

**THE HARBOURS CONDOMINIUM  
ASSOCIATION, INC. –  
JEFFERSONVILLE, INDIANA**

**FINANCIAL STATEMENTS**

**YEAR ENDED  
DECEMBER 31, 2012**

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**

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# MONROE SHINE

KNOWLEDGE FOR TODAY . . . VISION FOR TOMORROW

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## Independent Auditors' Report

Board of Directors  
**The Harbours Condominium Association, Inc.**  
Jeffersonville, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of **The Harbours Condominium Association, Inc.**, which comprise the balance sheet as of December 31, 2012 and the related statements of revenues, expenses and change in fund balances for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 used by management, as well as evaluating the overall presentation of the consolidated 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 Harbours Condominium Association, Inc.** as of December 31, 2012, and the results of their operations and their cash flows for the years then ended in conformity 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 pages 11-12 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 management about the methods of preparing the information and comparing the information for consistency with management's 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.

*Monroe Shine*

New Albany, Indiana  
July 7, 2014

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2012**

	<b>Operating Fund</b>	<b>HOA Working Capital Fund</b>	<b>Capital Improvement Reserve Fund</b>	<b>Total</b>	<b>Memorandum Only 2011 Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 65,324	\$ 140,107	\$ 675,924	\$ 881,355	\$ 696,781
Certificates of deposit	-	28,355	46,637	74,992	112,527
Assessments receivable	14,801	-	-	14,801	7,255
Prepaid insurance	20,077	-	-	20,077	15,893
<b>Total Assets</b>	<b>\$ 100,202</b>	<b>\$ 168,462</b>	<b>\$ 722,561</b>	<b>\$ 991,225</b>	<b>\$ 832,456</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 28,828	\$ -	\$ -	\$ 28,828	\$ 15,172
Assessments received in advance	4,180	-	-	4,180	4,884
Accrued income taxes	2,516	-	-	2,516	1,522
Accrued insurance expense	12,873	-	-	12,873	12,873
Refundable deposits	9,780	-	-	9,780	8,480
<b>Total Liabilities</b>	<b>58,177</b>	<b>-</b>	<b>-</b>	<b>58,177</b>	<b>42,931</b>
<b>FUND BALANCES</b>	<b>42,025</b>	<b>168,462</b>	<b>722,561</b>	<b>933,048</b>	<b>789,525</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 100,202</b>	<b>\$ 168,462</b>	<b>\$ 722,561</b>	<b>\$ 991,225</b>	<b>\$ 832,456</b>

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND BALANCES**  
**DECEMBER 31, 2012**

	<b>Operating Fund</b>	<b>HOA Working Capital Fund</b>	<b>Capital Improvement Reserve Fund</b>	<b>Total</b>	<b>Memorandum Only 2011 Total</b>
<b>Revenues:</b>					
Regular assessments	\$ 854,836	\$ 10,788	\$ -	\$ 865,624	\$ 796,204
Interest income	141	1,678	482	2,301	695
Unrealized loss on certificates of deposit	-	(3,254)	-	(3,254)	-
Late charges and NSF fees	225	-	-	225	350
Storage fees	18,830	-	-	18,830	18,540
Tower rent	15,952	-	-	15,952	16,532
Laundry, vending and miscellaneous	7,946	-	-	7,946	6,367
<b>Total Revenues</b>	<b>897,930</b>	<b>9,212</b>	<b>482</b>	<b>907,624</b>	<b>838,688</b>
<b>Expenses:</b>					
Wages and salaries	199,536	-	-	199,536	220,985
Employee benefits	18,866	-	-	18,866	22,019
Payroll expenses	17,214	-	-	17,214	18,991
Management fees	17,183	-	-	17,183	-
Advertising and promotions	850	-	-	850	3,110
Auto expense	289	-	-	289	485
Bad debts	7,576	-	-	7,576	-
Elevator maintenance	10,577	-	-	10,577	10,628
Employee training	163	-	-	163	67
Housekeeping expense	7,448	-	-	7,448	9,076
Insurance	101,311	-	-	101,311	49,675
Miscellaneous expense	6,539	-	-	6,539	5,537
Office supplies	6,800	-	-	6,800	6,688
Other services	22,097	-	-	22,097	24,018
Permits and fees	450	-	-	450	450
Postage and delivery	1,062	-	-	1,062	1,299
Professional fees	31,373	-	-	31,373	28,916
Property taxes	647	-	-	647	361
Repairs and maintenance	19,362	-	66,358	85,720	179,437
Security and fire systems maintenance	23,891	-	-	23,891	14,406
Security patrols	36,740	-	-	36,740	41,902
Telephone expense	6,032	-	-	6,032	6,423
Utilities	158,345	-	-	158,345	175,201
<b>Total Expenses</b>	<b>694,351</b>	<b>-</b>	<b>66,358</b>	<b>760,709</b>	<b>819,674</b>
<b>Excess (deficiency) of revenues over expenses before provision for taxes</b>	<b>203,579</b>	<b>9,212</b>	<b>(65,876)</b>	<b>146,915</b>	<b>19,014</b>
Provision for income taxes	3,392	-	-	3,392	3,457
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>200,187</b>	<b>9,212</b>	<b>(65,876)</b>	<b>143,523</b>	<b>15,557</b>
Fund balances, beginning of year	37,136	159,250	593,139	789,525	773,968
Interfund transfer	(195,298)	-	195,298	-	-
Fund balances, end of year	<b>\$ 42,025</b>	<b>\$ 168,462</b>	<b>\$ 722,561</b>	<b>\$ 933,048</b>	<b>\$ 789,525</b>

