

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2017

KIRSHENBAUM & URBAN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANT'S REVIEW REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Fund Balance	4
Notes to Financial Statements	5-6
SUPPLEMENTARY INFORMATION	
Supplemental Schedule 1: Expense Detail	7a-7b
Supplemental Schedule 2: Schedule of Operating Fund Revenues and Expenses---Budget and Actual	8a-8b

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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, 2017, 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, 2017, 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.

Kirshenbaum & Urban, LLP

Kirshenbaum & Urban, LLP
February 5, 2018

NEPTUNE HOUSE OWNERS' ASSOCIATION
 BALANCE SHEET
 DECEMBER 31, 2017

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash	\$ 342,081	\$ 238,188	\$ 580,269
Assessments receivable	305,086	74,143	379,229
Prepaid expenses	10,153	-	10,153
TOTAL ASSETS	<u>\$ 657,320</u>	<u>\$ 312,331</u>	<u>\$ 969,651</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 19,315	\$ -	\$ 19,315
Deferred revenue:			
- already collected	322,517	76,407	398,924
- billed not yet collected 2018	305,087	74,143	379,230
- billed not yet collected 2019	1,800	-	1,800
Accrued liabilities	7,956	-	7,956
TOTAL LIABILITIES	656,675	150,550	807,225
Fund balances	126,051	36,375	162,426
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 782,726</u>	<u>\$ 186,925</u>	<u>\$ 969,651</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 583,902	\$ 91,426	\$ 675,328
Amenities Income	50,993	59,515	\$ 110,508
Bad debt recovery	16,688	-	16,688
Other income	14,472	-	14,472
	<u>666,055</u>	<u>150,941</u>	<u>816,996</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	194,092	-	194,092
Utilities	62,368	-	62,368
Service and contracts	63,156	-	63,156
Repairs and supplies	74,159	-	74,159
Insurance and licenses	39,656	-	39,656
Administrative	130,362	-	130,362
Taxes	16,412	-	16,412
Bad debts	22,726	5,434	28,160
Reserve fund	-	147,915	147,915
Common area components	20,283	-	20,283
	<u>623,214</u>	<u>153,349</u>	<u>776,563</u>
EXCESS OF REVENUES OVER EXPENSES	42,841	(2,408)	40,433
BEGINNING FUND BALANCES	<u>83,210</u>	<u>38,783</u>	<u>121,993</u>
ENDING FUND BALANCES	<u><u>\$ 126,051</u></u>	<u><u>\$ 36,375</u></u>	<u><u>\$ 162,426</u></u>

SUPPLEMENTARY INFORMATION

NEPTUNE HOUSE OWNERS ASSOCIATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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 February 5, 2018, 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, 2017 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, 2017, 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 \$36,375 at December 31, 2017, 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, 2017**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 37,005	\$ -	\$ 37,005
Salaries - Maintenance	50,562	-	50,562
Salaries - Administrative	73,774	-	73,774
Payroll taxes - Housekeeping	4,545	-	4,545
Payroll taxes - Maintenance	5,645	-	5,645
Payroll taxes - Administrative	8,262	-	8,262
Health insurance, employee welfare & workers compensation insurance	12,072	-	12,072
Payroll service	2,227	-	2,227
	<u>194,092</u>	<u>-</u>	<u>194,092</u>
UTILITIES			
Electricity	19,051	-	19,051
Sewer usage	14,753	-	14,753
Heating fuel	14,365	-	14,365
Propane gas	3,915	-	3,915
Water	10,284	-	10,284
	<u>62,368</u>	<u>-</u>	<u>62,368</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,545	-	2,545
Laundry service	16,171	-	16,171
Cable TV	5,996	-	5,996
Carting and rubbish removal	5,613	-	5,613
Cleaning service	32,831	-	32,831
	<u>63,156</u>	<u>-</u>	<u>63,156</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	36,963	-	36,963
Freight	2,138	-	2,138
Repairs and maintenance	17,686	-	17,686
Outside labor	17,372	-	17,372
	<u>74,159</u>	<u>-</u>	<u>74,159</u>
INSURANCE AND LICENSES			
Insurance	39,656	-	39,656
	<u>39,656</u>	<u>-</u>	<u>39,656</u>
	<u>433,431</u>	<u>-</u>	<u>433,431</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2017**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Accounting and legal	10,316	-	10,316
Advertising	2,912	-	2,912
Bank service charges, late fees and interest	9,324	-	9,324
Collection expense	2,265	-	2,265
Dues and subscriptions	3,601	-	3,601
Management fees	53,340	-	53,340
Office expenses	5,711	-	5,711
Postage	2,718	-	2,718
Telephone and internet	22,892	-	22,892
Travel expense	3,011	-	3,011
Uniforms	578	-	578
Van expenses	2,044	-	2,044
Other administrative expenses	11,650	-	11,650
	<u>130,362</u>	<u>-</u>	<u>130,362</u>
TAXES			
Real estate	15,962	-	15,962
Corporation	450	-	450
	<u>16,412</u>	<u>-</u>	<u>16,412</u>
BAD DEBTS			
Neptune House Owners Association	22,726	5,434	28,160
	<u>22,726</u>	<u>5,434</u>	<u>28,160</u>
RESERVE FUND			
Facility maintenance and repair	-	147,915	147,915
	<u>-</u>	<u>147,915</u>	<u>147,915</u>
COMMON AREA COMPONENTS			
Room equipment replacements	10,496	-	10,496
Linen replacement	6,495	-	6,495
Landscaping	2,269	-	2,269
Furniture	45	-	45
Computers and website	978	-	978
	<u>20,283</u>	<u>-</u>	<u>20,283</u>
TOTAL OPERATING EXPENSES	<u>\$ 623,214</u>	<u>\$ 153,349</u>	<u>\$ 776,563</u>

NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2017

(1 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 579,999	\$ 583,902	\$ 3,903
Amenities Income	49,896	50,993	1,097
Bad debt recovery	960	16,688	15,728
Other income	1,500	14,472	12,972
TOTAL REVENUES	632,355	666,055	33,700
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	44,815	37,005	7,810
Salaries - Maintenance	50,020	50,562	(542)
Salaries - Administrative	52,868	73,774	(20,906)
Payroll taxes - Housekeeping	4,210	4,545	(335)
Payroll taxes - Maintenance	4,699	5,645	(946)
Payroll taxes - Administrative	4,966	8,262	(3,296)
Health insurance, employee welfare & workers compensation insurance	12,624	12,072	552
Payroll service	3,897	2,227	1,670
	<u>178,099</u>	<u>194,092</u>	<u>(15,993)</u>
UTILITIES			
Electricity	18,946	19,051	(105)
Sewer usage	14,750	14,753	(3)
Heating fuel	14,222	14,365	(143)
Propane gas	14,371	3,915	10,456
Water	7,527	10,284	(2,757)
	<u>69,816</u>	<u>62,368</u>	<u>7,448</u>
SERVICE AND CONTRACTS			
Security - alarm service	1,715	2,545	(830)
Laundry service	13,586	16,171	(2,585)
Cable TV	5,018	5,996	(978)
Carting and rubbish removal	5,801	5,613	188
Cleaning service	35,545	32,831	2,714
	<u>61,665</u>	<u>63,156</u>	<u>(1,491)</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	34,354	36,963	(2,609)
Freight	2,512	2,138	374
Repairs and maintenance	19,707	17,686	2,021
Outside labor	40,523	17,372	23,151
	<u>97,096</u>	<u>74,159</u>	<u>22,937</u>
INSURANCE AND LICENSES			
Insurance	42,912	39,656	3,256
	<u>42,912</u>	<u>39,656</u>	<u>3,256</u>
	<u>449,588</u>	<u>433,431</u>	<u>16,157</u>

SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Accounting and legal	3,300	10,316	(7,016)
Advertising	1,800	2,912	(1,112)
Bank service charges, late fees and interest	1,900	9,324	(7,424)
Bookkeeping Fees	2,250	-	2,250
Collection expense	2,270	2,265	5
Dues and subscriptions	4,777	3,601	1,176
Management fees	53,340	53,340	-
Office expenses	8,392	5,711	2,681
Pool expenses	5,500	-	5,500
Postage	1,557	2,718	(1,161)
Telephone and internet	18,588	22,892	(4,304)
Travel expense	6,158	3,011	3,147
Uniforms	168	578	(410)
Van expenses	2,891	2,044	847
Other administrative expenses	8,318	11,650	(3,332)
	<u>121,209</u>	<u>130,362</u>	<u>(9,153)</u>
TAXES			
Real estate	15,609	15,962	(353)
Corporation	500	450	50
	<u>16,109</u>	<u>16,412</u>	<u>(303)</u>
BAD DEBTS			
Neptune House Owners Association	19,908	22,726	(2,818)
	<u>19,908</u>	<u>22,726</u>	<u>(2,818)</u>
COMMON AREA COMPONENTS			
Room equipment replacements	11,368	10,496	872
Linen replacement	6,473	6,495	(22)
Landscaping	2,583	2,269	314
Furniture	492	45	447
Computers and website	3,090	978	2,112
	<u>24,006</u>	<u>20,283</u>	<u>3,723</u>
TOTAL EXPENSES	<u>630,820</u>	<u>623,214</u>	<u>7,606</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ 1,535</u>	<u>\$ 42,841</u>	<u>\$ 41,306</u>