

Harbour Mansion Condominium Association, Inc.
Financial Statements
December 31, 2018

Harbour Mansion Condominium Association, Inc.
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Independent Auditors' Report

To the Board of Trustees and Unit Owners of

Harbour Mansion Condominium Association, Inc.

We have audited the accompanying financial statements of Harbour Mansion Condominium Association, Inc. (the "Association") which comprise the balance sheet as of December 31, 2018 and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

The Board of Trustees' Responsibility for the Financial Statements

The Board of Trustees (the "Board") 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 the Association as of December 31, 2018, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of the Board about the methods of preparing the information and comparing the information for consistency with their responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. The Association had not included beach cabana lockers with an assessed remaining useful life of 26 years and estimated replacement cost of approximately \$44,000. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 12 through 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Board, and except for the portion marked "unaudited" was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



East Brunswick, New Jersey

September 13, 2019

Harbour Mansion Condominium Association, Inc.

Balance Sheet

December 31, 2018

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Assets				
Cash and cash equivalents	\$ 700,324	\$ 51,155	\$ 36,293	\$ 612,876
Assessments receivable, net of allowance for doubtful accounts of \$46,000	16,354	16,354	-	-
Prepaid expenses	75,100	75,100	-	-
Due from funds	261,577	261,577	-	-
Total Assets	\$ 1,053,355	\$ 404,186	\$ 36,293	\$ 612,876
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 82,406	\$ 82,406	\$ -	\$ -
Assessments received in advance	45,999	45,999	-	-
Security deposits	329,424	329,424	-	-
Due to funds	261,577	-	84,817	176,760
Total Liabilities	719,406	457,829	84,817	176,760
Commitment				
Fund Balances	333,949	(53,643)	(48,524)	436,116
Total Liabilities and Fund Balances	\$ 1,053,355	\$ 404,186	\$ 36,293	\$ 612,876

The accompanying notes are an integral part of these financial statements.

Harbour Mansion Condominium Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2018

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Revenues				
Maintenance assessments	\$ 1,261,102	\$ 1,042,402	\$ 18,700	\$ 200,000
Garage fees	42,720	42,720	-	-
Reduction in allowance for doubtful accounts	21,518	21,518	-	-
Working capital contributions	13,631	13,631	-	-
Laundry income	7,505	7,505	-	-
Clubroom rental income	6,766	6,766	-	-
Investment income	4,498	-	100	4,398
Other income	4,028	4,028	-	-
Legal fee reimbursements	3,532	3,532	-	-
Rental income	2,100	2,100	-	-
Membership fees	1,200	1,200	-	-
Late charges	380	380	-	-
Township reimbursement	309	309	-	-
Total Revenues	<u>1,369,289</u>	<u>1,146,091</u>	<u>18,800</u>	<u>204,398</u>
Expenses				
General and administrative	243,021	243,021	-	-
Building and grounds maintenance	272,451	272,451	-	-
Payroll	324,322	324,322	-	-
Utilities	301,739	301,739	-	-
Doors	26,480	-	-	26,480
Elevator refurbishments	24,660	-	-	24,660
Steam room generator	9,800	-	-	9,800
Roof	4,622	-	-	4,622
Total Expenses	<u>1,207,095</u>	<u>1,141,533</u>	<u>-</u>	<u>65,562</u>
Excess of Revenues over Expenses	162,194	4,558	18,800	138,836
Fund Balances - Beginning of Year	<u>171,755</u>	<u>(58,201)</u>	<u>(67,324)</u>	<u>297,280</u>
Fund Balances - End of Year	<u>\$ 333,949</u>	<u>\$ (53,643)</u>	<u>\$ (48,524)</u>	<u>\$ 436,116</u>

The accompanying notes are an integral part of these financial statements.

Harbour Mansion Condominium Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Operating Activities				
Excess of revenues over expenses	\$ 162,194	\$ 4,558	\$ 18,800	\$ 138,836
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities				
Changes in assets and liabilities				
Assessments receivable	(4,849)	(4,849)	-	-
Prepaid expenses	267	267	-	-
Accounts payable and accrued expenses	16,256	16,256	-	-
Assessments received in advance	22,848	22,848	-	-
Security deposits	(5,702)	(5,702)	-	-
Net Cash Provided by Operating Activities	191,014	33,378	18,800	138,836
Cash Flows from Financing Activities				
Change in interfund balances	-	(6,949)	(6,199)	13,148
Net Increase in Cash and Cash Equivalents	191,014	26,429	12,601	151,984
Cash and Cash Equivalents - Beginning of Year	509,310	24,726	23,692	460,892
Cash and Cash Equivalents - End of Year	<u>\$ 700,324</u>	<u>\$ 51,155</u>	<u>\$ 36,293</u>	<u>\$ 612,876</u>

The accompanying notes are an integral part of these financial statements.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2018

Note 1 Nature of Organization

Harbour Mansion Condominium Association, Inc. (the "Association"), located in Long Branch, New Jersey, is a New Jersey corporation, subject to the provisions of the Condominium Act of the State of New Jersey. The Association also is subject to the provisions of the hotel and multiple dwelling law, which has no financial statement disclosure impact. The purposes of the Association are to provide for the preservation of the values and amenities in the community and for the maintenance of the common facilities. The Association consists of 115 residential units and an indoor garage. Recreation facilities include an indoor swimming pool, exercise room, beach area and cabanas.