See notes to financial statements.

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**

	<b>Operating Fund</b>	<b>HOA Working Capital Fund</b>	<b>Capital Improvement Reserve Fund</b>	<b>Total</b>	<b>Memorandum Only 2011 Total</b>
<b>OPERATING ACTIVITIES</b>					
Excess (deficiency) of revenues over expenses	\$ 200,187	\$ 9,212	\$ (65,876)	\$ 143,523	\$ 15,557
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:					
(Increase) decrease in assets:					
Certificates of deposit	-	(28,355)	65,890	37,535	255,238
Assessment receivable	(7,546)	-	-	(7,546)	(5,722)
Prepaid insurance	(4,184)	-	-	(4,184)	(640)
Increase (decrease) in liabilities:					
Accounts payable	13,656	-	-	13,656	(8,528)
Assessment received in advance	(704)	-	-	(704)	(690)
Accrued income taxes	994	-	-	994	(541)
Accrued insurance expense	-	-	-	-	(4,444)
Refundable deposits	1,300	-	-	1,300	(688)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>203,703</u>	<u>(19,143)</u>	<u>14</u>	<u>184,574</u>	<u>249,542</u>
<b>Net Increase (Decrease) in Cash</b>	203,703	(19,143)	14	184,574	249,542
Interfund transfer	(195,298)	-	195,298	-	-
Cash at beginning of year	<u>56,919</u>	<u>159,250</u>	<u>480,612</u>	<u>696,781</u>	<u>447,239</u>
<b>Cash at End of Year</b>	<u>\$ 65,324</u>	<u>\$ 140,107</u>	<u>\$ 675,924</u>	<u>\$ 881,355</u>	<u>\$ 696,781</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>					
Income taxes paid	\$ 2,398	\$ -	\$ -	\$ 2,398	\$ 6,264

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Harbours Condominium Association, Inc. (the Association) was organized in June 2000 as an unincorporated nonprofit homeowners' association for the purpose of maintaining and preserving common property located in Jeffersonville, Indiana. The condominium development consists of 184 residential units. The Association's operations are conducted pursuant to the provisions of the Articles of Incorporation and Bylaws.

**Fund Accounting**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose.

Operating - This fund is used to accumulate financial resources available for the general operations of the Association.

HOA Working Capital - This fund represents the amount equivalent to two months regular assessment plus accumulated interest designated for the use of common expenses.

Capital Improvement Reserve - This fund is used to accumulate financial resources designated for future repairs and replacements of common areas that must be replaced periodically.

**Basis of Presentation**

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended December 31, 2011, from which the summarized information was derived.

**Certain Significant Estimates**

Management used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets, liabilities, and fund balances and disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.



**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2012**

(1 - continued)

**Certificates of Deposit**

Certificates of deposit are exchange traded and recorded at fair market value using level 1 inputs. At December 31, 2012, the Organization holds various certificates of deposit in loss positions which are attributable to temporary declines in fair value. These losses are captured in the statement of revenues, expenses, and change in fund balances.

**Concentration of Credit Risk**

The Association maintains its cash and certificates of deposit at financial institutions. At December 31, 2012, the Association had approximately \$347,700 in excess of the amounts insured by the FDIC.

