

**PIER 3
CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues and Expenses	4
Statement of Changes in Fund Balances	5
Statement of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7-8
SUPPLEMENTARY INFORMATION	
Schedule of Future Major Repairs and Replacements (Unaudited)	9

Lorraine J. Grassi, CPA, P.C.

Certified Public Accountant
623 Horsham Rd., Ste. B
Horsham, PA 19044
Phone: 215-957-1722
Fax: 215-957-1744
www.lorrainegrassicpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Pier 3 Condominium Association
Philadelphia, Pennsylvania

Report on the Financial Statements

I have audited the accompanying financial statements of **Pier 3 Condominium Association** which comprise the balance sheet as of December 31, 2016, 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. Information for the year ended December 31, 2015, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which I issued an unmodified audit report dated September 10, 2016.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Pier 3 Condominium Association** as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. I have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of my audit. My opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on page 9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Lorraine J. Grassi, CPA, P.C.

Lorraine J. Grassi, CPA, P.C.
Horsham, Pennsylvania

July 17, 2017

PIER 3 CONDOMINIUM ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2016
(With Comparative Totals for December 31, 2015)

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
ASSETS				
<u>Assets :</u>				
Cash	\$ 13,933	\$ 367,838	\$ 381,771	\$ 193,385
Accounts Receivable	272,309	-	272,309	428,047
Less: Allowance for Doubtful accounts	(7,384)	-	(7,384)	(101,098)
Prepaid Expenses	4,322	-	4,322	31,050
Other Receivable	31,000	-	31,000	48,285
Insurance Claims Receivable	-	-	-	3,706
Interfund Receivable	144,060	(144,060)	-	-
Total Assets	<u>\$ 458,240</u>	<u>\$ 223,778</u>	<u>\$ 682,018</u>	<u>\$ 603,375</u>
LIABILITIES AND FUND BALANCES				
<u>Liabilities:</u>				
Accrued Expenses	\$ 86,097	\$ -	\$ 86,097	\$ 143,533
Prepaid Assessments	26,484	-	26,484	18,704
Total Liabilities	112,581	-	112,581	162,237
 Fund Balances	 345,659	 223,778	 569,437	 441,138
Total Liabilities and Fund Balances	<u>\$ 458,240</u>	<u>\$ 223,778</u>	<u>\$ 682,018</u>	<u>\$ 603,375</u>

See accompanying notes to financial statements.

**PIER 3 CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

(With Comparative Totals for the Year Ended December 31, 2015)

	Operating Budget (Unaudited)	Operating Fund	Capital Reserve Fund	2016 Total	2015 Total
Revenues :					
Owner Assessments	\$ 977,437	\$ 977,438	\$ 335,004	\$1,312,442	\$1,274,212
Utility Assessments	496,648	432,749	-	432,749	448,076
Special Assessment	-	29,452	83,316	112,768	-
Interest Income	-	-	931	931	1,851
Common Area Maintenance Contribution	53,000	52,349	12,108	64,457	206,022
Other Income	93,570	104,520	-	104,520	109,022
Surplus - Prior Year	38,825	-	-	-	-
	<u>1,659,480</u>	<u>1,596,508</u>	<u>431,359</u>	<u>2,027,867</u>	<u>2,039,183</u>
Expenses :					
Salaries	383,266	392,035	-	392,035	381,903
Payroll Taxes	39,449	39,736	-	39,736	37,956
Employee Benefits	74,362	76,788	-	76,788	54,537
Cable TV	76,473	77,178	-	77,178	71,891
Electric	356,900	317,055	-	317,055	361,907
Water and Sewer	69,525	65,752	-	65,752	69,756
Maintenance Supplies	39,260	41,910	-	41,910	44,461
Trash Removal	16,010	16,410	-	16,410	15,558
Repairs and Maintenance	119,369	148,968	-	148,968	146,462
Roof Repairs	25,000	6,813	-	6,813	3,623
Elevator Contract & Maintenance	8,319	8,426	-	8,426	6,702
Window Cleaning	7,545	4,666	-	4,666	7,322
Exterminating	3,890	3,856	-	3,856	4,049
Grounds Maintenance	36,815	21,098	-	21,098	19,459
Pool Expenses	11,654	9,644	-	9,644	11,007
Security Expenses	10,000	1,050	-	1,050	-
Bad Debt Expense	40,000	40,000	-	40,000	40,000
Management Fees	47,271	47,271	-	47,271	45,894
Insurance Expense	131,414	157,735	-	157,735	139,834
Legal and Accounting	63,185	43,133	-	43,133	75,998
Engineering	25,000	29,847	-	29,847	7,073
Contingency	30,000	24,785	-	24,785	858
General/Administrative	44,773	41,366	-	41,366	44,678
Capital Expenditures	-	-	284,046	284,046	719,156
	<u>1,659,480</u>	<u>1,615,522</u>	<u>284,046</u>	<u>1,899,568</u>	<u>2,310,084</u>
Excess (Deficiency) of Revenues over (under) Expenses	<u>\$ -</u>	<u>\$ (19,014)</u>	<u>\$ 147,313</u>	<u>\$ 128,299</u>	<u>\$ (270,901)</u>

See accompanying notes to financial statements.

PIER 3 CONDOMINIUM ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
Balances January 1	\$ 364,673	\$ 76,465	\$ 441,138	\$ 712,039
Excess (Deficiency) of Revenues over (under) Expenses	<u>(19,014)</u>	<u>147,313</u>	<u>128,299</u>	<u>(270,901)</u>
Balances December 31	<u>\$ 345,659</u>	<u>\$ 223,778</u>	<u>\$ 569,437</u>	<u>\$ 441,138</u>

See accompanying notes to financial statements.

