

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2020

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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, 2020, 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, 2020, 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

Kirshenbaum & Urban, LLP
White Plains, NY
September 28, 2021

**NEPTUNE HOUSE OWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2020**

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash	\$ 420,819	\$ 297,492	\$ 718,311
Assessments receivable	263,371	37,094	300,465
Prepaid expenses	12,992	-	12,992
TOTAL ASSETS	<u>\$ 697,182</u>	<u>\$ 334,586</u>	<u>\$ 1,031,768</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 6,175	\$ -	\$ 6,175
Deferred revenue:			
- already collected	398,724	48,945	447,669
- billed not yet collected 2021	263,421	37,094	300,515
Accrued liabilities	11,076	-	11,076
PPP loan	34,835	-	34,835
TOTAL LIABILITIES	714,231	86,039	800,270
Fund balances	282,042	48,947	330,989
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 996,273</u>	<u>\$ 134,986</u>	<u>\$ 1,131,259</u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 628,294	\$ 110,237	\$ 738,531
Bad debt recovery	1,941	1,503	3,444
Other income	8,847	17	8,864
	<u>639,082</u>	<u>111,757</u>	<u>750,839</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	207,870	-	207,870
Utilities	68,044	-	68,044
Service and contracts	41,261	-	41,261
Repairs and supplies	48,981	-	48,981
Insurance and licenses	51,621	-	51,621
Administrative	148,735	-	148,735
Taxes	-	-	-
Bad debts	-	-	-
Reserve fund	-	-	-
Common area components	25,940	-	25,940
	<u>592,452</u>	<u>-</u>	<u>592,452</u>
EXCESS OF REVENUES OVER EXPENSES	46,630	111,757	158,387
BEGINNING FUND BALANCES	<u>235,412</u>	<u>(62,810)</u>	<u>172,602</u>
ENDING FUND BALANCES	<u><u>\$ 282,042</u></u>	<u><u>\$ 48,947</u></u>	<u><u>\$ 330,989</u></u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 46,630	\$ 111,757	\$ 158,387
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			-
(Increase) decrease in:			-
Assessments receivable	31,072	16,440	47,512
Prepaid expenses	2,343	-	2,343
Increase (decrease) in:			
Accounts payable	(11,203)	-	(11,203)
Assessments received in advance	69,221	(7,249)	61,972
Assessments billed in advance but not received	(32,613)	(16,440)	(49,053)
Accrued liabilities	(1,784)	-	(1,784)
PPP loan	34,835	-	34,835
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>138,501</u>	<u>104,508</u>	<u>243,009</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	<u>(102,919)</u>	<u>102,919</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	35,582	207,427	243,009
CASH AT BEGINNING OF YEAR	<u>416,926</u>	<u>157,867</u>	<u>574,793</u>
CASH AT END OF YEAR	<u><u>\$ 452,508</u></u>	<u><u>\$ 365,294</u></u>	<u><u>\$ 817,802</u></u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 September 28, 2021, 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, 2020 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, 2020, 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, 2020, the Reserve Fund had cash available of \$297,492, of which \$48,945 was 2021 fees collected in advance, resulting in a net cash position in the Reserve Fund of \$248,547. These funds are held in a separate account, not generally available for Operating Expenses.

Note F – Accumulated Fund Balances

Fund Balances at December 31, 2020, representing the accumulated excess of revenue over expenses since inception, were \$250,353 from the Operating Fund, and (\$18,855) from the Reserve Fund, for a total Fund Balance of \$231,498.

SUPPLEMENTARY INFORMATION

**NEPTUNE HOUSE OWNERS ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2020**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 36,025	\$ -	\$ 36,025
Salaries - Maintenance	47,249	-	47,249
Salaries - Administrative	85,905	-	85,905
Payroll taxes - Housekeeping	3,495	-	3,495
Payroll taxes - Maintenance	4,698	-	4,698
Payroll taxes - Administrative	8,460	-	8,460
Health insurance, employee welfare & workers compensation insurance	19,911	-	19,911
Payroll service	2,127	-	2,127
	<u>207,870</u>	<u>-</u>	<u>207,870</u>
UTILITIES			
Electricity	20,506	-	20,506
Sewer usage	12,782	-	12,782
Heating fuel	21,680	-	21,680
Propane gas	3,213	-	3,213
Water	9,863	-	9,863
	<u>68,044</u>	<u>-</u>	<u>68,044</u>
SERVICE AND CONTRACTS			
Security - alarm service	1,615	-	1,615
Laundry service	6,866	-	6,866
Cable TV	4,097	-	4,097
Carting and rubbish removal	6,067	-	6,067
Cleaning service	22,616	-	22,616
	<u>41,261</u>	<u>-</u>	<u>41,261</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	22,163	-	22,163
Freight	1,488	-	1,488
Repairs and maintenance	19,410	-	19,410
Outside labor	5,920	-	5,920
	<u>48,981</u>	<u>-</u>	<u>48,981</u>
INSURANCE AND LICENSES			
Insurance	51,621	-	51,621
	<u>51,621</u>	<u>-</u>	<u>51,621</u>
	<u>\$ 417,777</u>	<u>\$ -</u>	<u>\$ 417,777</u>

