

NEPTUNE HOUSE OWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2022

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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, 2022, 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. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements (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 required 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.

Kirshenbaum & Urban LLP

Kirshenbaum & Urban, LLP
January 23, 2023

NEPTUNE HOUSE OWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2022

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash	\$ 492,024	\$ 226,080	\$ 718,104
Assessments receivable	276,009	41,125	317,134
Prepaid expenses	20,914	-	20,914
TOTAL ASSETS	<u>\$ 788,947</u>	<u>\$ 267,205</u>	<u>\$ 1,056,152</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 50,405	\$ -	\$ 50,405
Deferred revenue:			
- already collected	420,625	53,438	474,063
- billed not yet collected 2023	276,574	41,124	317,698
Accrued liabilities	11,596	-	11,596
TOTAL LIABILITIES	759,200	94,562	853,762
Fund balances	431,013	(228,623)	202,390
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,190,213</u>	<u>\$ (134,061)</u>	<u>\$ 1,056,152</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Operating Fund	Reserve Fund	Total
REVENUES			
Assessments	\$ 685,357	\$ 90,735	\$ 776,092
Bad debt recovery	1,953	940	2,893
Interest income	1,468	52	1,520
Other revenue	58,725	-	58,725
	<u>747,503</u>	<u>91,727</u>	<u>839,230</u>
EXPENSES (supplemental schedule attached)			
Management and facility maintenance	165,318	-	165,318
Utilities	90,806	-	90,806
Service and contracts	64,346	-	64,346
Repairs and supplies	63,932	-	63,932
Insurance and licenses	66,565	-	66,565
Administrative	132,089	-	132,089
Taxes	24,031	-	24,031
Bad debts	12,896	1,935	14,831
Reserve fund	-	227,841	227,841
Common area components	43,136	-	43,136
	<u>663,119</u>	<u>229,776</u>	<u>892,895</u>
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	84,384	(138,049)	(53,665)
BEGINNING FUND BALANCES	<u>346,629</u>	<u>(90,574)</u>	<u>256,055</u>
ENDING FUND BALANCES	<u>\$ 431,013</u>	<u>\$ (228,623)</u>	<u>\$ 202,390</u>

**NEPTUNE HOUSE OWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Operating Fund	Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ 84,384	\$ (138,049)	\$ (53,665)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase) decrease in:			
Assessments receivable	22,482	3,605	26,087
Prepaid expenses	(6,155)	-	(6,155)
Increase (decrease) in:			
Accounts payable	20,402	-	20,402
Assessments received in advance	47,042	6,978	54,020
Assessments billed in advance but not received	(24,568)	(3,606)	(28,174)
Accrued liabilities	(662)	-	(662)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>142,925</u>	<u>(131,072)</u>	<u>11,853</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	<u>(114,332)</u>	<u>114,332</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	28,593	(16,740)	11,853
CASH AT BEGINNING OF YEAR	<u>463,431</u>	<u>242,820</u>	<u>706,251</u>
CASH AT END OF YEAR	<u><u>\$ 492,024</u></u>	<u><u>\$ 226,080</u></u>	<u><u>\$ 718,104</u></u>

SUPPLEMENTARY INFORMATION

NEPTUNE HOUSE OWNERS ASSOCIATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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 January 23, 2023, 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, 2022 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, 2022, the Association will be taxed as a homeowners association and file Form 1120-H.

Note E – Revenue Recognition

As disclosed in Note C to the financial statements, the Association's customers consist of its member's, which are unit owners within the development. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the unit owners.

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve assessments, which are being recognized at a point in time, and interest income, which is not subject to ASC Topic 606. As of December 31, 2022, the Association has reported a performance obligation liability totaling \$228,623, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the Replacement Fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation. For operating fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For replacement fund amounts, the Association recognizes revenue at the point in time when reserve expenses are incurred.

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenues and cash flows. The following chart contains disaggregated revenue information that reflects these qualitative factors.