Note 2 Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board of Trustees (the "Board") 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.

Fund Accounting

The Association's legal document (i.e., Master Deed and By-laws) provide certain guidelines to govern the Association's financial activities. In order to ensure observance of limitations and restrictions placed on the use of resources available to the Association by such documents, the accounts of the Association are maintained in accordance with the principles of fund accounting.

The assets, liabilities and fund balances of the Association are reported in the following fund groups:

Operating Fund

This fund represents the portion of expendable funds that is available for the general annual expenditures of the Association.

Deferred Maintenance Fund

The purpose of this fund is to accumulate sufficient amounts which will allow the Association to have the necessary resources to perform other maintenance services which occur less frequently than annually. In addition, this fund is utilized for expenses that cost less than \$10,000, that are allocated to this fund by the Board.

Note 2 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Replacement Fund

The purpose of the replacement fund is to accumulate funds for future major repairs and replacements of the Association's common property as determined by the Board with a cost of greater than \$10,000.

Cash and Cash Equivalents

Cash and cash equivalents are held in bank deposit accounts and money market funds which, at times, may exceed federally insured limits.

Recognition of Assets

The Association's property and other common elements are owned by the unit owners in condominium form pursuant to the Master Deed wherein each of the individual unit owners hold legal title to an undivided interest in property constituting the common elements. The use and disposition of these properties are restricted or governed by the Association's legal documents. Accordingly, no amounts related to these common elements are included on the accompanying balance sheet of the Association. The common elements primarily consist of portions of the building and the improvements on the land, not comprising the individual units.

Maintenance Assessments, Garage Fees and Assessments Receivable

The Association's members are subject to monthly assessments based upon the annual budget and as determined by the Board. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods, or as otherwise specified by the Association's governing documents. A portion of the monthly assessments to owners are allocated to the replacement fund and deferred maintenance fund.

On a periodic basis, the Board evaluates the assessments receivable and estimates an allowance for doubtful accounts, based on the current legal status of past due accounts.

Investment Income Earned

The Board's policy is to retain investment income earned on all replacement and deferred maintenance fund interest bearing cash accounts and investments in the respective funds.

Subsequent Events

The Board has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2018

Note 3 Prepaid Expenses

Prepaid expenses consisted of the following at December 31, 2018:

Insurance	\$ 74,896
Federal income taxes	<u>204</u>
Total	<u>\$ 75,100</u>

Note 4 Income Taxes

Under the Internal Revenue Code, associations may be taxed as a regular corporation or as a condominium management association, which is based on an annual election and meeting certain criteria. If the criteria are met, the Association may select either method in any year. A method selected in one year affects only that year and the Association is free to select either method in future years.

For the year ended December 31, 2018, the Association expects to be taxed as a regular corporation and therefore not taxed as a condominium management association. No income taxes have been provided since there are sufficient non-membership expenses to offset non-membership income. The Association evaluates its tax provisions and accruals and believes that they are appropriate based on current facts and circumstances. The prior three years federal tax returns as filed remain open for examination by the Internal Revenue Service.

The Association is incorporated pursuant to Title 15A of the New Jersey Statutes and, therefore, is not liable for New Jersey corporation business income tax.

Note 5 Security Deposits

Each member of the Association must maintain at all times the equivalent of three month's current maintenance fees as security against non-payment of future assessments.

In 2000, the Board approved the allocation of these deposits to establish the replacement fund. Accordingly, \$182,800 of deposits as of January 1, 2000 had been recorded as revenue to the replacement fund in that year (See Note 6). Deposits received at closings subsequent to January 1, 2000 have been recorded as a liability as security against non-payment of future assessments.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2018

Note 6 Replacement Fund

The Association's governing documents provide that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

Falcon Engineering, professional engineering consultants, conducted a study in September 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The study includes those components with an estimated remaining useful life within the Board determined useful life guidelines for inclusion in the replacement schedule for purposes of determining annual funding. The type of study performed was a full study. The estimates were based on the then current estimated replacement costs. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study. The study does not include the replacement of beach cabana lockers with an estimated remaining life of 26 years and an estimated replacement cost of \$44,000.

The Board is funding for the estimated costs of future major repairs and replacements over the remaining useful lives of the components as discussed below. The lowest level of funding included in the engineering study utilizes the threshold funding methodology. Threshold funding, based upon a 30 year cash flow analysis, sets a replacement funding goal of keeping the replacement fund balance above a specified dollar amount at its lowest accumulated amount, as specified by the Board, but below the full funding determined level. The 2018 annual recommended funding per the 2016 study is \$206,213 using a threshold level of \$194,034 which is approximately 5% of the estimated replacement cost of the common property which is included in the engineering study referred to above. The Board has provided for replacement funding of \$200,000 in the 2018 budget.

Amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. Additionally, replacement fund cash and investment balances may, at times, be less than or more than the fund balance resulting in an interfund balance. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available, if possible. The effect on future assessments is unknown at this time.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2018

Note 7 Working Capital Contribution and Membership Fee

Upon the acquisition of title to a unit, each new member of the Association is assessed a working capital contribution equal to two months of the then current maintenance assessments. Working capital contributions have been recorded as revenue in the operating fund in the accompanying financial statements.

In addition each new member is required to pay a membership fee of \$150. These contributions have been recorded as revenue to the operating fund in the accompanying financial statements.

Note 8 Commitment

During the year ended December 31, 2018, the Association entered into a contract with a vendor to complete a façade restoration project in 2019. The total cost of the project is \$79,800. All expenses will be recorded as incurred in the replacement fund.

SUPPLEMENTARY INFORMATION

Harbour Mansion Condominium Association, Inc.
Schedule of Information on Future Major Repairs and Replacements
December 31, 2018

Falcon Engineering, professional engineering consultants, conducted a study in September 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The study includes those components with an estimated remaining useful life within the board determined useful life guidelines for inclusion in the replacement schedule for purposes of determining annual funding. The estimates were based on the then current estimated replacement costs.

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

<u>Components</u>	As of 2016 Study (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Building	0-28	\$ 3,151,291
Garage	1-8	7,700
Recreation	3-26	402,112
Site work	5-26	319,568
Total		<u>\$ 3,880,671</u>
Replacement fund balance as of December 31, 2018		<u>\$ 436,116</u>

Harbour Mansion Condominium Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to Funds
as Compared to Budget
For the Year Ended December 31, 2018

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 1,261,102	\$ 1,261,095
Garage fees	42,720	41,580
Reduction in allowance for doubtful accounts	21,518	-
Working capital contributions	13,631	10,000
Laundry income	7,505	8,000
Clubroom rental income	6,766	5,400
Investment income	4,498	-
Other income	4,028	5,825
Legal fee reimbursements	3,532	5,000
Rental income	2,100	25,417
Membership fees	1,200	-
Late charges	380	1,500
Township reimbursement	309	300
Total Revenues	1,369,289	1,364,117
Operating Expenses		
General and Administrative		
Management fees	96,087	97,000
Insurance	86,507	98,000
Legal fees	20,928	17,000
Office expense	15,322	12,000
Payroll processing fees	9,981	6,200
Engineering	4,708	5,000
Audit fees	4,100	3,000
Recreation committee	3,452	4,000
Postage	1,596	1,000
Dues and subscriptions	310	500
Bank fees	30	200
Total General and Administrative	243,021	243,900

Harbour Mansion Condominium Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to Funds
as Compared to Budget
For the Year Ended December 31, 2018

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Building and Grounds Maintenance		
Elevator repairs	48,421	42,000
Supplies	46,303	35,000
Pool and beach expense	32,577	28,000
General repairs and maintenance	26,710	15,000
Furniture	23,433	20,000
Pool and beach management	17,837	33,500
Snow clearing	16,404	13,000
Plumbing repairs	12,684	20,000
Miscellaneous	10,975	5,900
Painting	6,950	5,000
Fire system	6,485	5,000
HVAC repairs	6,188	7,800
Electrical repairs	5,668	7,500
Landscaping	3,732	3,300
Security	1,761	2,500
Generator	1,651	1,000
Maintenance exhaust fans	1,364	3,000
Exterminating	960	1,000
Irrigation repairs	680	300
Exercise equipment	677	500
Entry gate	401	500
Landscaping improvements	300	7,500
Cleaning	250	-
Trash removal	40	-
Parking lot maintenance	-	3,000
Roof repairs	-	2,500
Newsletter	-	500
Sewer	-	100
Total Building and Grounds Maintenance	272,451	263,400
Payroll		
Payroll	262,189	263,000
Insurance - medical	37,414	20,000
Payroll taxes	24,719	26,300
Total Payroll	324,322	309,300

Harbour Mansion Condominium Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to Funds
as Compared to Budget
For the Year Ended December 31, 2018

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Utilities		
Electricity	136,975	125,000
Gas	124,583	160,000
Water	34,159	32,000
Telephone	6,022	5,000
Total Utilities	301,739	322,000
Deferred Maintenance Fund		
Maintenance assessments allocated to the deferred maintenance fund	18,700	18,700
Investment income allocated to the deferred maintenance fund	100	-
Total Allocations to the Deferred Maintenance Fund	18,800	18,700
Replacement Fund		
Maintenance assessments allocated to the replacement fund	200,000	200,000
Investment income allocated to replacement fund	4,398	6,817
Total Allocations to the Replacement Fund	204,398	206,817
Total Operating Expenses and Allocations to Funds	1,364,731	1,364,117
Excess of Revenues over Operating Expenses and Allocations to the Funds	\$ 4,558	\$ -