**NEPTUNE HOUSE OWNERS ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2020**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Accounting and legal	\$ 4,636	\$ -	\$ 4,636
Advertising	4,687	-	4,687
Bank service charges, late fees and interest	11,386	-	11,386
Bookkeeping	5,250	-	5,250
Collection expense	1,211	-	1,211
COVID-19 expenses	5,216	-	5,216
Dues and subscriptions	1,605	-	1,605
Management fees	60,131	-	60,131
Office expenses	7,974	-	7,974
Postage	3,759	-	3,759
Telephone and internet	30,516	-	30,516
Travel expense	1,449	-	1,449
Uniforms	113	-	113
Van expenses	3,312	-	3,312
Other administrative expenses	7,490	-	7,490
	<u>148,735</u>	<u>-</u>	<u>148,735</u>
TAXES			
Real estate	22,020	-	22,020
BAD DEBTS			
Neptune House Owners Association	9,669	2,650	12,319
RESERVE FUND			
Facility maintenance and repair	-	65,152	65,152
COMMON AREA COMPONENTS			
Room equipment replacements	7,514	-	7,514
Linen replacement	8,485	-	8,485
Landscaping	5,154	-	5,154
Computers and website	1,045	-	1,045
Pool	3,742	-	3,742
	<u>25,940</u>	<u>-</u>	<u>25,940</u>
TOTAL OPERATING EXPENSES	<u>\$ 624,141</u>	<u>\$ 67,802</u>	<u>\$ 691,943</u>

NEPTUNE HOUSE OWNERS ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2020

(1 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 625,934	\$ 628,294	\$ 2,360
Bad debt recovery	11,786	1,941	(9,845)
Other income	56,531	8,847	(47,684)
TOTAL REVENUES	<u>694,251</u>	<u>639,082</u>	<u>(55,169)</u>
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	72,880	36,025	36,855
Salaries - Maintenance	72,806	47,249	25,557
Salaries - Administrative	56,544	85,905	(29,361)
Payroll taxes - Housekeeping	6,502	3,495	3,007
Payroll taxes - Maintenance	6,498	4,698	1,800
Payroll taxes - Administrative	5,047	8,460	(3,413)
Health insurance, employee welfare & workers compensation insurance	22,665	19,911	2,754
Payroll service	2,989	2,127	862
	<u>245,931</u>	<u>207,870</u>	<u>38,061</u>
UTILITIES			
Electricity	21,841	20,506	1,335
Sewer usage	14,692	12,782	1,910
Heating fuel	20,749	21,680	(931)
Propane gas	5,797	3,213	2,584
Water	8,171	9,863	(1,692)
	<u>71,250</u>	<u>68,044</u>	<u>3,206</u>
SERVICE AND CONTRACTS			
Security - alarm service	2,158	1,615	543
Laundry service	13,185	6,866	6,319
Cable TV	6,396	4,097	2,299
Carting and rubbish removal	6,628	6,067	561
Cleaning service	27,937	22,616	5,321
	<u>56,304</u>	<u>41,261</u>	<u>15,043</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	40,628	22,163	18,465
Freight	2,295	1,488	807
Repairs and maintenance	18,121	19,410	(1,289)
Outside labor	8,086	5,920	2,166
	<u>69,130</u>	<u>48,981</u>	<u>20,149</u>
INSURANCE AND LICENSES			
insurance	48,500	51,621	(3,121)
	<u>\$ 491,115</u>	<u>\$ 417,777</u>	<u>\$ 73,338</u>

NEPTUNE HOUSE OWNERS ASSOCIATION
 SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2020

(2 of 2)

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Accounting and legal	\$ 2,550	\$ 4,636	\$ (2,086)
Advertising	8,000	4,687	3,313
Bank service charges, late fees and interest	6,052	11,386	(5,334)
Bookkeeping Fees	8,000	5,250	2,750
Collection expense	2,270	1,211	1,059
COVID-19 expenses	-	5,216	(5,216)
Dues and subscriptions	5,281	1,605	3,676
Management fees	60,132	60,131	1
Office expenses	5,863	7,974	(2,111)
Postage	2,168	3,759	(1,591)
Telephone and internet	23,102	30,516	(7,414)
Travel expense	7,059	1,449	5,610
Uniforms	1,211	113	1,098
Van expenses	3,149	3,312	(163)
Other administrative expenses	11,797	7,490	4,307
	<u>146,634</u>	<u>148,735</u>	<u>(2,101)</u>
TAXES			
Real estate	15,972	22,020	(6,048)
Corporation	450	-	450
	<u>16,422</u>	<u>22,020</u>	<u>(5,598)</u>
BAD DEBTS			
Neptune House Owners Association	12,519	9,669	2,850
COMMON AREA COMPONENTS			
Room equipment replacements	8,975	7,514	1,461
Linen replacement	7,095	8,485	(1,390)
Landscaping	2,059	5,154	(3,095)
Computers and website	3,008	1,045	1,963
Pool	6,424	3,742	2,682
	<u>27,561</u>	<u>25,940</u>	<u>1,621</u>
TOTAL EXPENSES	<u>694,251</u>	<u>624,141</u>	<u>70,110</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ -</u>	<u>\$ 14,941</u>	<u>\$ 14,941</u>

NEPTUNE HOUSE OWNERS ASSOCIATION

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

DECEMBER 31, 2020

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		<u>\$ 2,286,138</u>

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.