

Harbour Mansion Condominium Association, Inc.
Financial Statements
December 31, 2019

Harbour Mansion Condominium Association, Inc.
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December 31, 2019

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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, 2019 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, 2019, 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. Although our opinion on the basic financial statements is not affected, as referenced in Note 6, the results of the limited procedures have raised doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with the guidelines established by the Financial Accounting Standards Board.

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

November 12, 2020

Harbour Mansion Condominium Association, Inc.**Balance Sheet****December 31, 2019**

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Assets				
Cash and cash equivalents	\$ 675,284	\$ 80,644	\$ 55,158	\$ 539,482
Assessments receivable	14,548	14,548	-	-
Prepaid expenses	78,744	78,744	-	-
Due from funds	266,907	266,907	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 1,035,483</u>	<u>\$ 440,843</u>	<u>\$ 55,158</u>	<u>\$ 539,482</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 63,545	\$ 63,545	\$ -	\$ -
Assessments received in advance	19,474	19,474	-	-
Security deposits	329,424	329,424	-	-
Due to operating fund	266,907	-	87,543	179,364
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	679,350	412,443	87,543	179,364
Fund Balances	356,133	28,400	(32,385)	360,118
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 1,035,483</u>	<u>\$ 440,843</u>	<u>\$ 55,158</u>	<u>\$ 539,482</u>

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, 2019

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Revenues				
Maintenance assessments	\$ 1,261,102	\$ 1,042,402	\$ 18,700	\$ 200,000
Repairs income	62,609	62,609	-	-
Garage fees	52,200	52,200	-	-
Working capital contributions	17,426	17,426	-	-
Clubroom rental income	7,870	7,870	-	-
Investment income	6,916	-	166	6,750
Reduction in estimate of prior year's allowance for doubtful accounts	4,860	4,860	-	-
Laundry income	3,647	3,647	-	-
Membership fees	1,500	1,500	-	-
Other income	1,053	1,053	-	-
Late charges	310	310	-	-
Township reimbursement	208	208	-	-
Total Revenues	1,419,701	1,194,085	18,866	206,750
Expenses				
General and administrative	228,560	228,560	-	-
Building and grounds maintenance	243,903	243,903	-	-
Payroll	337,611	337,611	-	-
Utilities	301,968	301,968	-	-
Security	9,260	-	1,733	7,527
Computer	994	-	994	-
Façade Waterproofing project	171,550	-	-	171,550
Roofs	44,295	-	-	44,295
Doors	18,995	-	-	18,995
Elevator	14,208	-	-	14,208
Drains	7,500	-	-	7,500
Boiler	7,473	-	-	7,473
Concrete wall	4,900	-	-	4,900
Painting	3,150	-	-	3,150
Furniture	3,150	-	-	3,150
Total Expenses	1,397,517	1,112,042	2,727	282,748
Excess (Deficiency) of Revenues over Expenses	22,184	82,043	16,139	(75,998)
Fund Balances - Beginning of Year	333,949	(53,643)	(48,524)	436,116
Fund Balances - End of Year	\$ 356,133	\$ 28,400	\$ (32,385)	\$ 360,118

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, 2019

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Operating Activities				
Excess (deficiency) of revenues over expenses	\$ 22,184	\$ 82,043	\$ 16,139	\$ (75,998)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities				
Reduction in estimate of prior year's allowance for doubtful accounts	(4,860)	(4,860)	-	-
Changes in assets and liabilities				
Assessments receivable	6,666	6,666	-	-
Prepaid expenses	(3,644)	(3,644)	-	-
Accounts payable and accrued expenses	(18,861)	(18,861)	-	-
Assessments received in advance	(26,525)	(26,525)	-	-
Net Cash Provided by (Used in) Operating Activities	(25,040)	34,819	16,139	(75,998)
Cash Flows from Financing Activities				
Change in interfund balances	-	(5,330)	2,726	2,604
Net Increase (Decrease) in Cash and Cash Equivalents	(25,040)	29,489	18,865	(73,394)
Cash and Cash Equivalents - Beginning of Year	700,324	51,155	36,293	612,876
Cash and Cash Equivalents - End of Year	<u>\$ 675,284</u>	<u>\$ 80,644</u>	<u>\$ 55,158</u>	<u>\$ 539,482</u>

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

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2019

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

Recently Adopted Accounting Pronouncements

ASC 606 - Revenue from Contracts with Customers

Effective January 1, 2019, the Association adopted Accounting Standards Update 2014-09 "Revenue from Contracts with Customers". This standard requires revenue to be recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Association adopted the standard effective January 1, 2019 using the modified retrospective transition method. The Association applied ASU No. 2014-09 only to contracts that were not completed prior to January 1, 2019. The adoption of the new revenue standard had no effect to the opening fund balance of the operating, deferred maintenance or replacement funds. The Board expects the impact of the adoption to be immaterial to the Association's financial position, results of operations, and cash flows on an ongoing basis.

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.

Note 2 Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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.

