

ARBOR TERRACE
CONDOMINIUM ASSOCIATION, INC.

Financial Statements and
Supplemental Information

Years Ended September 30, 2014 and 2013

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ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
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Years Ended September 30, 2014 and 2013

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CALANTONE, MONTERISI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS and CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arbor Terrace Condominium
Association, Inc.

We have audited the accompanying financial statements of **Arbor Terrace Condominium Association, Inc.**, which comprise the balance sheets as of September 30, 2014 and 2013 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years 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 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, 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 management, as well as evaluating the overall presentation of the financial statements.

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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 **Arbor Terrace Condominium Association, Inc.** as of September 30, 2014 and 2013, and the results of its operations and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Kinnelon, New Jersey

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
 Balance Sheets
 September 30, 2014 and 2013

	Operating Fund	Deferred Maintenance Fund	Replacement Fund	Total 2014	Total 2013
Assets					
Cash in bank	\$ 13,732	\$ 7,810	\$ 104,635	\$ 126,177	\$ 136,662
Assessments receivable (net of allowance for doubtful accounts of \$24,700)	3,391	-	-	3,391	3,003
Special assessment receivable	-	-	93,912	93,912	127,316
Loan costs (net accumulated amortization of \$598)	-	-	2,477	2,477	2,819
Prepaid insurance	780	-	-	780	759
Prepaid expenses	1,793	-	-	1,793	1,793
Interfund balances	-	3,361	27,404	30,765	-
Total Assets	\$ 19,696	\$ 11,171	\$ 228,428	\$ 259,295	\$ 272,352
Liabilities and Fund Balances					
Liabilities					
Accounts payable and accrued expenses	\$ 11,594	\$ -	\$ -	\$ 11,594	\$ 5,480
Prepaid assessments	4,679	-	-	4,679	9,271
Security deposit	7,100	-	-	7,100	6,600
Interfund balance	30,765	-	-	30,765	-
Escrow deposit	9,789	-	-	9,789	9,789
Bank loan payable	-	-	112,178	112,178	143,652
Total Liabilities	63,927	-	112,178	176,105	174,792
Fund Balances	(44,231)	11,171	116,250	83,190	97,560
Total Liabilities and Fund Balances	\$ 19,696	\$ 11,171	\$ 228,428	\$ 259,295	\$ 272,352

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

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Statements of Revenues, Expenses, and Changes in Fund Balance
For the Years Ended September 30, 2014 and 2013

	Operating Fund	Deferred Maintenance Fund	Replacement Fund	Total 2014	Total 2013
Revenues					
Membership assessments	\$ 190,032	\$ 5,000	\$ 50,000	\$ 245,032	\$ 245,032
Interest income	13	5	257	275	532
Special assessment	16,000	-	-	16,000	137,800
Late fees	1,200	-	-	1,200	775
Laundry income	2,781	-	-	2,781	2,576
Insurance settlement	-	-	-	-	11,827
Other income	7,671	-	-	7,671	2,613
Total Revenues	217,697	5,005	50,257	272,959	401,155
Expenses					
Administrative	81,224	-	342	81,566	53,506
Building operations	38,674	-	-	38,674	43,460
Grounds maintenance	35,835	-	-	35,835	24,372
Utilities	60,745	-	-	60,745	42,375
Loan interest	-	-	8,041	8,041	8,859
Painting	-	7,468	-	7,468	-
Tree work	-	-	-	-	1,605
Step repair	-	-	-	-	3,114
Gutter repair	-	-	-	-	1,378
Fence repair	-	-	-	-	9,587
Boiler replacement	-	-	-	-	83,285
Roof repair	-	-	-	-	18,390
Balcony repair	-	-	-	-	10,100
Deferred maintenance contribution	5,000	-	-	5,000	5,000
Reserve contribution	50,000	-	-	50,000	50,000
Total Expenses	271,478	7,468	8,383	287,329	355,031
Excess of Revenues Over (Under) Expenses	(53,781)	(2,463)	41,874	(14,370)	46,124
Beginning Fund Balances	9,550	13,634	74,376	97,560	51,436
Ending Fund Balances	\$ (44,231)	\$ 11,171	\$ 116,250	\$ 83,190	\$ 97,560

