

Sea Winds Townhouse Condominium Association, Inc.
Financial Statements
December 31, 2017

Sea Winds Townhouse Condominium Association, Inc.
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Independent Auditors' Report

To the Board of Directors and Unit Owners of

Sea Winds Townhouse Condominium Association, Inc.

We have audited the accompanying financial statements of Sea Winds Townhouse Condominium Association, Inc. (the "Association") which comprise the balance sheet as of December 31, 2017 and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

The Board of Directors' Responsibility for the Financial Statements

The Board of Directors (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, 2017, 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 14 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. 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 15 and 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Board and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portions marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



East Brunswick, New Jersey

April 29, 2020

Sea Winds Townhouse Condominium Association, Inc.
Balance Sheet
December 31, 2017

	Total	Operating Fund	Capital Projects Fund	Deferred Maintenance Fund	Replacement Fund
Assets					
Cash and cash equivalents	\$ 843,815	\$ 115,163	\$ 578,476	\$ 3,072	\$ 147,104
Assessments receivable	10,954	10,954	-	-	-
Original special assessment receivable	8,891	-	8,891	-	-
Emergency special assessment receivable	3,740	-	3,740	-	-
Accrued investment income	44	-	-	-	44
Prepaid expenses	75,881	75,881	-	-	-
Due from funds	330,921	-	89,940	-	240,981
Total Assets	\$ 1,274,246	\$ 201,998	\$ 681,047	\$ 3,072	\$ 388,129
Liabilities and Fund Balances					
Liabilities					
Accounts payable and accrued expenses	\$ 26,360	\$ 26,360	\$ -	\$ -	\$ -
Assessments received in advance	11,071	11,071	-	-	-
Due to funds	330,921	316,173	-	14,748	-
Total Liabilities	368,352	353,604	-	14,748	-
Fund Balances	905,894	(151,606)	681,047	(11,676)	388,129
Total Liabilities and Fund Balances	\$ 1,274,246	\$ 201,998	\$ 681,047	\$ 3,072	\$ 388,129

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

Sea Winds Townhouse Condominium Association, Inc.
Statement of Revenues and Expenses
For the Year Ended December 31, 2017

	Total	Operating Fund	Capital Projects Fund	Deferred Maintenance Fund	Replacement Fund
Revenues					
Maintenance assessments	\$ 316,643	\$ 256,643	\$ 6,000	\$ 24,000	\$ 30,000
Working capital contributions	13,406	-	-	-	13,406
Recovery of bad debt - original and emergency assessments	11,247	-	11,247	-	-
Sea Winds II CAM charges	6,000	6,000	-	-	-
Legal fee reimbursements	2,233	2,233	-	-	-
Deferred finance charges - original and emergency assessments	1,879	-	1,879	-	-
Township reimbursement	584	584	-	-	-
Late fee income	580	580	-	-	-
Investment income	553	-	-	-	553
Other income	413	413	-	-	-
Fines income	60	60	-	-	-
Total Revenues	353,598	266,513	19,126	24,000	43,959
Expenses					
Administrative	172,790	172,636	-	-	154
Common areas	60,894	60,894	-	-	-
Utilities	17,952	17,952	-	-	-
Interest	2,966	-	2,966	-	-
Professional fees	20,792	-	-	20,792	-
Deck renovation	22,982	-	-	-	22,982
Sewer repairs	5,136	-	-	-	5,136
Total Expenses	303,512	251,482	2,966	20,792	28,272
Excess of Revenues over Expenses	\$ 50,086	\$ 15,031	\$ 16,160	\$ 3,208	\$ 15,687

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

Sea Winds Townhouse Condominium Association, Inc.
Statement of Changes in Fund Balances
For the Year Ended December 31, 2017

	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Fund Balances - Beginning of Year	\$ 855,808	\$ (166,637)	\$ 664,887	\$ (14,884)	\$ 372,442
Excess of Revenues over Expenses	<u>50,086</u>	<u>15,031</u>	<u>16,160</u>	<u>3,208</u>	<u>15,687</u>
Fund Balances - End of Year	<u><u>\$ 905,894</u></u>	<u><u>\$ (151,606)</u></u>	<u><u>\$ 681,047</u></u>	<u><u>\$ (11,676)</u></u>	<u><u>\$ 388,129</u></u>

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

Sea Winds Townhouse Condominium Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

	Total	Operating Fund	Capital Projects Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Operating Activities					
Excess of revenues over expenses	\$ 50,086	\$ 15,031	\$ 16,160	\$ 3,208	\$ 15,687
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities					
Amortization	2,125	-	2,125	-	-
Changes in assets and liabilities					
Assessments receivable	(4,852)	(4,852)	-	-	-
Original special assessment receivable	26,564	-	26,564	-	-
Emergency special assessment receivable	16,855	-	16,855	-	-
Accrued investment income	44	-	-	-	44
Prepaid expenses	(3,195)	(3,195)	-	-	-
Settlement proceeds receivable	564,229	-	564,229	-	-
Accounts payable and accrued expenses	6,431	6,431	-	-	-
Assessments received in advance	1,636	1,636	-	-	-
Net Cash Provided by Operating Activities	659,923	15,051	625,933	3,208	15,731