PIER 3 CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Operating Fund	Capital Reserve Fund	2016 Total	2015 Total
CASH FLOWS FROM OPERATING ACTIVITIES :				
Excess (Deficiency) of Revenues over (under) Expenses	\$ (19,014)	\$ 147,313	\$ 128,299	\$ (270,901)
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash:				
<u>(Increase) Decrease in :</u>				
Accounts Receivable (net)	62,024	-	62,024	(32,608)
Prepaid Expenses	26,728	-	26,728	(21,572)
Other Receivable	17,285	-	17,285	29,900
Insurance Claims Receivable	3,706	-	3,706	(800)
Interfund Receivable	(100,725)	100,725	-	-
<u>Increase (Decrease) in :</u>				
Accrued Expenses	(57,436)	-	(57,436)	54,715
Prepaid Assessments	7,780	-	7,780	(84,368)
Net cash provided by (used by) Operating Activities	<u>(59,652)</u>	<u>248,038</u>	<u>188,386</u>	<u>(325,634)</u>
Net Cash Increase (Decrease)	(59,652)	248,038	188,386	(325,634)
Cash - Beginning	<u>73,585</u>	<u>119,800</u>	<u>193,385</u>	<u>519,019</u>
Cash - Ending	<u>\$ 13,933</u>	<u>\$ 367,838</u>	<u>\$ 381,771</u>	<u>\$ 193,385</u>
Supplementary Disclosure: Income Taxes Paid			<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**PIER 3 CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Note 1. NATURE OF ORGANIZATION

Pier 3 Condominium Association, consisting of one hundred seventy-two (172) unit owners, is organized as a Pennsylvania non-profit corporation. The purpose of the association is to maintain, regulate, and administer the facilities owned in common by the owners. The Association funds its operations by assessing each owner to cover operating expenses.

Note 2. SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 17, 2017, the date that the financial statements were available to be issued.

Note 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method:

The Association maintains its books and records on the accrual basis of accounting.

Fund Accounting:

The Association's legal documents provide certain guidelines to govern its financial activities. In order to observe the limitation and restrictions placed on the use of resources by such documents, the Association follows the principles of fund accounting. This is the procedure by which resources for various functions are classified for accounting and reporting purposes into funds established according to their nature and purpose.

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

Capital Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Revenue Recognition:

Revenue from members assessments are recognized when the assessments are due. Any amounts received in advance of the due date are deferred until due.

Property and Equipment:

Real Property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Member Assessments:

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and capital replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Comparative Information:

The financial statements include certain prior-year summarized comparative information in total but not by fund balance class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the prior year, from which the summarized information was derived.

**PIER 3 CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Note 3. Continued

Cash:

In general, for purposes of the Statement of Cash Flows, the Association considers all bank accounts and money market funds to be cash equivalents. The Association's Board of Directors restricts the cash held in its replacement reserve fund.

Note 4. INCOME TAXES

Under the Internal Revenue Code, Associations may elect to be treated as tax exempt organizations with respect to their exempt function income, such as assessments or other fees received from their members. The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2016. Under that Section, the Association is not taxed on net income related to its exempt purpose, but is taxed at a flat rate of 30% on investment income in excess of its non-exempt function expenses. The Association has made this election for 2016.

The Association's tax returns are subject to examination by taxing authorities. Because transactions are susceptible to varying interpretations under various income tax laws and regulations, the amounts reported in the accompanying financial statements may be subject to change upon final determination by the respective taxing authorities. The Association is considered a not-for-profit entity by the Commonwealth of Pennsylvania and has no state tax filing requirements or liability.

Note 5. FINANCIAL CONCENTRATIONS

Association members are subject to assessments to provide the majority of funds for the Association's operating expenses, future capital acquisitions, and major repairs or replacements. A substantial amount of the Association's revenue is derived primarily from the unit owners and the Association is dependent upon this source of income. Assessments receivable at the balance sheet date represent fees due from unit owners. Collection of member assessments is vital to the ongoing financial support of the Association.

Note 6. SPECIAL ASSESSMENT

During 2016, the Board of Directors enacted a special assessment for \$600,000 to be received by the Association over the next thirty-six (36) months. The assessment commenced on August 1, 2016 and owners were given the option to pay on a monthly basis over three years, or in a lump sum. These funds will be used to cover the shortfall in paying for the necessary major repairs and replacements throughout the community.

Note 7. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations. The Association has established a reserve fund for improvements and replacements of common property on an annual basis. During 2016, the Association allocated \$335,004 of owner assessments to the Capital Reserve Fund. Interest earned on Capital Reserve investments are recorded as income in the Capital Reserve Fund. For the year ended December 31, 2016, interest of \$931 was credited to the Capital Reserve Fund.

A study was completed by independent engineers in 2015 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 upon the reserve study's estimates of current replacement costs, considering amounts previously accumulated in the replacement reserve fund. Replacement costs were based on the estimated costs to repair or replace the common elements at the date of the study. Actual expenditures, however, may vary from the estimated amounts and the variations could be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

**PIER 3 CONDOMINIUM ASSOCIATION
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

A study was conducted in 2015 by independent engineers to estimate the useful lives and the replacement costs of the Association's 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 estimate of future replacement costs. All data is as of the date of the study and is highly summarized. For more detailed information, consult the engineer's study.

Category	Estimated Remaining Life	Replacement Cost
Architectural	0 to 28	\$ 8,236,812
Electrical	5 to 23	517,905
Mechanical	2 to 23	498,200
Site	5 to 15	824,200
Miscellaneous	5 to 13	23,500
TOTALS		\$ 10,100,617

See Independent Auditor's Report.