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

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
 Statements of Cash Flows
 For the Years Ended September 30, 2014 and 2013

	Operating Fund	Deferred Maintenance Fund	Replacement Fund	Total 2014	Total 2013
Cash Flows From Operating Activities					
Excess of revenues over (under) expenses	\$ (53,781)	\$ (2,463)	\$ 41,874	\$ (14,370)	\$ 46,124
Amortization expense	-	-	342	342	-
<u>Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities:</u>					
<u>(Increase) decrease in assets</u>					
Assessments receivable	(388)	-	-	(388)	2,531
Special assessment receivable	-	-	33,404	33,404	(91,435)
Loan costs	-	-	-	-	(2,819)
Prepaid insurance	(21)	-	-	(21)	(759)
Other receivables	-	-	-	-	792
<u>Increase (decrease) in liabilities</u>					
Accounts payable and accrued expenses	6,114	-	-	6,114	(12,868)
Security deposits	500	-	-	500	500
Escrow deposit	-	-	-	-	1,250
Prepaid assessments	(4,592)	-	-	(4,592)	3,707
Net Cash Provided (Used) By Operating Activities	(52,168)	(2,463)	75,620	20,989	(52,977)
Cash Flows from Financing Activities					
New bank loan proceeds	-	-	-	-	130,000
Bank loan principal payments	-	-	(31,474)	(31,474)	(29,209)
Change in interfund loans	23,056	-	(23,056)	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(29,112)	(2,463)	21,090	(10,485)	47,814
Cash and Cash Equivalents- Beginning of Year	42,844	10,273	83,545	136,662	88,848
Cash and Cash Equivalents- End of Year	<u>\$ 13,732</u>	<u>\$ 7,810</u>	<u>\$ 104,635</u>	<u>\$ 126,177</u>	<u>\$ 136,662</u>
Supplemental Cash Flow Information:					
Interest paid	<u>\$ 8,041</u>				
Income taxes paid	<u>\$ -</u>				

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

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2014 and 2013

Note 1 – Nature of Organization

The Arbor Terrace Condominium Association, Inc., located in Long Branch, New Jersey, is a New Jersey Corporation subject to the provision of the Condominium Act of the State of New Jersey. The purpose of the Association is to provide for the preservation of the values and amenities in the condominium community and for the maintenance of the common facilities. Arbor Terrace Condominium Association, Inc. consists of 45 residential units and was incorporated in 1984.

Note 2 – Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, the date the financial statements were available to be issued.

Note 3 – Summary of Significant Accounting Policies

Revenue Recognition

The Association prepares its financial statements on an accrual basis of accounting.

Cash Equivalents

The Association considers cash equivalents to be highly liquid investments with original maturities of one year or less.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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 governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions placed on the use of 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 Fund

This fund represents the portion of expendable funds that is available for the general operations of the Association.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2014 and 2013

Note 3 – Summary of Significant Accounting Policies (continued)

Deferred Maintenance Fund

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

Replacement Fund

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

Note 3 – 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. The Association's policy is to expense costs of improvements, repairs and replacements as incurred.

Recognition of Assets

Arbor Terrace Condominium Association, Inc.'s property and common elements are owned by the unit owners in condominium form pursuant to the Master Deed wherein each of the individual unit owners holds legal title to an undivided interest in property constituting the common elements. Accordingly, no amounts related to these common elements are included on the accompanying balance sheet of the Association. The common elements generally consist of portions of the buildings not comprising the individual units, sidewalks, roadways, recreational facilities and open areas.

Note 4 – Owners' Assessments

Monthly assessments to owners for the years ended September 30, 2014 and 2013 were \$314 or \$394 a month depending on the unit.

