

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2018

KIRSHENBAUM & URBAN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANT'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Fund Balance	4
Statement of Cash Flows	5
Notes to Financial Statements	6-7
SUPPLEMENTARY INFORMATION	
Supplemental Schedule 1: Expense Detail	8a-8b
Supplemental Schedule 2: Schedule of Operating Fund Revenues and Expenses---Budget and Actual	9a-9b
Supplemental Schedule 3: Supplementary Information on Future Major Repairs and Replacements (Unaudited)	10

KIRSHENBAUM & URBAN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Ten Bank Street

White Plains, New York 10606

(914) 686-0400

Facsimile (914) 997-9076

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Neptune House Owners Association, which comprise the balance sheet as of December 31, 2018, 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.

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 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 risk 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 that 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 Neptune House Owners Association as of December 31, 2018, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information 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.



Kirshenbaum & Urban, LLP
White Plains, NY
July 1, 2019

**NEPTUNE HOUSE OWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2018**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 320,318	\$ 125,383	\$ 445,701
Assessments receivable	295,693	71,631	367,324
Prepaid expenses	47,505	-	47,505
TOTAL ASSETS	<u>\$ 663,516</u>	<u>\$ 197,014</u>	<u>\$ 860,530</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 2,584	\$ -	\$ 2,584
Deferred revenue:			
- already collected	299,962	72,037	371,999
- billed not yet collected 2019	297,229	71,631	368,860
Accrued liabilities	12,177	-	12,177
TOTAL LIABILITIES	611,952	143,668	755,620
Fund balances	211,009	(106,099)	104,910
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 822,961</u>	<u>\$ 37,569</u>	<u>\$ 860,530</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 625,198	\$ 98,330	\$ 723,528
Amenities Income	-	49,158	\$ 49,158
Bad debt recovery	43,647	1,528	45,175
Other income	48,420	-	48,420
	<u>717,265</u>	<u>149,016</u>	<u>866,281</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	209,355	-	209,355
Utilities	78,712	-	78,712
Service and contracts	63,705	-	63,705
Repairs and supplies	46,380	-	46,380
Insurance and licenses	35,903	-	35,903
Administrative	160,848	-	160,848
Taxes	16,712	-	16,712
Bad debts	13,355	3,166	16,521
Reserve fund	-	288,324	288,324
Common area components	14,886	-	14,886
	<u>639,856</u>	<u>291,490</u>	<u>931,346</u>
EXCESS OF REVENUES OVER EXPENSES	77,409	(142,474)	(65,065)
BEGINNING FUND BALANCES	<u>133,600</u>	<u>36,375</u>	<u>169,975</u>
ENDING FUND BALANCES	<u><u>\$ 211,009</u></u>	<u><u>\$ (106,099)</u></u>	<u><u>\$ 104,910</u></u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 77,409	\$ (142,474)	\$ (65,065)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			-
(Increase) decrease in:			-
Assessments receivable	9,393	2,512	11,905
Prepaid expenses	(60,457)	-	(60,457)
Increase (decrease) in:			
Accounts payable	(9,182)	-	(9,182)
Assessments received in advance	(3,300)	(520)	(3,820)
Assessments billed in advance but not received	(9,657)	(2,512)	(12,169)
Accrued liabilities	4,220	-	4,220
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>8,426</u>	<u>(142,994)</u>	<u>(134,568)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	<u>(30,189)</u>	<u>30,189</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(21,763)	(112,805)	(134,568)
CASH AT BEGINNING OF YEAR	<u>342,081</u>	<u>238,188</u>	<u>580,269</u>
CASH AT END OF YEAR	<u>\$ 320,318</u>	<u>\$ 125,383</u>	<u>\$ 445,701</u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 July 1, 2019, 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, 2018 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, 2018, 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. At December 31, 2018, the Reserve Fund had cash available of \$125,383, of which \$72,037 was 2019 fees collected in advance, resulting in a net cash position in the Reserve Fund of \$53,346. These funds are held in a separate account, not generally available for Operating Expenses.

Note F – Accumulated Fund Balances

Fund Balances at December 31, 2018, representing the accumulated excess of revenue over expenses since inception, were \$211,009 from the Operating Fund, and (\$106,099) from the Reserve Fund, for a total Fund Balance of \$104,910.