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

Sea Winds Townhouse Condominium Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

	Total	Operating Fund	Capital Projects Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Financing Activities					
Change in interfund balances	-	78,535	(74,572)	(3,208)	(755)
Loan principal repayments	(33,678)	-	(33,678)	-	-
Net Cash Provided by (Used in) Financing Activities	(33,678)	78,535	(108,250)	(3,208)	(755)
Net Increase in Cash and Cash Equivalents	626,245	93,586	517,683	-	14,976
Cash and Cash Equivalents - Beginning of Year	217,570	21,577	60,793	3,072	132,128
Cash and Cash Equivalents - End of Year	<u>\$ 843,815</u>	<u>\$ 115,163</u>	<u>\$ 578,476</u>	<u>\$ 3,072</u>	<u>\$ 147,104</u>
Supplemental Disclosures					
Cash Paid During the Year for Interest	<u>\$ 841</u>				

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

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

Note 1 Nature of Organization

Sea Winds Townhouse Condominium Association, Inc. (the "Association"), located in Long Branch, New Jersey, is a New Jersey corporation and is subject to the provisions of the Condominium Act of the State of New Jersey. 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 66 residential units. Recreational facilities include a swimming pool and tennis courts.

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 Directors (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 documents (i.e., Master Deed and By-laws) provide certain guidelines to govern the Association's financial activities. In order to ensure observance of the 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 operations of the Association.

Capital Projects Fund

This fund was established to account for the special assessment, bank financing and related expenditures for the refurbishment of the buildings' siding completed in a prior year.

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 and provide other services which occur less frequently than annually.

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

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.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank deposit accounts and money market accounts. Cash and cash equivalents may at times exceed the 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 generally consist of sidewalks, roadways, recreational facilities, open areas, and portions of the buildings not comprising the individual units.

Maintenance Assessments and Assessments Receivable

The Association's members are subject to monthly assessments based upon the annual budget 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 deferred maintenance and replacement funds.

On a periodic basis, the Board and management evaluate the assessments receivable and estimate an allowance for doubtful accounts, based on the history of past write-offs and collections and the current legal status of past due accounts.

Loan Acquisition Costs

Loan acquisition costs were being amortized on a straight line basis (which approximates the yield method) to expense over the life of the loan. During the year ended December 31, 2017 the loan was paid in full.

Investment Income Earned

The Board's policy is to retain investment income earned on all interest bearing cash and cash equivalents within the respective funds.

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

Note 2 Summary of Significant Accounting Policies (Continued)

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 11)

Note 3 Prepaid Expenses

Prepaid expenses consisted of the following at December 31, 2017:

Insurance	\$ 73,082
Management fees	2,139
Other	<u>660</u>
Total	<u>\$ 75,881</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, 2017, the Association was taxed as a condominium management association and was not taxed as a regular corporation. No income taxes have been provided since there are sufficient non-exempt function expenses to offset non-exempt function 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 Working Capital Contributions

Upon the acquisition of title to a unit, each member of the Association must contribute a one-time, non-refundable working capital contribution equivalent to three months of the then current assessments. When a resale takes place, these contributions are recorded as revenue to the replacement fund. During the year ended December 31, 2017, working capital contributions of \$13,406 were allocated to the replacement fund.

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

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.

O&S Associates, professional engineering consultants, conducted a study in 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was updated in December 2019 to be effective January 1, 2020. The 2019 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 an update with a site visit. The table included in the unaudited supplementary information on future major repairs and replacements is based on the 2019 study.

During the year ended December 31, 2017, the Board funded for the estimated costs of future major repairs and replacements as discussed below. The 2012 engineering study's recommended funding utilizing the full funding method with a 30 year average annual contribution. The recommended funding per the study is \$126,720. The Board has included \$30,000 as the replacement fund contribution in the 2017 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 Pool Income

The Association receives a monthly fee of \$500 from Sea Winds II Townhouse Condominium Association, Inc. for use of the Association's pool and tennis courts. These fees have been recorded as revenue to the operating fund in the accompanying financial statements.

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

Note 8 Loan Payable

In March 2010, the Association obtained an interest only line of credit from TD Bank for \$1.3 million to perform reconstruction of structural damage to the common area. Effective January 2011, after completion of the work, the line of credit converted to a term loan at a fixed rate of 6.25%, payable over a 7 term. The loan was payable in equal monthly installments of \$9,009 inclusive of principal and interest, and was collateralized by the special assessments as described in Notes 9 and 10, as well as the Association's rights in and to all present and future dues, fees and assessments of any kind. The Association could prepay the loan in whole or in part at any time without penalty.

In June 2017, the remaining outstanding principal balance was repaid by the Association.

Interest expense for the year ended December 31, 2017 totaled \$2,966, which is inclusive of loan interest of \$841 as well as amortization of loan closing costs of \$2,125.