The annual budget and assessments of owners are determined by the board of directors and are approved by the owners. The association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Note 5 – Assessments Receivable, Net of Allowance for Doubtful Accounts

It is the Association's policy to retain legal counsel and place liens on the properties of unit owners whose assessments are seriously delinquent. Due to the financial condition of the unit owners and/or the adequacy of equity in the units to serve as collateral, the Board has estimated the amount that may be potentially uncollectible and has reflected this amount on the accompanying balance sheet as an allowance for doubtful accounts. Uncollectible assessments are written off as bad debt expense. For years ended September 30, 2014 and 2013, an allowance for doubtful accounts of \$24,700 and \$10,200, respectively, were deemed necessary, and there were bad debt expenses of \$14,500 and \$7,500, respectively.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2014 and 2013

Note 6 - Working Capital Contributions

Upon the acquisition of title to a unit, each new member of the Association must contribute a one-time, non-refundable contribution to the Association in the amount of two months of owner's assessments to provide the association with a working capital contribution. These funds may be used for operating expenses and any lawful purpose the Board deems appropriate.

Note 7 - Federal Income Taxes

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 select 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 years ended September 30, 2014 and 2013, the Association has elected to be taxed as a condominium management association. No provision for income taxes was necessary since there was sufficient non-membership related expense to offset non-membership type income. The Association's federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service.

The Association has evaluated its position and any estimates utilized in its tax returns, and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements. Interest and penalties associated with uncertain tax positions will be recognized in income tax expense, if required.

The Association was incorporated pursuant to Title 15 of the New Jersey Statutes and therefore, is not liable for New Jersey corporation business income tax.

Note 8 - Replacement Fund

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

An independent engineering company conducted a study in June 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on the estimated replacement costs at the time of the study. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on the schedule.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the schedule's estimates of current replacements costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the

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ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2014 and 2013

Note 8 – Replacement Fund (continued)

variations may 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. For the years ended September 30, 2014 and 2013, reserve contributions totaled \$50,000 respectively.

Note 9 – Special Assessment Receivable

The Association passed as special assessment effective October 1, 2012 to pay for a boiler replacement. The total amount of the assessment was \$137,000 and the unit owners will be paying the assessment over ten years. The assessment was recognized as revenue in year ended September 30, 2013. The Special Assessment Receivable represents the uncollected portion of the assessment.

Note 10 – Bank Loan Payable

The Association has a loan from Banco Popular outstanding at year ended September 30, 2014. The interest rate is 6.05% with payments which commenced on January 1, 2013 and a maturity date of December 1, 2022. Interest expense was \$8,041 during year ended September 30, 2014 and \$8,859 during year ended September 30, 2013. The total amount outstanding from the loan at year ended September 30, 2014 and 2013 was \$112,178 and \$143,652 respectively.

Note 11 – Uninsured Cash Balances

The Association maintains its cash accounts at financial institutions located in New Jersey. At times, these balances may exceed the maximum amount insured by the Federal Insurance Corporation.

Note 12 – Special Assessment

There was a special assessment of \$16,000 in year ended September 30, 2014. The special assessment is for increased snow plowing and gas expenses. The special assessment was paid over two payments in June and July 2014.

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SUPPLEMENTARY INFORMATION

CALANTONE, MONTERISI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS and CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Arbor Terrace Condominium
Association, Inc.

We have audited the financial statements of **Arbor Terrace Condominium Association, Inc.** as of and for the year ended September 30, 2014, and our report thereon dated on page 2, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of total operating revenues, expenses, and allocations to funds as compared to budget on pages 11 and 12, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements (unaudited) on page 13 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.

