

**ARBOR TERRACE
CONDOMINIUM ASSOCIATION, INC.**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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INDEPENDENT AUDITOR'S REPORT

May 19, 2010

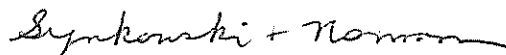
TO THE MEMBERS

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.

We have audited the accompanying balance sheet of Arbor Terrace Condominium Association, Inc. as of September 30, 2009 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arbor Terrace Condominium Association, Inc. as of September 30, 2009 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.



SYNKOWSKI & NORMANN

Certified Public Accountants

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
SEPTEMBER 30, 2009

	OPERATING FUND	DEFERRED MAINTENANCE FUND	BUILDING RENOVATION FUND	CAPITAL REPLACEMENT FUND	TOTAL
ASSETS					
Cash & Interest-Bearing Deposits	\$ 70,841	\$ 5,007	\$ 99,261	\$ 50,621	\$ 225,730
Assessments Receivable	6,639				6,639
Special Assessments Receivable			94,394		94,394
Prepaid Management Fees	1,727				1,727
Laundry Receivable	362				362
Interfund Balances	(15,574)	-	17,753	(2,179)	-
TOTAL ASSETS	\$ 63,995	\$ 5,007	\$ 211,408	\$ 48,442	\$ 328,852
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable & Accrued Expenses	\$ 10,945	\$ -	\$ -	\$ -	\$ 10,945
Security Deposits	3,500				3,500
Escrow Deposits	8,539				8,539
Assessments Received in Advance	2,796				2,796
Bank Loan Payable	-	-	98,616	-	98,616
TOTAL LIABILITIES	25,780	-	98,616	-	124,396
FUND BALANCES	38,215	5,007	112,792	48,442	204,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 63,995	\$ 5,007	\$ 211,408	\$ 48,442	\$ 328,852

The accompanying notes are an integral part of these financial statements

EXHIBIT A

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	OPERATING FUND	DEFERRED MAINTENANCE FUND	BUILDING RENOVATION FUND	CAPITAL REPLACEMENT FUND	TOTAL
REVENUES:					
Maintenance Assessments	\$ 139,032	\$ 5,000	\$ -	\$ 46,000	\$ 190,032
Special Assessments			116,356		116,356
Interest Income	99	7	423	409	938
Working Capital Contributions	100				100
Membership Fees	250				250
Late Fees	775				775
Legal Fees Assessed	2,636				2,636
Miscellaneous Income	6,798	-	-	-	6,798
TOTAL REVENUES	<u>149,690</u>	<u>5,007</u>	<u>116,779</u>	<u>46,409</u>	<u>317,885</u>
EXPENSES:					
Management Fees	19,298				19,298
Legal Fees	12,069				12,069
Audit Fee	2,000				2,000
Engineering Fees	2,847				2,847
Insurance	14,630				14,630
Office & Administrative Expenses	2,084				2,084
Electricity	4,671				4,671
Water & Sewer	6,807				6,807
Gas	41,549				41,549
Janitorial	6,391				6,391
Landscaping	11,790				11,790
Snow Removal	4,137				4,137
General Repairs & Maintenance	16,072				16,072
Exterminating	3,201				3,201
Loan Interest			1,000		1,000
Loan Closing Costs			2,987		2,987
Roofing Project				17,900	17,900
Floor Replacement				1,987	1,987
Crawl Space Inspections	-	-	-	4,379	4,379
TOTAL EXPENSES	<u>147,546</u>	<u>-</u>	<u>3,987</u>	<u>24,266</u>	<u>175,799</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	2,144	5,007	112,792	22,143	142,086
FUND BALANCES-OCTOBER 1, 2008	<u>36,071</u>	<u>-</u>	<u>-</u>	<u>26,299</u>	<u>62,370</u>
FUND BALANCES-SEPTEMBER 30, 2009	<u>\$ 38,215</u>	<u>\$ 5,007</u>	<u>\$ 112,792</u>	<u>\$ 48,442</u>	<u>\$ 204,456</u>

The accompanying notes are an integral part of these financial statements

EXHIBIT B

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>BUILDING RENOVATION FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Excess (Deficiency) of Revenues Over Expenses	\$ 2,144	\$ 5,007	\$ 112,792	\$ 22,143	\$ 142,086
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:					
Interfund Borrowings	15,574		(17,753)	2,179	-
(Increase) Decrease in:					
Assessments Receivable	(3,244)				(3,244)
Special Assessments Receivable			(94,394)		(94,394)
Prepaid Insurance	14,632				14,632
Prepaid Management Fees	(177)				(177)
Laundry Receivable	(66)				(66)
Increase (Decrease) in:					
Accounts Payable & Accrued Expenses	5,674			(16,355)	(10,681)
Security Deposits	1,500				1,500
Assessments Received in Advance	(1,225)	-	-	-	(1,225)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	34,812	5,007	645	7,967	48,431
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from Bank Loan (net of repayments)	-	-	98,616	-	98,616
INCREASE (DECREASE) IN CASH FOR YEAR	34,812	5,007	99,261	7,967	147,047
CASH & INTEREST-BEARING DEPOSITS AT OCTOBER 1, 2008	36,029	-	-	42,654	78,683
CASH & INTEREST-BEARING DEPOSITS AT SEPTEMBER 30, 2009	\$ 70,841	\$ 5,007	\$ 99,261	\$ 50,621	\$ 225,730

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 1: ORGANIZATION:

Arbor Terrace Condominium Association, Inc. was incorporated in New Jersey on December 31, 1984. The Association is located in the City of Long Branch, Monmouth County, New Jersey and consists of 45 residential units located on approximately 2.28 acres. The Association is a statutory condominium association whose sole purpose is to maintain and preserve the common property of the Association.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Arbor Terrace Condominium Association, Inc. have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

FUND ACCOUNTING

The Association's legal documents 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 four fund groups:

Operating Fund: This fund represents the portion of expendable funds available for the general operations of the Association

Deferred Maintenance Fund - This fund is used to accumulate sufficient amounts which will allow the Association to have necessary resources to perform maintenance services which occur less frequently than annually.

