

Harbour Mansion Condominium Association, Inc.
Financial Statements
December 31, 2016



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, 2016 and the related statements of revenues, expenses, 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, 2016, 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 accessed 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

November 20, 2017

Harbour Mansion Condominium Association, Inc.

Balance Sheet

December 31, 2016

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Assets				
Cash and cash equivalents	\$ 524,684	\$ 12,904	\$ 45,252	\$ 466,528
Assessments receivable, net of allowance for doubtful accounts of \$89,575	8,566	8,566	-	-
Prepaid expenses	76,159	76,159	-	-
Due from funds	290,222	290,222	-	-
Total Assets	<u>\$ 899,631</u>	<u>\$ 387,851</u>	<u>\$ 45,252</u>	<u>\$ 466,528</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 88,148	\$ 72,214	\$ -	\$ 15,934
Assessments received in advance	30,621	30,621	-	-
Security deposits	330,489	330,489	-	-
Due to funds	290,222	-	106,545	183,677
Total Liabilities	739,480	433,324	106,545	199,611
Commitment				
Fund Balances	<u>160,151</u>	<u>(45,473)</u>	<u>(61,293)</u>	<u>266,917</u>
Total Liabilities and Fund Balances	<u>\$ 899,631</u>	<u>\$ 387,851</u>	<u>\$ 45,252</u>	<u>\$ 466,528</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, 2016

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Revenues				
Maintenance assessments	\$ 1,261,281	\$ 1,048,781	\$ 12,500	\$ 200,000
Garage fees	41,430	41,430	-	-
Working capital contributions	9,666	9,666	-	-
Laundry income	9,009	9,009	-	-
Clubroom rental income	3,940	3,940	-	-
Late charges	1,790	1,790	-	-
Legal fee reimbursements	992	992	-	-
Membership fees	750	750	-	-
Township reimbursement	254	254	-	-
Other income	106	106	-	-
Investment income	43	-	4	39
Total Revenues	1,329,261	1,116,718	12,504	200,039
Expenses				
General and administrative	254,841	254,841	-	-
Building and grounds maintenance	377,484	377,484	-	-
Payroll	232,042	232,042	-	-
Utilities	302,858	302,858	-	-
Boiler	68,063	-	-	68,063
Bulkhead project management	48,367	-	-	48,367
Miscellaneous	8,468	-	-	8,468
Outdoor shower	8,169	-	-	8,169
Total Expenses	1,300,292	1,167,225	-	133,067
Excess (Deficiency) of Revenues over Expenses	28,969	(50,507)	12,504	66,972
Fund Balances - Beginning of Year	131,182	5,034	(73,797)	199,945
Fund Balances - End of Year	\$ 160,151	\$ (45,473)	\$ (61,293)	\$ 266,917

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, 2016

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Cash Flows from Operating Activities				
Excess (deficiency) of revenues over expenses	\$ 28,969	\$ (50,507)	\$ 12,504	\$ 66,972
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities				
Bad debt expense	1,180	1,180	-	-
Changes in assets and liabilities				
Assessments receivable	24,872	24,872	-	-
Prepaid expenses	575	575	-	-
Special assessment receivable	40,857	40,857	-	-
Accounts payable and accrued expenses	21,637	5,703	-	15,934
Assessments received in advance	(12,554)	(12,554)	-	-
Security deposits	7,507	7,507	-	-
	<u>113,043</u>	<u>17,633</u>	<u>12,504</u>	<u>82,906</u>
Net Cash Provided by Operating Activities				
	113,043	17,633	12,504	82,906
Cash Flows from Investing Activities				
Net activity in money market mutual funds	61,073	-	-	61,073
Cash Flows from Financing Activities				
Change in interfund balances	<u>-</u>	<u>(71,924)</u>	<u>(625)</u>	<u>72,549</u>
Net Increase (Decrease) in Cash and Cash Equivalents				
	174,116	(54,291)	11,879	216,528
Cash and Cash Equivalents - Beginning of Year	<u>350,568</u>	<u>67,195</u>	<u>33,373</u>	<u>250,000</u>
Cash and Cash Equivalents - End of Year	<u>\$ 524,684</u>	<u>\$ 12,904</u>	<u>\$ 45,252</u>	<u>\$ 466,528</u>

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

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2016

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. During the year ended, December 31, 2015, the Association amended its bylaws and transferred ownerships of unit windows from the common elements of the Association to the unit owners. All maintenance, repairs, and replacements of windows are now the responsibility of each individual unit owner.

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. (See Note 8, 10).

Harbour Mansion Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2016

Note 3 Prepaid Expenses

Prepaid expenses consisted of the following at December 31, 2016:

Insurance	\$ 75,955
Federal income taxes	<u>204</u>
Total	<u>\$ 76,159</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, 2016, 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 8). 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 not available for expenditures for normal operations.

Falcon Engineering, professional engineering consultants, conducted a study in March 2009 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was updated in September 2016 to be effective January 1, 2017. The 2016 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 type of study performed was a full study. The table included in the unaudited supplementary information on future major repairs and replacements is based on the 2016 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.

During the year ended December 31, 2016, the Board funded for the estimated costs of future major repairs and replacements as discussed below. The 2009 engineering study's recommended funding utilizing 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 annual recommended funding per the 2009 study is \$376,398 using a threshold level of \$273,004 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 included \$200,000 as the replacement fund contribution in the 2016 budget. In addition, investment income earned on replacement fund cash and investments was also contributed to the replacement fund.

