

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2019

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

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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, 2019, 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, 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.

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
October 19, 2020

**NEPTUNE HOUSE OWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2019**

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash	\$ 416,926	\$ 157,867	\$ 574,793
Assessments receivable	294,443	53,534	347,977
Prepaid expenses	15,335	-	15,335
TOTAL ASSETS	<u>\$ 726,704</u>	<u>\$ 211,401</u>	<u>\$ 938,105</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 17,378	\$ -	\$ 17,378
Deferred revenue:			
- already collected	329,503	56,194	385,697
- billed not yet collected 2020	296,034	53,534	349,568
Accrued liabilities	12,860	-	12,860
TOTAL LIABILITIES	655,775	109,728	765,503
Fund balances	235,412	(62,810)	172,602
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 891,187</u>	<u>\$ 46,918</u>	<u>\$ 938,105</u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 610,139	\$ 90,911	\$ 701,050
Amenities Income	-	57,341	\$ 57,341
Bad debt recovery	44,366	2,804	47,170
Other income	15,942	-	15,942
	<u>670,447</u>	<u>151,056</u>	<u>821,503</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	195,129	-	195,129
Utilities	81,809	-	81,809
Service and contracts	70,409	-	70,409
Repairs and supplies	47,234	-	47,234
Insurance and licenses	45,318	-	45,318
Administrative	143,698	-	143,698
Taxes	17,313	-	17,313
Bad debts	10,677	2,554	13,231
Reserve fund	-	105,213	105,213
Common area components	34,457	-	34,457
	<u>646,044</u>	<u>107,767</u>	<u>753,811</u>
EXCESS OF REVENUES OVER EXPENSES	24,403	43,289	67,692
BEGINNING FUND BALANCES	<u>211,009</u>	<u>(106,099)</u>	<u>104,910</u>
ENDING FUND BALANCES	<u><u>\$ 235,412</u></u>	<u><u>\$ (62,810)</u></u>	<u><u>\$ 172,602</u></u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 24,403	\$ 43,289	\$ 67,692
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			-
(Increase) decrease in:			-
Assessments receivable	1,250	18,097	19,347
Prepaid expenses	32,170	-	32,170
Increase (decrease) in:			
Accounts payable	14,794	-	14,794
Assessments received in advance	29,541	(15,843)	13,698
Assessments billed in advance but not received	(1,195)	(18,097)	(19,292)
Accrued liabilities	683	-	683
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>101,646</u>	<u>27,446</u>	<u>129,092</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	<u>(5,038)</u>	<u>5,038</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	96,608	32,484	129,092
CASH AT BEGINNING OF YEAR	<u>320,318</u>	<u>125,383</u>	<u>445,701</u>
CASH AT END OF YEAR	<u><u>\$ 416,926</u></u>	<u><u>\$ 157,867</u></u>	<u><u>\$ 574,793</u></u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Note A – Nature of Organization

Neptune House Owners Association was organized 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 October 19, 2020, 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 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, 2019 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, 2019, 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, 2019, the Reserve Fund had cash available of \$157,867, of which \$56,194 was 2020 fees collected in advance, resulting in a net cash position in the Reserve Fund of \$101,673. These funds are held in a separate account, not generally available for Operating Expenses.

Note F – Accumulated Fund Balances

Fund Balances at December 31, 2019, representing the accumulated excess of revenue over expenses since inception, were \$235,412 from the Operating Fund, and (\$62,810) from the Reserve Fund, for a total Fund Balance of \$172,602.

SUPPLEMENTARY INFORMATION

**NEPTUNE HOUSE OWNERS ASSOCIATION
SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2019**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 29,914	\$ -	\$ 29,914
Salaries - Maintenance	53,126	-	53,126
Salaries - Administrative	75,043	-	75,043
Payroll taxes - Housekeeping	2,927	-	2,927
Payroll taxes - Maintenance	5,399	-	5,399
Payroll taxes - Administrative	7,277	-	7,277
Health insurance, employee welfare & workers compensation insurance	19,474	-	19,474
Payroll service	1,969	-	1,969
	<u>195,129</u>	<u>-</u>	<u>195,129</u>
UTILITIES			
Electricity	24,170	-	24,170
Sewer usage	15,107	-	15,107
Heating fuel	27,251	-	27,251
Propane gas	4,295	-	4,295
Water	10,986	-	10,986
	<u>81,809</u>	<u>-</u>	<u>81,809</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,065	-	2,065
Laundry service	13,814	-	13,814
Cable TV	6,312	-	6,312
Carting and rubbish removal	6,990	-	6,990
Cleaning service	41,228	-	41,228
	<u>70,409</u>	<u>-</u>	<u>70,409</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	29,597	-	29,597
Freight	2,571	-	2,571
Repairs and maintenance	5,911	-	5,911
Outside labor	9,155	-	9,155
	<u>47,234</u>	<u>-</u>	<u>47,234</u>
INSURANCE AND LICENSES			
Insurance	45,318	-	45,318
	<u>45,318</u>	<u>-</u>	<u>45,318</u>
	<u>439,899</u>	<u>-</u>	<u>439,899</u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2019**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Advertising	3,575	-	3,575
Bank service charges, late fees and interest	8,448	-	8,448
Bookkeeping	8,600	-	8,600
Collection expense	5,090	-	5,090
Dues and subscriptions	1,226	-	1,226
Legal	2,397	-	2,397
Management fees	58,380	-	58,380
Office expenses	5,606	-	5,606
Postage	2,243	-	2,243
Telephone and internet	29,709	-	29,709
Travel expense	4,694	-	4,694
Van expenses	1,628	-	1,628
Other administrative expenses	12,102	-	12,102
	<u>143,698</u>	<u>-</u>	<u>143,698</u>
TAXES			
Real estate	16,913	-	16,913
Corporation	400	-	400
	<u>17,313</u>	<u>-</u>	<u>17,313</u>
BAD DEBTS			
Neptune House Owners Association	10,677	2,554	13,231
	<u>10,677</u>	<u>2,554</u>	<u>13,231</u>
RESERVE FUND			
Facility maintenance and repair	-	105,213	105,213
	<u>-</u>	<u>105,213</u>	<u>105,213</u>
COMMON AREA COMPONENTS			
Room equipment replacements	8,903	-	8,903
Linen replacement	5,520	-	5,520
Landscaping	810	-	810
Computers and website	544	-	544
Pool	18,680	-	18,680
	<u>34,457</u>	<u>-</u>	<u>34,457</u>
TOTAL OPERATING EXPENSES	<u>\$ 646,044</u>	<u>\$ 107,767</u>	<u>\$ 753,811</u>