SUPPLEMENTARY INFORMATION

**NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2018**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 36,536	\$ -	\$ 36,536
Salaries - Maintenance	70,636	-	70,636
Salaries - Administrative	64,992	-	64,992
Payroll taxes - Housekeeping	3,798	-	3,798
Payroll taxes - Maintenance	7,079	-	7,079
Payroll taxes - Administrative	6,771	-	6,771
Health insurance, employee welfare & workers compensation insurance	17,810	-	17,810
Payroll service	1,733	-	1,733
	<u>209,355</u>	<u>-</u>	<u>209,355</u>
UTILITIES			
Electricity	21,592	-	21,592
Sewer usage	14,750	-	14,750
Heating fuel	26,823	-	26,823
Propane gas	4,784	-	4,784
Water	10,763	-	10,763
	<u>78,712</u>	<u>-</u>	<u>78,712</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,190	-	2,190
Laundry service	13,672	-	13,672
Cable TV	6,037	-	6,037
Carting and rubbish removal	5,510	-	5,510
Cleaning service	36,296	-	36,296
	<u>63,705</u>	<u>-</u>	<u>63,705</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	29,807	-	29,807
Freight	2,597	-	2,597
Repairs and maintenance	7,982	-	7,982
Outside labor	5,994	-	5,994
	<u>46,380</u>	<u>-</u>	<u>46,380</u>
INSURANCE AND LICENSES			
Insurance	35,903	-	35,903
	<u>35,903</u>	<u>-</u>	<u>35,903</u>
	<u>434,055</u>	<u>-</u>	<u>434,055</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2018**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Accounting and legal	15,020	-	15,020
Advertising	12,300	-	12,300
Bank service charges, late fees and interest	7,949	-	7,949
Bookkeeping	5,525	-	5,525
Collection expense	2,051	-	2,051
Dues and subscriptions	976	-	976
Management fees	56,676	-	56,676
Office expenses	6,962	-	6,962
Postage	2,332	-	2,332
Telephone and internet	18,694	-	18,694
Travel expense	4,023	-	4,023
Uniforms	663	-	663
Van expenses	3,072	-	3,072
Other administrative expenses	24,605	-	24,605
	<u>160,848</u>	<u>-</u>	<u>160,848</u>
TAXES			
Real estate	15,871	-	15,871
Corporation	841	-	841
	<u>16,712</u>	<u>-</u>	<u>16,712</u>
BAD DEBTS			
Neptune House Owners Association	13,355	3,166	16,521
	<u>13,355</u>	<u>3,166</u>	<u>16,521</u>
RESERVE FUND			
Facility maintenance and repair	-	288,324	288,324
	<u>-</u>	<u>288,324</u>	<u>288,324</u>
COMMON AREA COMPONENTS			
Room equipment replacements	4,593	-	4,593
Linen replacement	6,083	-	6,083
Landscaping	1,533	-	1,533
Computers and website	2,677	-	2,677
	<u>14,886</u>	<u>-</u>	<u>14,886</u>
TOTAL OPERATING EXPENSES	<u>\$ 639,856</u>	<u>\$ 291,490</u>	<u>\$ 931,346</u>

NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2018

(1 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 631,812	\$ 625,198	\$ (6,614)
Amenities Income	-	-	-
Bad debt recovery	1,140	43,647	42,507
Other income	7,744	48,420	40,676
TOTAL REVENUES	640,696	717,265	76,569
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	49,415	36,536	12,879
Salaries - Maintenance	50,020	70,636	(20,616)
Salaries - Administrative	54,983	64,992	(10,009)
Salaries - Pool	27,500	-	27,500
Payroll taxes - Housekeeping	4,481	3,798	683
Payroll taxes - Maintenance	4,536	7,079	(2,543)
Payroll taxes - Administrative	4,984	6,771	(1,787)
Payroll taxes - Pool	2,492	-	2,492
Health insurance, employee welfare & workers compensation insurance	12,624	17,810	(5,186)
Payroll service	3,217	1,733	1,484
	214,252	209,355	4,897
UTILITIES			
Electricity	19,135	21,592	(2,457)
Sewer usage	13,654	14,750	(1,096)
Heating fuel	14,322	26,823	(12,501)
Propane gas	15,166	4,784	10,382
Water	6,582	10,763	(4,181)
	68,859	78,712	(9,853)
SERVICE AND CONTRACTS			
Security - alarm service	1,714	2,190	(476)
Laundry service	13,731	13,672	59
Cable TV	5,724	6,037	(313)
Carting and rubbish removal	5,724	5,510	214
Cleaning service	33,511	36,296	(2,785)
	60,404	63,705	(3,301)
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	31,156	29,807	1,349
Freight	2,468	2,597	(129)
Repairs and maintenance	20,811	7,982	12,829
Outside labor	10,889	5,994	4,895
	65,324	46,380	18,944
INSURANCE AND LICENSES			
Insurance	42,187	35,903	6,284
	42,187	35,903	6,284
	451,026	434,055	16,971

NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2018

(2 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Accounting and legal	9,229	15,020	(5,791)
Advertising	2,316	12,300	(9,984)
Bank service charges, late fees and interest	4,149	7,949	(3,800)
Bookkeeping Fees	8,000	5,525	2,475
Collection expense	2,270	2,051	219
Dues and subscriptions	5,164	976	4,188
Management fees	56,676	56,676	-
Office expenses	8,560	6,962	1,598
Pool expenses	5,500	-	5,500
Postage	2,193	2,332	(139)
Telephone and internet	15,247	18,694	(3,447)
Travel expense	6,524	4,023	2,501
Uniforms	634	663	(29)
Van expenses	2,595	3,072	(477)
Other administrative expenses	9,439	24,605	(15,166)
	<u>138,496</u>	<u>160,848</u>	<u>(22,352)</u>
TAXES			
Real estate	15,609	15,871	(262)
Corporation	450	841	(391)
	<u>16,059</u>	<u>16,712</u>	<u>(653)</u>
BAD DEBTS			
Neptune House Owners Association	12,636	13,355	(719)
	<u>12,636</u>	<u>13,355</u>	<u>(719)</u>
COMMON AREA COMPONENTS			
Room equipment replacements	9,993	4,593	5,400
Linen replacement	6,495	6,083	412
Landscaping	2,844	1,533	1,311
Furniture	492	-	492
Computers and website	3,090	2,677	413
	<u>22,914</u>	<u>14,886</u>	<u>8,028</u>
TOTAL EXPENSES	<u>641,131</u>	<u>639,856</u>	<u>1,275</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ (435)</u>	<u>\$ 77,409</u>	<u>\$ 77,844</u>

NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 3: SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2018

The Association's board of directors conducted a study in September 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Contingency	2	\$ 10,000
Roofs	6-19	141,080
Streets	1-16	81,500
Exterior	1-24	700,291
Interior	0-17	763,200
Equipment	1-9	175,400
Grounds	0-20	414,667
TOTALS		\$ 2,286,138