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 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, 2016

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 Association Unit

During the year ended December 31, 2015, the Association was appointed as a rent receiver for an association unit to recover unremitted maintenance assessments. The Association does not hold title to the unit, however as the rent receiver, has been collecting rental income and maintaining the unit. The Association had signed a one year lease effective December 15, 2015 to rent this unit at \$2,100 per month. The Association holds a security deposit of \$3,150 which is included in cash and cash equivalents in the accompanying financial statements. This income will be used to offset bad debt expense incurred by the prior unit owner's nonpayment of maintenance fees as well as current maintenance assessments related to this unit and costs to maintain the unit. For the year ended December 31, 2016, approximately \$23,000 in rental income has been collected. Maintenance assessments outstanding on this unit at December 31, 2016 are approximately \$72,000, for which a full allowance has been established. Subsequent to year end, the Association entered into a new one year lease, effective February 1, 2017 to rent this unit at \$2,500 per month.

Note 9 Commitment

During the year ended December 31, 2016 the Association entered into a contract with a vendor to upgrade the elevator doors which is expected to be completed during the year ended December 31, 2017. The total expected cost of the project is approximately \$31,000 and will be funded through the operating fund. The project will commence during 2017. All expenses will be recorded as incurred in the operating fund.

Note 10 Subsequent Events

Subsequent to year end, the Association went out to bid and entered into a contract with a vendor to complete lobby renovations for an approximate cost of \$40,000. The total cost of the project is anticipated to be approximately \$75,000. Additional expenses in excess of the contracted amount relate to the purchases of supplies. The project will commence during 2017. 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, 2016

Falcon Engineering, professional engineering consultants, conducted a study in 2009 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was updated in September 2016 to be effective January 2017. 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 2016 study and presents significant information about the components of 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, 2016		<u>\$ 266,917</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, 2016

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 1,261,281	\$ 1,261,095
Garage fees	41,430	41,880
Working capital contributions	9,666	10,000
Laundry income	9,009	6,000
Clubroom rental income	3,940	500
Late charges	1,790	1,000
Legal fee reimbursements	992	10,000
Membership fees	750	-
Township reimbursement	254	300
Other income	106	1,200
Investment income	43	3,005
Special assessment	-	40,857
Rental income	-	25,200
	<hr/>	<hr/>
Total Revenues	1,329,261	1,401,037
Operating Expenses		
General and Administrative		
Management fees	96,730	96,520
Insurance	89,744	95,000
Legal fees	19,887	26,500
Engineering	14,690	8,000
Office expense	14,183	14,500
Payroll processing fees	7,033	9,100
Audit fees	6,520	3,750
Recreation committee	3,015	2,000
Postage	1,206	2,000
Bad debt expense	1,180	1,000
Dues and subscriptions	440	400
Bank fees	213	75
Contingency	-	8,406
	<hr/>	<hr/>
Total General and Administrative	254,841	267,251

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, 2016

	<u>Actual</u>	<u>(Unaudited) Budget</u>
Building and Grounds Maintenance		
Cleaning	92,484	110,413
Elevator repairs	44,914	47,039
Supplies	42,968	42,000
Pool and beach expense	42,802	25,000
Pool and beach management	36,159	22,000
HVAC repairs	20,018	7,500
Electrical repairs	16,205	10,000
Plumbing repairs	13,881	17,000
General repairs and maintenance	13,172	20,000
Snow clearing	12,813	17,000
Fire system	10,517	5,000
Miscellaneous	9,029	3,900
Gutters	6,072	-
Painting	5,230	3,500
Landscaping improvements	4,004	9,000
Landscaping	3,210	3,500
Furniture	1,785	14,500
Exterminating	1,124	1,100
Roof repairs	915	1,000
Irrigation repairs	182	300
Security	-	4,500
Signs	-	4,000
Parking lot maintenance	-	3,000
Generator	-	1,000
Exercise equipment	-	1,500
Entry gate	-	500
	<u>377,484</u>	<u>374,252</u>
Total Building and Grounds Maintenance		
Payroll		
Payroll	194,570	200,000
Payroll taxes	18,987	20,000
Insurance - medical	18,485	17,000
	<u>232,042</u>	<u>237,000</u>
Total Payroll		
Utilities		
Electricity	148,525	131,000
Gas	109,661	160,000
Water	39,915	34,000
Telephone	4,757	7,500
	<u>302,858</u>	<u>332,500</u>
Total Utilities		

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, 2016

	<u>Actual</u>	<u>(Unaudited) Budget</u>
Deferred Maintenance Fund		
Maintenance assessments allocated to the deferred maintenance fund	12,500	10,000
Investment income allocated to the deferred maintenance fund	<u>4</u>	<u>3</u>
Total Allocations to the Deferred Maintenance Fund	<u>12,504</u>	<u>10,003</u>
Replacement Fund		
Maintenance assessments allocated to the deferred maintenance fund	200,000	200,000
Investment income allocated to replacement fund	<u>39</u>	<u>1,000</u>
Total Allocations to the Replacement Fund	<u>200,039</u>	<u>201,000</u>
Total Operating Expenses and Allocations to Funds	<u>1,379,768</u>	<u>1,422,006</u>
Deficiency of Revenues over Operating Expenses and Allocations to Funds before Budgeted Surplus Carryover	<u>\$ (50,507)</u>	(20,969)
Budgeted Surplus Carryover		<u>25,000</u>
Excess of Revenues over Operating Expenses and Allocations to Funds after Budgeted Surplus Carryover		<u>\$ 4,031</u>