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 unit owners are subject to monthly maintenance assessments based upon the annual budget. The purpose of maintenance assessments is to provide funds for operating expenses and reserves/future major repairs and replacements. Monthly maintenance assessments represent multiple performance obligations, which, on a standalone basis are not considered separate and distinct and therefore have been deemed to be a single performance obligation. Revenue is recognized as the performance obligation is satisfied at transaction amounts expected to be collected. The performance obligation for maintenance assessments are satisfied over time on a daily pro-rata basis using the input method.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2019

Note 2 Summary of Significant Accounting Policies (Continued)

Maintenance Assessments, Garage Fees and Assessments Receivable

The Association retains excess funds at the end of the period, if any, for use in future periods or as otherwise specified by the Association’s governing documents.

Maintenance assessments receivable at the balance sheet date is stated at the amounts expected to be collected from unit owners. The Association’s policy is to retain legal counsel and place liens on the units of owners who are delinquent based on the collection policy. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary. The Association treats uncollectible maintenance assessments as variable consideration since the Association has the authority to levy additional fees. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association’s control.

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. (See Note 8)

Note 3 Prepaid Expenses

Prepaid expenses consisted of the following at December 31, 2019:

Insurance	\$ 78,540
Federal income taxes	<u>204</u>
Total	<u>\$ 78,744</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.

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2019

Note 4 Income Taxes (Continued)

For the year ended December 31, 2019, 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.

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 used for replacement fund expenditures.

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.

Note 6 Replacement Fund (Continued)

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 2019 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 2019 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.

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 Subsequent Event

In late 2019, a novel strain of coronavirus, COVID-19, emerged globally. As the impact of the spread of the COVID-19 coronavirus continues to spread in the United States and around the world, the Association may experience disruptions that could impact its ability to carry out its activities. As of the date of the issuance of these financial statements, the Board cannot reasonably estimate the impact to the Association's future activities, revenues, financial condition or results of operations.

SUPPLEMENTARY INFORMATION

Harbour Mansion Condominium Association, Inc.
Schedule of Information on Future Major Repairs and Replacements
December 31, 2019

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, 2019		<u>\$ 360,118</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, 2019

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 1,261,102	\$ 1,261,102
Repairs income	62,609	-
Garage fees	52,200	52,650
Working capital contributions	17,426	13,000
Clubroom rental income	7,870	9,240
Investment income	6,916	-
Reduction in allowance for doubtful accounts	4,860	-
Laundry income	3,647	8,200
Membership fees	1,500	-
Other income	1,053	12,755
Late charges	310	150
Township reimbursement	208	300
Legal fee reimbursements	-	1,000
Total Revenues	1,419,701	1,358,397
Operating Expenses		
General and Administrative		
Management fees	95,876	94,000
Insurance	79,474	107,000
Payroll processing fees	15,203	6,200
Legal fees	14,108	11,000
Office expense	13,107	12,000
Audit fees	5,300	3,000
Recreation committee	2,308	1,750
Postage	1,437	1,000
Engineering	1,407	2,500
Dues and subscriptions	310	500
Bank fees	30	200
Contingency	-	6,769
Total General and Administrative	228,560	245,919

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, 2019

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Building and Grounds Maintenance		
Supplies	54,286	35,000
HVAC repairs	49,621	5,300
Pool and beach management	35,969	38,500
Pool and beach expense	33,849	25,000
Elevator repairs	10,357	14,000
Painting	10,275	2,000
Miscellaneous	8,173	2,700
Security	8,034	2,500
Landscaping improvements	5,551	2,500
General repairs and maintenance	5,107	14,000
Plumbing repairs	5,062	5,000
Landscaping	4,798	3,500
Fire system	4,511	5,000
Parking lot maintenance	2,434	1,500
Snow clearing	2,133	10,000
Exterminating	1,040	1,000
Exercise equipment	960	500
Generator	778	1,000
Trash removal	586	-
Irrigation repairs	240	300
Electrical repairs	139	5,000
Roof repairs	-	2,500
Maintenance exhaust fans	-	2,100
Entry gate	-	500
Newsletter	-	500
Total Building and Grounds Maintenance	243,903	179,900
Payroll		
Payroll	272,822	346,617
Insurance - medical	40,661	32,600
Payroll taxes	24,128	34,661
Total Payroll	337,611	413,878

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, 2019

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Utilities		
Gas	132,643	121,000
Electricity	127,425	140,000
Water	37,565	34,000
Telephone	4,335	5,000
Total Utilities	301,968	300,000
Deferred Maintenance Fund		
Maintenance assessments allocated to the deferred maintenance fund	18,700	18,700
Investment income allocated to the deferred maintenance fund	166	-
Total Allocations to the Deferred Maintenance Fund	18,866	18,700
Replacement Fund		
Maintenance assessments allocated to the replacement fund	200,000	200,000
Investment income allocated to replacement fund	6,750	-
Total Allocations to the Replacement Fund	206,750	200,000
Total Operating Expenses and Allocations to Funds	1,337,658	1,358,397
Excess of Revenues over Operating Expenses and Allocations to the Funds	\$ 82,043	\$ -