<i>For the year ended December 31,</i>	2022
<i>Recognized over time</i>	
Operating fund assessments	\$685,357
Bad debt recovery	2,893
Other revenue	58,725
<i>Recognized at a point in time</i>	
Replacement fund assessments	90,735
<i>Not subject to ASC Topic 606</i>	
Interest income	1,520
Total revenue	\$839,230

Note F – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. At December 31, 2022, the Reserve Fund had cash available of \$226,080, of which \$53,438 was 2023 fees collected in advance, resulting in a net cash position in the Reserve Fund of \$172,642. These funds are held in a separate account, not generally available for Operating Expenses.

Note G – Accumulated Fund Balances

Fund Balances at December 31, 2022, representing the accumulated excess of revenue over expenses since inception, were \$431,013 from the Operating Fund, and (\$228,623) from the Reserve Fund, for a total Fund Balance of \$202,390.

SUPPLEMENTARY INFORMATION

**NEPTUNE HOUSE OWNERS' ASSOCIATION
 SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
 FOR THE YEAR ENDED DECEMBER 31, 2022**

(1 of 2)

	Operating Fund	Reserve Fund	Total
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	\$ 26,913	\$ -	\$ 26,913
Salaries - Maintenance	33,813	-	33,813
Salaries - Administrative	73,364	-	73,364
Payroll taxes - Housekeeping	2,680	-	2,680
Payroll taxes - Maintenance	3,418	-	3,418
Payroll taxes - Administrative	7,548	-	7,548
Health insurance, employee welfare & workers compensation insurance	15,513	-	15,513
Payroll service	2,069	-	2,069
	165,318	-	165,318
UTILITIES			
Electricity	21,435	-	21,435
Sewer usage	16,944	-	16,944
Heating fuel	26,396	-	26,396
Propane gas	11,979	-	11,979
Water	14,052	-	14,052
	90,806	-	90,806
SERVICE AND CONTRACTS			
Security - alarm service	1,574	-	1,574
Laundry service	13,731	-	13,731
Cable TV	4,679	-	4,679
Carting and rubbish removal	7,598	-	7,598
Cleaning service	36,764	-	36,764
	64,346	-	64,346
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	31,033	-	31,033
Freight	1,034	-	1,034
Repairs and maintenance	4,980	-	4,980
Outside labor	26,885	-	26,885
	63,932	-	63,932
INSURANCE AND LICENSES			
Insurance	66,565	-	66,565
	66,565	-	66,565
	450,967	-	450,967

**NEPTUNE HOUSE OWNERS' ASSOCIATION
SUPPLEMENTAL SCHEDULE 1: EXPENSE DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2022**

(2 of 2)

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Advertising	4,878	-	4,878
Bank service charges, late fees and interest	9,934	-	9,934
Collection expense	2,350	-	2,350
Dues and subscriptions	2,568	-	2,568
Management fees	62,996	-	62,996
Office expenses	7,044	-	7,044
Postage	1,067	-	1,067
Professional fees	8,450	-	8,450
Telephone and internet	23,207	-	23,207
Travel expense	1,040	-	1,040
Uniforms	749	-	749
Van expenses	1,376	-	1,376
Other administrative expenses	6,430	-	6,430
	<u>132,089</u>	<u>-</u>	<u>132,089</u>
TAXES			
Real estate	24,031	-	24,031
	<u>24,031</u>	<u>-</u>	<u>24,031</u>
BAD DEBTS			
Neptune House Owners Association	12,896	1,935	14,831
	<u>12,896</u>	<u>1,935</u>	<u>14,831</u>
RESERVE FUND			
Facility maintenance and repair	-	227,841	227,841
	<u>-</u>	<u>227,841</u>	<u>227,841</u>
COMMON AREA COMPONENTS			
Room equipment replacements	5,749	-	5,749
Linen replacement	15,554	-	15,554
Landscaping	9,856	-	9,856
Computers and website	1,343	-	1,343
Pool	10,634	-	10,634
	<u>43,136</u>	<u>-</u>	<u>43,136</u>
TOTAL OPERATING EXPENSES	<u>\$ 663,119</u>	<u>\$ 229,776</u>	<u>\$ 892,895</u>

**SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 672,216	\$ 685,357	\$ 13,141
Bad debt recovery	3,210	1,953	(1,257)
Interest income	1,000	1,468	468
Other income	37,203	58,725	21,522
TOTAL REVENUES	<u>713,629</u>	<u>747,503</u>	<u>33,874</u>
EXPENSES			
MANAGEMENT AND FACILITY MAINTENANCE			
Salaries - Housekeeping	43,260	26,913	16,347
Salaries - Maintenance	56,448	33,813	22,635
Salaries - Administrative	94,589	73,364	21,225
Payroll taxes - Housekeeping	3,885	2,680	1,205
Payroll taxes - Maintenance	5,068	3,418	1,650
Payroll taxes - Administrative	8,489	7,548	941
Health insurance, employee welfare & workers compensation insurance	22,665	15,513	7,152
Payroll service	2,336	2,069	267
	<u>236,740</u>	<u>165,318</u>	<u>71,422</u>
UTILITIES			
Electricity	22,834	21,435	1,399
Sewer usage	14,444	16,944	(2,500)
Heating fuel	25,208	26,396	(1,188)
Propane gas	5,349	11,979	(6,630)
Water	9,679	14,052	(4,373)
	<u>77,514</u>	<u>90,806</u>	<u>(13,292)</u>
SERVICE AND CONTRACTS			
Security - alarm service	1,789	1,574	215
Laundry service	12,141	13,731	(1,590)
Cable TV	6,360	4,679	1,681
Carting and rubbish removal	6,057	7,598	(1,541)
Cleaning service	38,543	36,764	1,779
	<u>64,890</u>	<u>64,346</u>	<u>544</u>
REPAIRS AND SUPPLIES			
Housekeeping and apartment supplies	37,263	31,033	6,230
Freight	2,190	1,034	1,156
Repairs and maintenance	19,334	4,980	14,354
Outside labor	10,086	26,885	(16,799)
	<u>68,873</u>	<u>63,932</u>	<u>4,941</u>
INSURANCE AND LICENSES			
Insurance	59,601	66,565	(6,964)
	<u>59,601</u>	<u>66,565</u>	<u>(6,964)</u>
	<u>507,618</u>	<u>450,967</u>	<u>56,651</u>

**SUPPLEMENTAL SCHEDULE 2: SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES---BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Budget (compiled)	Actual	Variance Favorable (Unfavorable)
ADMINISTRATIVE			
Advertising	8,000	4,878	3,122
Bank service charges, late fees and interest	12,000	9,934	2,066
Collection expense	1,107	2,350	(1,243)
Dues and subscriptions	3,609	2,568	1,041
Management fees	63,168	62,996	172
Office expenses	3,915	7,044	(3,129)
Postage	1,518	1,067	451
Professional fees	8,450	8,450	-
Telephone and internet	26,466	23,207	3,259
Travel expense	6,053	1,040	5,013
Uniforms	1,011	749	262
Van expenses	2,463	1,376	1,087
Other administrative expenses	14,650	6,430	8,220
	<u>152,410</u>	<u>132,089</u>	<u>20,321</u>
TAXES			
Real estate	15,972	24,031	(8,059)
	<u>15,972</u>	<u>24,031</u>	<u>(8,059)</u>
BAD DEBTS			
Neptune House Owners Association	13,444	12,896	548
	<u>13,444</u>	<u>12,896</u>	<u>548</u>
COMMON AREA COMPONENTS			
Room equipment replacements	8,524	5,749	2,775
Linen replacement	5,406	15,554	(10,148)
Landscaping	2,226	9,856	(7,630)
Computers and website	1,738	1,343	395
Pool	4,569	10,634	(6,065)
	<u>22,463</u>	<u>43,136</u>	<u>(20,673)</u>
TOTAL EXPENSES	<u>711,907</u>	<u>663,119</u>	<u>48,788</u>
EXCESS (DEFICIENCY) OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES	<u>\$ 1,722</u>	<u>\$ 84,384</u>	<u>\$ 82,662</u>