Building Renovation Fund - This fund is used to account for the activity relating to the financing and costs of the project to rehabilitate the Association's buildings.

Capital Replacement Fund: The purpose of this fund is to accumulate funds over the lives of capital assets which are part of the common elements so that at the time of their replacement sufficient amounts are available to pay for their replacement.

INTEREST EARNED

The Board's policy is to allocate interest income to the various funds in proportion to the interest-bearing deposits of each fund.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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 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 fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. The annual budget and assessments of owners are determined by the Board of Directors. On a periodic basis, the Board and management evaluate the receivables and establish an allowance for doubtful accounts, based on a history of past write-offs and collections and current legal status of past due accounts. The association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

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.

NOTE 3: TAXATION:

Under the Internal Revenue Code, Associations may be taxed as a Condominium Management Association at their election, or as a regular corporation. The Association may elect either method in any year and will generally select the method that results in the lowest tax due. 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 September 30, 2009, the Association has elected to be taxed as a Condominium Management Association. Income taxes have not been provided for since non-exempt function expenses are in excess of non-exempt function income.

The Association was incorporated under Section 15A of the New Jersey Statutes and therefore it is not liable for New Jersey corporation income taxes.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 4: RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate cash accounts and are generally not available for expenditures for normal operations.

A reserve study was prepared by The Falcon Group in September 2007 to estimate the useful lives and replacement costs of the components of common property. The estimates were based on the estimated current replacement costs at the date of the study. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from estimated future expenditures and the variation may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional amounts are needed, the Association has the right to increase regular assessments or pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 5: WORKING CAPITAL CONTRIBUTION:

Upon acquisition of title to a unit, the purchaser must pay a non-refundable, non-transferable working capital fee of \$100. These funds may be used for working capital or any other approved purpose.

NOTE 6: MEMBERSHIP FEE:

Upon acquisition of title to a unit, the purchaser must pay a non-refundable, non-transferable membership fee of \$250. These funds may be used for working capital or any other approved purpose.

NOTE 7: SPECIAL ASSESSMENT – BUILDING RENOVATION:

The Association membership passed a special assessment totaling \$116,356 in September 2009 to fund the basement/crawl space renovation of the buildings in the Association. Unit owners had the option of paying the assessment in a lump sum due September 1, 2009 or in 60 monthly installments beginning September 1, 2009. Initially, nine unit owners paid the assessment in full and the remainder are paying the assessment in the required installments. In order to have the funds available for the project from the unit owners opting for the installment plan, a bank loan was required (as explained in Note 8).

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 8: BANK LOAN PAYABLE:

The Association entered into a loan agreement with Banco Popular North America in the amount of \$100,000 in July 2009. The loan is to be repaid over five years at 7.50% in equal monthly installments of principal and interest totaling \$2,008.99 beginning on September 1, 2009. The Association had an outstanding balance under the loan agreement of \$98,616 on September 30, 2009. Interest expense incurred on the loan during the year ended September 30, 2009 was \$1,000.

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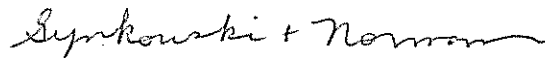
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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY
INFORMATION**

May 19, 2010

TO THE MEMBERS
ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements of Arbor Terrace Condominium Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



SYNKOWSKI & NORMANN
Certified Public Accountants

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)**

SEPTEMBER 30, 2009

The Falcon Group prepared a reserve study in September 2007, to estimate the remaining useful lives and replacement costs of the common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since the date of the study and do not take into account the effects of inflation between the date of the study and the date that components will require repair or replacement.

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</u>	<u>ESTIMATED CURRENT REPLACEMENT COSTS</u>
CONCRETE BALCONY & PATIO	9 Years	\$ 105,072
GARAGE DOORS	15 Years	6,000
LIGHTING	8 Years	25,900
BRICK POINTING & WATERPROOFING	15 Years	149,340
WOOD SIDING	8 Years	87,750
BOILERS & SUMP PUMPS	3 to 11 Years	59,000
UNDERGROUND HEAT PIPING	11 Years	50,000
ROOF SHINGLES	2 to 25 Years	106,310
GUTTERS & LEADERS	0 Years	9,336
STAIRS & RAILINGS	15 Years	169,847
SIGNAGE	2 Years	3,325
FENCING	5 Years	36,232
PLANTERS	4 to 10 Years	7,133
CONCRETE CURBING	3 Years	18,414
PARKING RECONSTRUCTION	3 Years	56,952
PARKING SEAL COATING	8 Years	4,588
CONCRETE SIDEWALK	6 Years	36,070
DUMPSTER ENCLOSURE	12 Years	3,618
		<u>\$ 934,887</u>

CAPITAL REPLACEMENT FUND BALANCE AT SEPTEMBER 30, 2009 IS \$ 48,442