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Kinnelon, New Jersey

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
 Supplementary Information
 Schedules of Total Operating Revenues, Expenses, and
 Allocations to Funds as Compared to Budget
 For the Years Ended September 30, 2014 and 2013

	2014 Actual	(Unaudited) Budget	2013 Actual
<u>Revenues</u>			
Membership assessments	\$ 190,032	\$ 190,031	\$ 190,032
Special assessment	16,000	-	-
Late fees	1,200	650	775
Other income	7,671	2,900	2,613
Interest income	13	500	27
Laundry income	2,781	3,500	2,576
Insurance settlement	-	-	11,827
Total Revenues	217,697	197,581	207,850
<u>Expenses</u>			
<u>Administrative</u>			
Management services	20,318	20,318	20,318
Insurance	18,699	19,100	17,456
Legal fees	8,661	1,500	3,595
Audit fees	2,000	2,500	2,000
Engineering	14,366	-	-
Photocopies	1,200	1,200	1,200
Postage	366	300	293
Filing fees	25	50	25
Bad debt expense	14,500	1,500	7,500
Miscellaneous admin expense	1,089	450	863
Total Administrative Expenses	81,224	46,918	53,250

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ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
 Supplementary Information
 Schedules of Total Operating Revenues, Expenses, and
 Allocations to Funds as Compared to Budget
 For the Years Ended September 30, 2014 and 2013

	2014 Actual	(Unaudited) Budget	2013 Actual
<u>Building Maintenance</u>			
General repairs and maintenance	\$ 29,633	\$ 19,500	25,589
Maintenance supplies	3,302	1,200	2,141
Repairs due to tree	-	-	8,935
Janitorial	3,393	4,500	5,875
Exterminator	2,346	750	920
Total Building Maintenance Expenses	38,674	25,950	43,460
<u>Grounds Maintenance</u>			
Snow clearing	17,976	8,000	5,644
Lawn maintenance	17,859	16,713	18,728
Total Grounds Maintenance Expenses	35,835	24,713	24,372
<u>Utilities</u>			
Utilities: electric/gas	53,103	38,000	35,021
Utilities: water/sewer	7,642	7,000	7,354
Total Utilities Expenses	60,745	45,000	42,375
<u>Deferred Maintenance Fund</u>			
Deferred maintenance contribution	5,000	5,000	5,000
<u>Replacement Fund</u>			
Capital reserve contribution	50,000	50,000	50,000
Total Expenses and Allocations to Funds	271,478	197,581	218,457
Excess of Revenues Over (Under) Expenses	\$ (53,781)	\$ -	\$ (10,607)

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ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Supplementary Information on Future
Major Repairs and Replacements - Unaudited
September 30, 2014

An independent engineer, The Falcon Group, conducted a study in June 2014 to estimate the remaining useful lives and the replacement costs of the the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property componets at the date of the study.

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

Components	UNAUDITED	
	Estimated Remaining Useful Life in Years	Estimated Current Replacement Costs
Building		
Balcony-concrete, new	35	\$ -
Balcony-concrete, remaining	3	73,080
Garage doors	10	4,800
Door replacment, new	25	1,200
Door replacment, old	10	3,600
Building mounted lights	5	6,000
Brick pointing/repair	9	149,340
Wood siding	2	76,050
Heating boiler	28	120,000
Hot water heater	18	13,000
Sump pumps	4	1,000
Underground heating piping	5	50,000
Concrete patio	5	33,432
Aluminum gutters	20	5,910
Aluminum leaders	20	2,520
Roof shingles	20	67,340
Roof shingles	16	43,660
Common entry stair assesmbly	0	110,000
Common entry stair tile	20	-
Railing-balcony/patio/stairs	20	84,045
Site Work		
Post lights	22	23,100
Entry signage	10	7,125
Wood fencing	0	43,996
Concrete planter box	20	3,285
Concrete wood tie planters	7	3,848
Concrete curb	10	44,979
Road/parking reconstruction	10	98,084
Road/parking seal coat	5	5,221
Dumpster enclosure	30	4,050
Dumpster enclosure-concrete	6	2,160
Concrete sidewalk	10	36,070
Concrete sidewalk	0	1,500
Totals		<u>\$ 1,118,395</u>
Replacement Fund Balance at year ended September 30, 2014		<u>\$ 116,250</u>

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