NEPTUNE HOUSE OWNERS ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2019

(1 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 620,205	\$ 610,139	\$ (10,066)
Amenities Income	-	-	-
Bad debt recovery	11,855	44,366	32,511
Other income	22,119	15,942	(6,177)
TOTAL REVENUES	654,179	670,447	16,268
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	55,050	29,914	25,136
Salaries - Maintenance	73,840	53,126	20,714
Salaries - Administrative	56,544	75,043	(18,499)
Payroll taxes - Housekeeping	4,976	2,927	2,049
Payroll taxes - Maintenance	6,677	5,399	1,278
Payroll taxes - Administrative	5,111	7,277	(2,166)
Health insurance, employee welfare & workers compensation insurance	16,488	19,474	(2,986)
Payroll service	2,989	1,969	1,020
	<u>221,675</u>	<u>195,129</u>	<u>26,546</u>
UTILITIES			
Electricity	21,463	24,170	(2,707)
Sewer usage	14,067	15,107	(1,040)
Heating fuel	23,251	27,251	(4,000)
Propane gas	4,803	4,295	508
Water	8,136	10,986	(2,850)
	<u>71,720</u>	<u>81,809</u>	<u>(10,089)</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,683	2,065	618
Laundry service	13,766	13,814	(48)
Cable TV	7,443	6,312	1,131
Carting and rubbish removal	5,181	6,990	(1,809)
Cleaning service	28,984	41,228	(12,244)
	<u>58,057</u>	<u>70,409</u>	<u>(12,352)</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	32,613	29,597	3,016
Freight	2,381	2,571	(190)
Repairs and maintenance	20,838	5,911	14,927
Outside labor	6,350	9,155	(2,805)
	<u>62,182</u>	<u>47,234</u>	<u>14,948</u>
INSURANCE AND LICENSES			
Insurance	45,187	45,318	(131)
	<u>45,187</u>	<u>45,318</u>	<u>(131)</u>
	<u>458,821</u>	<u>439,899</u>	<u>18,922</u>

**SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Advertising	7,590	3,575	4,015
Bank service charges, late fees and interest	6,052	8,448	(2,396)
Bookkeeping Fees	8,000	8,600	(600)
Collection expense	2,270	5,090	(2,820)
Dues and subscriptions	4,949	1,226	3,723
Legal	5,550	2,397	3,153
Management fees	58,380	58,380	-
Office expenses	7,246	5,606	1,640
Postage	2,566	2,243	323
Telephone and internet	15,714	29,709	(13,995)
Travel expense	7,059	4,694	2,365
Uniforms	1,211	-	1,211
Van expenses	2,492	1,628	864
Other administrative expenses	11,006	12,102	(1,096)
	<u>140,085</u>	<u>143,698</u>	<u>(3,613)</u>
TAXES			
Real estate	15,609	16,913	(1,304)
Corporation	450	400	50
	<u>16,059</u>	<u>17,313</u>	<u>(1,254)</u>
BAD DEBTS			
Neptune House Owners Association	13,559	10,677	2,882
	<u>13,559</u>	<u>10,677</u>	<u>2,882</u>
COMMON AREA COMPONENTS			
Room equipment replacements	9,076	8,903	173
Linen replacement	7,095	5,520	1,575
Landscaping	2,309	810	1,499
Computers and website	3,008	544	2,464
Pool	4,701	18,680	(13,979)
	<u>26,189</u>	<u>34,457</u>	<u>(8,268)</u>
TOTAL EXPENSES	<u>654,713</u>	<u>646,044</u>	<u>8,669</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ (534)</u>	<u>\$ 24,403</u>	<u>\$ 24,937</u>

NEPTUNE HOUSE OWNERS ASSOCIATION

SUPPLEMENTAL SCHEDULE 3: SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

DECEMBER 31, 2019

In July 2016, the Association's board of directors hired an outside firm to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common 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

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

The Association's board of directors uses the information from the study to plan annual repair and replacement. Several of the items identified in the study have been repaired or replaced since the time of the study. The board intends to update the study every 4-7 years to plan future projects.