessments receivable	307,498	112,989	420,487
Prepaid expenses	9,854	-	9,854
TOTAL ASSETS	<u>\$ 681,502</u>	<u>\$ 233,941</u>	<u>\$ 915,443</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 1,361	\$ -	\$ 1,361
Deferred revenue:			
- already collected	269,905	88,491	358,396
- billed not yet collected 2017	307,498	112,989	420,487
- billed not yet collected 2018	4,833	-	4,833
Accrued liabilities	8,373	-	8,373
TOTAL LIABILITIES	591,970	201,480	793,450
Fund balances	83,210	38,783	121,993
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 675,180</u>	<u>\$ 240,263</u>	<u>\$ 915,443</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 742,912	\$ 68,326	\$ 811,238
Bad debt recovery	7,140	-	7,140
Other income	17,295	-	17,295
	<u>767,347</u>	<u>68,326</u>	<u>835,673</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	158,920	-	158,920
Utilities	58,569	-	58,569
Service and contracts	71,320	-	71,320
Repairs and supplies	46,997	-	46,997
Insurance and licenses	32,642	-	32,642
Administrative	152,511	-	152,511
Taxes	13,982	-	13,982
Bad debts	122,105	8,192	130,297
Reserve fund	-	21,351	21,351
Common area components	21,461	-	21,461
	<u>678,507</u>	<u>29,543</u>	<u>708,050</u>
EXCESS OF REVENUES OVER EXPENSES	88,840	38,783	127,623
BEGINNING FUND BALANCES (DEFICIT)	<u>(5,630)</u>	<u>-</u>	<u>(5,630)</u>
ENDING FUND BALANCES	<u><u>\$ 83,210</u></u>	<u><u>\$ 38,783</u></u>	<u><u>\$ 121,993</u></u>

SUPPLEMENTARY INFORMATION

NEPTUNE HOUSE OWNERS ASSOCIATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

Note A – Nature of Organization

Neptune House Owners Association was incorporated on May 1, 1990, in the State of Rhode Island. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 23 residential units located in Block Island, Rhode Island.

Note B – Date of Management’s Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 31, 2017, the date that the financial statements were available to be issued.

Note C – Summary of Significant Accounting Policies

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitation 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.

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 are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association considers all assessments receivable at December 31, 2016 to be fully collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

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 D – Income Taxes

Homeowners' associations may be taxed either as homeowners; associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a homeowners association and filed Form 1120-H.

Note E – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$38,783 at December 31, 2016, are held in separate accounts and are generally not available for operating purposes.

**NEPTUNE HOUSE OWNERS' ASSOCIATION
SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2016**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 26,213	\$ -	\$ 26,213
Salaries - Maintenance	46,035	-	46,035
Salaries - Administrative	61,648	-	61,648
Payroll taxes - Housekeeping	2,483	-	2,483
Payroll taxes - Maintenance	4,650	-	4,650
Payroll taxes - Administrative	6,005	-	6,005
Health insurance, employee welfare & workers compensation insurance	7,903	-	7,903
Payroll service	3,983	-	3,983
	<u>158,920</u>	<u>-</u>	<u>158,920</u>
UTILITIES			
Electricity	18,758	-	18,758
Sewer usage	14,178	-	14,178
Heating fuel	13,755	-	13,755
Propane gas	2,693	-	2,693
Water	9,185	-	9,185
	<u>58,569</u>	<u>-</u>	<u>58,569</u>
SERVICE AND CONTRACTS			
Security - alarm service	1,167	-	1,167
Laundry service	14,840	-	14,840
Cable TV	6,439	-	6,439
Carting and rubbish removal	6,176	-	6,176
Cleaning service	42,698	-	42,698
	<u>71,320</u>	<u>-</u>	<u>71,320</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	27,040	-	27,040
Freight	1,407	-	1,407
Repairs and maintenance	7,887	-	7,887
Outside labor	10,663	-	10,663
	<u>46,997</u>	<u>-</u>	<u>46,997</u>
INSURANCE AND LICENSES			
Insurance	32,642	-	32,642
	<u>32,642</u>	<u>-</u>	<u>32,642</u>
	<u>368,448</u>	<u>-</u>	<u>368,448</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2016**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Accounting and legal	34,034	-	34,034
Advertising	877	-	877
Bank service charges, late fees and interest	3,038	-	3,038
Collection expense	1,698	-	1,698
Dues and subscriptions	1,626	-	1,626
Management fees	49,468	-	49,468
Office expenses	8,406	-	8,406
Postage	1,723	-	1,723
Telephone and internet	25,554	-	25,554
Travel expense	3,251	-	3,251
Uniforms	681	-	681
Van expenses	6,608	-	6,608
VRI rental commissions	1,104	-	1,104
Other administrative expenses	14,443	-	14,443
	<u>152,511</u>	<u>-</u>	<u>152,511</u>
TAXES			
Real estate	13,482	-	13,482
Corporation	500	-	500
	<u>13,982</u>	<u>-</u>	<u>13,982</u>
BAD DEBTS			
Neptune House Owners Association	122,105	8,192	130,297
	<u>122,105</u>	<u>8,192</u>	<u>130,297</u>
RESERVE FUND			
Facility maintenance and repair	-	21,351	21,351
	<u>-</u>	<u>21,351</u>	<u>21,351</u>
COMMON AREA COMPONENTS			
Room equipment replacements	10,172	-	10,172
Linen replacement	5,432	-	5,432
Landscaping	1,909	-	1,909
Furniture	492	-	492
Computers and website	3,456	-	3,456
	<u>21,461</u>	<u>-</u>	<u>21,461</u>
TOTAL OPERATING EXPENSES	<u>\$ 678,507</u>	<u>\$ 29,543</u>	<u>\$ 708,050</u>

NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2016

(1 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 838,392	\$ 742,912	\$ (95,480)
Bad debt recovery	-	7,140	7,140
Other income	-	17,295	17,295
TOTAL REVENUES	<u>838,392</u>	<u>767,347</u>	<u>(71,045)</u>
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	38,818	26,213	12,605
Salaries - Maintenance	46,799	46,035	764
Salaries - Administrative	49,401	61,648	(12,247)
Payroll taxes - Housekeeping	3,726	2,483	1,243
Payroll taxes - Maintenance	4,490	4,650	(160)
Payroll taxes - Administrative	4,740	6,005	(1,265)
Health insurance, employee welfare & workers compensation insurance	29,852	7,903	21,949
Payroll service	3,618	3,983	(365)
	<u>181,444</u>	<u>158,920</u>	<u>22,524</u>
UTILITIES			
Electricity	25,591	18,758	6,833
Sewer usage	19,521	14,178	5,343
Heating fuel	22,600	13,755	8,845
Propane gas	2,571	2,693	(122)
Water	14,099	9,185	4,914
	<u>84,382</u>	<u>58,569</u>	<u>25,813</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,456	1,167	1,289
Laundry service	12,983	14,840	(1,857)
Cable TV	4,108	6,439	(2,331)
Carting and rubbish removal	5,825	6,176	(351)
Cleaning service	1,747	42,698	(40,951)
	<u>27,119</u>	<u>71,320</u>	<u>(44,201)</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	33,750	27,040	6,710
Freight	2,694	1,407	1,287
Repairs and maintenance	3,996	7,887	(3,891)
Outside labor	33,841	10,663	23,178
	<u>74,281</u>	<u>46,997</u>	<u>27,284</u>
INSURANCE AND LICENSES			
Insurance	42,912	32,642	10,270
	<u>42,912</u>	<u>32,642</u>	<u>10,270</u>
	<u>410,138</u>	<u>368,448</u>	<u>41,690</u>

SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Accounting and legal	33,000	34,034	(1,034)
Advertising	-	877	(877)
Bank service charges, late fees and interest	1,000	3,038	(2,038)
Bookkeeping Fees	4,840	-	4,840
Collection expense	-	1,698	(1,698)
Deficit Reduction	64,200	-	64,200
Dues and subscriptions	7,439	1,626	5,813
Management fees	50,008	49,468	540
Office expenses	7,899	8,406	(507)
Postage	857	1,723	(866)
Telephone and internet	14,502	25,554	(11,052)
Travel expense	-	3,251	(3,251)
Uniforms	-	681	(681)
Van expenses	4,401	6,608	(2,207)
VRI rental commissions	-	1,104	(1,104)
Other administrative expenses	-	14,443	(14,443)
	<u>188,146</u>	<u>152,511</u>	<u>35,635</u>
TAXES			
Real estate	15,609	13,482	2,127
Corporation	515	500	15
	<u>16,124</u>	<u>13,982</u>	<u>2,142</u>
BAD DEBTS			
Neptune House Owners Association	182,492	122,105	60,387
	<u>182,492</u>	<u>122,105</u>	<u>60,387</u>
COMMON AREA COMPONENTS			
Room equipment replacements	11,100	10,172	928
Linen replacement	-	5,432	(5,432)
Landscaping	810	1,909	(1,099)
Furniture	13,209	492	12,717
Computers and website	760	3,456	(2,696)
	<u>25,879</u>	<u>21,461</u>	<u>4,418</u>
TOTAL EXPENSES	<u>822,779</u>	<u>678,507</u>	<u>144,272</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ 15,613</u>	<u>\$ 88,840</u>	<u>\$ 73,227</u>