Note 9 Original Special Assessment Receivable

In December 2009, the Board approved a special assessment in the amount of approximately \$1.25 million for siding renovations. Each unit owner was assessed their share of the special assessment based on the percentage interest assigned to the unit type. The assessment was payable in either two lump sum payments due May 1 and September 1, 2010, or eighty-four monthly payments ending in September 2017, including interest at a rate of 6.25%. Original special assessment receivable as of December 31, 2017 represents past due balances, as the final monthly billings related to this assessment were completed during the year.

Note 10 Emergency Special Assessment Receivable

In April 2011, the Board approved a special assessment in the amount of approximately \$625,000 to fund the deficit in the capital projects fund, as well as additional work required to repair structural damage. Each unit owner was assessed their share of the special assessment based on the percentage interest assigned to the unit type. The assessment was payable in one lump sum payment due on May 16, 2011, two equal payments on May 16, 2011 and June 15, 2011, or 82 monthly payments ending in April 2018 including interest at a rate of 6.25%. Emergency special assessment receivable as of December 31, 2017 represents the remaining monthly billings to be completed in 2018, as well as amounts past due on past billings. The entire receivable balance pertaining to this assessment is due during the year ended December 31, 2018.

Sea Winds Townhouse Condominium Association, Inc.
Notes to the Financial Statements
December 31, 2017

Note 11 Subsequent Event

Deck Replacements

Subsequent to the year ended December 31, 2017, the Association entered into an agreement with a vendor for deck replacements. The contract is for approximately \$585,500 and is expected to commence in 2018. The costs related to the project will be recorded as they are incurred by the Association.

COVID-19

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 Association cannot reasonably estimate the impact to the Association's future activities, revenues, financial condition, or results of operations.

SUPPLEMENTARY INFORMATION

Sea Winds Townhouse Condominium Association, Inc.
Schedule of Information on Future Major Repairs and Replacements
December 31, 2017

O&S Associates, professional engineering consultants, conducted a study in 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was updated in December 2019 to be effective January 1, 2020. 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 are based on the then current estimated replacement costs.

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

<u>Components</u>	As of 2019 Study (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Then Current Replacement Costs</u>
Site improvements	1-46	\$ 373,833
Swimming pool	1-8	24,000
Tennis courts	5-8	10,750
Electrical	1	13,000
Clubhouse	1-49	25,800
Exterior walls	1-40	1,332,250
Roofs	15-22	198,000
Total		<u>\$ 1,977,633</u>
Replacement fund cash and cash equivalents as of December 31, 2017		<u>\$ 147,104</u>
Replacement fund balance as of December 31, 2017		<u>\$ 388,129</u>

Sea Winds Townhouse Condominium Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to the Funds
as Compared to Budget
For the Year Ended December 31, 2017

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 316,643	\$ 316,643
Working capital contributions	13,406	5,000
Recovery of bad debt - original and emergency assessments	11,247	-
Sea Winds II CAM charges	6,000	6,300
Legal fee reimbursements	2,233	4,000
Deferred finance charges - original and emergency assessments	1,879	-
Township reimbursement	584	800
Late fee income	580	1,000
Investment income	553	8,000
Other income	413	1,000
Fines income	60	1,250
Total Revenues	353,598	343,993
Operating Expenses		
Administrative		
Insurance	134,275	142,044
Management services	23,234	23,234
Office	5,676	7,400
Audit and accounting fees	4,700	4,500
Legal fees	4,625	8,000
Licenses and fees	126	175
Total Administrative	172,636	185,353
Common Area		
Landscaping	24,011	21,000
General maintenance	10,728	4,468
Pool management	10,715	13,000
Snow clearing	9,736	20,000
Pool repairs	1,713	1,750
Landscaping improvements	1,675	1,000
Irrigation repairs	1,579	2,642
Exterminating	503	2,000
Electrical repairs	234	1,000
Total Common Area	60,894	66,860

Sea Winds Townhouse Condominium Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to the Funds
as Compared to Budget
For the Year Ended December 31, 2017

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Utilities		
Water	13,609	15,060
Electric	3,909	4,100
Telephone	434	420
Total Utilities	17,952	19,580
Capital Projects Fund		
Recovery of bad debt - original and emergency assessments allocated to the capital projects fund	11,247	-
Maintenance assessments budgeted allocated to the capital projects fund	6,000	6,000
Deferred finance charges allocated to the capital projects fund	1,879	-
Total Allocations to the Capital Projects Fund	19,126	6,000
Deferred Maintenance Fund		
Maintenance assessments allocated to the deferred maintenance fund	24,000	36,000
Replacement Fund		
Maintenance assessments allocated to the replacement fund	30,000	30,000
Working capital contributions allocated to the replacement fund	13,406	-
Investment income allocated to the replacement fund	553	200
Total Allocations to the Replacement Fund	43,959	30,200
Total Operating Expenses and Allocations to the Funds	338,567	343,993
Excess of Revenues over Operating Expenses	\$ 15,031	\$ -