**Owner Assessments**

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments, late fees and other charges due from unit owners. The Association's Condominium Declaration provides for various collection remedies for delinquent assessments including the filing of liens and foreclosing on the unit owners. It is the opinion of the board of directors that the Association will ultimately prevail against condominium unit owners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Revenue is derived by monthly assessments from condominium unit owners. Common expenses are shared by the owners of the units in the same proportion that each owner's undivided interest in the common property bears to the total of all undivided interests.

In addition to monthly assessments, the Board of Trustees has the authority to levy special assessments on the membership when existing funds are inadequate. The special assessments are levied based on the percentage interest of ownership.

**Common Property**

In conformity with industry practice, swimming pool, sidewalks, streets, driveways and landscape, are not recognized as assets.

**Interest Earned**

Interest is recorded in the fund in which it was earned.

(2) **INTERFUND TRANSFERS**

During the current year, cash was transferred from the operating to the capital improvement reserve fund to be used for replacement expenses.

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2012**

**(3) FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Declarations state the responsibility of the Association for maintaining the common areas and define the extent of such common areas. The Declarations allow the Board of Trustees to include a provision in the annual budget for funding future repair and replacement costs. The declarations also allow the Board of Trustees to levy special assessments when existing funds are inadequate for any reason. Accumulated funds, which aggregate approximately \$723,000 at December 31, 2012, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent engineer who conducted a study in November 2010 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs.

**(4) INCOME TAXES**

The Association qualifies under Section 528 of the Internal Revenue Code as a condominium trust and has the option to elect each year to be taxed under Section 528 or Section 277 of the Internal Revenue Code. The Association elected to be treated as a tax-exempt condominium association under Internal Revenue Code Section 528 for the year ended December 31, 2012. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 8.5% by the State of Indiana.

Provisions for income taxes are as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 2,603	\$ 789	\$ 3,392

The Association implemented accounting guidance for uncertainty in income taxes. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities in various tax jurisdictions. As of December 31, 2012, the Association has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Association files federal and Indiana state income tax returns. Returns filed in these jurisdictions for tax years ended on or after December 31, 2010 are subject to examination by the relevant taxing authorities.

**(5) SUBSEQUENT EVENTS**

The Association has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through July 7, 2014, the date these financial statements were issued. The Company has determined that there are no such subsequent events.

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS**  
**AND REPLACEMENTS (UNAUDITED)**  
**DECEMBER 31, 2012**

An independent engineer conducted a study in November 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives assuming an annual inflation rate of 2.78%.

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

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Cost</u>
Building Exterior	0 to 20	\$ 272,000
Roofing & Gutters	0 to 22	388,130
Exterior Painting	1	450,000
Balconies	2	2,000
Masonry	3	10,000
Concrete	4 to 5	7,000
Building Interior	2	3,500
Elevators Equipment	3 to 18	13,000
Painting & Wallcovering	2	36,000
Flooring & Carpet	2 to 10	130,793
Mail & Storage Rooms	6	9,000
Lobby & foyer	0 to 14	55,100
Stairways	14	20,000
Management Office	0 to 7	12,656
Interior Renovation	2 to 9	165,800
Mechanical Buildings Systems	4 to 10	12,500
HVAC & Mechanical Equipment	0 to 11	108,000
Fire & Safety	4 to 7	9,950
Plumbing & Electrical	1 to 12	17,000
Security Systems	4	9,000
Building Lighting	14	12,125
Interior Lighting	6	31,500
Maintenance Equipment	3	2,500
Environmental Controls System	4 to 10	34,400
Generator & Back Systems	0 to 9	25,700
Landscaping	14	12,000
Irrigation	1	4,500
Landscaping Lighting	4	3,500
Parking Lots	2 to 14	45,002
Street Infrastructure	4	4,000
Street Signs & Lighting	2 to 5	22,500
Garage Level Structure	0 to 9	177,000
Gazebos & Pavilions	7 to 12	17,500
Recreational Items	4	2,500
Fitness Center	7	20,160
Pool Repairs	1 to 12	112,400

**THE HARBOURS CONDOMINIUM ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS (UNAUDITED) - CONTINUED  
 DECEMBER 31, 2012**

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Cost</u>
Pool Equipment	0 to 1	7,700
Pool Furnishings	1	8,500
Pool Decking & Fencing	0 to 16	28,568
Entranceway & Perimeter	1	12,000
Gates & Security Systems	1 to 21	53,815
Perimeter Fencing	1 to 9	16,700
Signs & Monuments	7	15,000
General Contingency	0 to 1	<u>10,000</u>
		<u>\$ 2,410,999</u>