

**ARBOR TERRACE  
CONDOMINIUM ASSOCIATION, INC.**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

**SYNKOWSKI & NORMANN**  
Certified Public Accountants  
A Limited Liability Partnership  
58 West Main Street  
Freehold, New Jersey 07728

# Synkowski & Normann

CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY PARTNERSHIP

58 West Main Street  
Freehold, New Jersey 07728

Phone: (732) 462-2220

Fax: (732) 308-9278

MEMBER AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

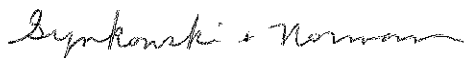
TO THE MEMBERS  
ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.

We have audited the accompanying balance sheet of Arbor Terrace Condominium Association, Inc. as of September 30, 2011 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, 2011 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.

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not 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 inquires 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.

  
SYNKOWSKI & NORMANN  
Certified Public Accountants

June 27, 2012

**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**  
**BALANCE SHEET**  
**SEPTEMBER 30, 2011**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>BUILDING RENOVATION FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash & Interest-Bearing Deposits	\$ 34,775	\$ 15,057	\$ 7,515	\$ 56,335	\$ 113,682
Assessments Receivable (net of allowance for doubtful accounts of 2,700)	2,307				2,307
Special Assessments Receivable			55,996		55,996
Prepaid Insurance	217				217
Prepaid Management Fees	1,760				1,760
Other Prepaid Expenses	245				245
Laundry Receivable	209				209
Municipal Reimbursement Receivable	565				565
Interfund Balances	412	-	7,935	(8,347)	-
<b>TOTAL ASSETS</b>	<u>\$ 40,490</u>	<u>\$ 15,057</u>	<u>\$ 71,446</u>	<u>\$ 47,988</u>	<u>\$ 174,981</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable & Accrued Expenses	\$ 10,155	\$ -	\$ -	\$ 9,698	\$ 19,853
Security Deposits	5,100				5,100
Escrow Deposits	8,539				8,539
Assessments Received in Advance	6,812				6,812
Bank Loan Payable	-	-	62,865	-	62,865
<b>TOTAL LIABILITIES</b>	30,606	-	62,865	9,698	103,169
<b>FUND BALANCES</b>	<u>9,884</u>	<u>15,057</u>	<u>8,581</u>	<u>38,290</u>	<u>71,812</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 40,490</u>	<u>\$ 15,057</u>	<u>\$ 71,446</u>	<u>\$ 47,988</u>	<u>\$ 174,981</u>

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, 2011**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>BUILDING RENOVATION FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>REVENUES:</b>					
Maintenance Assessments	\$ 139,032	\$ 5,000	\$ -	\$ 46,000	\$ 190,032
Interest Income	44	30	87	90	251
Late Fees	925				925
Municipal Reimbursement	565				565
Miscellaneous Income	5,289	-	-	-	5,289
<b>TOTAL REVENUES</b>	<u>145,855</u>	<u>5,030</u>	<u>87</u>	<u>46,090</u>	<u>197,062</u>
<b>EXPENSES:</b>					
Management Fees	19,920				19,920
Legal Fees	502				502
Audit Fee	2,000				2,000
Inspection Fees	2,328				2,328
Insurance	13,448				13,448
Bad Debts	2,700				2,700
Office & Administrative Expenses	2,406				2,406
Electricity	4,634				4,634
Water & Sewer	7,298				7,298
Gas	32,497				32,497
Janitorial	8,132				8,132
Landscaping	14,754				14,754
Snow Removal	11,765				11,765
General Repairs & Maintenance	30,583				30,583
Exterminating	1,691				1,691
Loan Interest			5,552		5,552
Roofing Project				17,900	17,900
Boiler Improvements				13,948	13,948
Concrete Replacement	-	-	-	10,700	10,700
<b>TOTAL EXPENSES</b>	<u>154,658</u>	<u>-</u>	<u>5,552</u>	<u>42,548</u>	<u>202,758</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(8,803)	5,030	(5,465)	3,542	(5,696)
<b>FUND BALANCES-OCTOBER 1, 2010</b>	<u>18,687</u>	<u>10,027</u>	<u>14,046</u>	<u>34,748</u>	<u>77,508</u>
<b>FUND BALANCES-SEPTEMBER 30, 2011</b>	<u>\$ 9,884</u>	<u>\$ 15,057</u>	<u>\$ 8,581</u>	<u>\$ 38,290</u>	<u>\$ 71,812</u>

The accompanying notes are an integral part of these financial statements

**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	OPERATING FUND	DEFERRED MAINTENANCE FUND	BUILDING RENOVATION FUND	CAPITAL REPLACEMENT FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Excess (Deficiency) of Revenues Over Expenses	\$ (8,803)	\$ 5,030	\$ (5,465)	\$ 3,542	\$ (5,696)
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:					
Interfund Borrowings	(11,077)		4,909	6,168	-
(Increase) Decrease in:					
Assessments Receivable	2,653				2,653
Special Assessments Receivable			19,199		19,199
Prepaid Insurance	13,233				13,233
Prepaid Management Fees	350				350
Other Prepaid Expenses	(245)				(245)
Laundry Receivable	185				185
Municipal Reimbursement Receivable	(565)				(565)
Increase (Decrease) in:					
Accounts Payable & Accrued Expenses	(13,410)			9,698	(3,712)
Security Deposits	1,200				1,200
Assessments Received in Advance	905				905
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(15,574)</b>	<b>5,030</b>	<b>18,643</b>	<b>19,408</b>	<b>27,507</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Bank Loan Principal Payments	-	-	(18,555)	-	(18,555)
<b>INCREASE (DECREASE) IN CASH FOR YEAR</b>	<b>(15,574)</b>	<b>5,030</b>	<b>88</b>	<b>19,408</b>	<b>8,952</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT OCTOBER 1, 2010</b>	<b>50,349</b>	<b>10,027</b>	<b>7,427</b>	<b>36,927</b>	<b>104,730</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT SEPTEMBER 30, 2011</b>	<b>\$ 34,775</b>	<b>\$ 15,057</b>	<b>\$ 7,515</b>	<b>\$ 56,335</b>	<b>\$ 113,682</b>

The accompanying notes are integral part of these financial statements

EXHIBIT C

**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**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, 2011**

**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.

**SUBSEQUENT EVENTS**

The board has evaluated subsequent activity through the date of the auditor's report, which is the date the financial statements were available to be issued.

**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, 2011, 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.

**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**NOTE 3: TAXATION: (continued)**

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

**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.



**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

**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).

**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 \$62,865 on September 30, 2011. Interest expense incurred on the loan during the year ended September 30, 2011 was \$5,552.

**ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.**

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

**SEPTEMBER 30, 2011**

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, 2011 IS \$ 38,290***

See Independent Auditor's Report on Supplementary Information