

ARBOR TERRACE
CONDOMINIUM ASSOCIATION, INC.

Financial Statements and
Supplemental Information

Years Ended September 30, 2017 and 2016

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Index to Financial Statements
Years Ended September 30, 2017 and 2016

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-10
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information	10
Schedules of Total Operating Revenues, Expenses and Allocations to Funds as Compared to Budget	11-12
Supplementary Information on Future Major Repairs and Replacements – Unaudited	13

CALANTONE & ASSOCIATES 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, 2017 and 2016 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.

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, 2017 and 2016, 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.

Calantone Associates, LLC

Kinnelon, New Jersey
September 19, 2018

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Balance Sheets
September 30, 2017 and 2016

	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>Assets</u>					
Cash in bank	\$ 48,922	\$ 22,854	\$ 412,693	\$ 484,469	\$ 465,034
Assessments receivable (net of allowance for doubtful accounts of \$14,574)	5,177	-	-	5,177	4,634
Special assessment receivable	-	-	208,399	208,399	248,342
Loan costs (net accumulated amortization of \$940)	-	-	4,548	4,548	5,243
Prepaid insurance	1,106	-	-	1,106	1,014
Prepaid expenses	1,003	-	-	1,003	1,003
Interfund balances	-	3,361	84,380	87,741	102,407
Total Assets	\$ 56,208	\$ 26,215	\$ 710,020	\$ 792,443	\$ 827,677
<u>Liabilities and Fund Balances</u>					
<u>Liabilities</u>					
Accounts payable and accrued expenses	\$ 24,972	\$ -	\$ -	\$ 24,972	\$ 27,626
Prepaid assessments	3,463	-	-	3,463	9,029
Security deposit	10,850	-	-	10,850	10,850
Interfund balance	87,741	-	-	87,741	102,407
Escrow deposit	9,789	-	-	9,789	9,789
Bank loan payable	-	-	288,871	288,871	320,211
Total Liabilities	136,815	-	288,871	425,686	479,912
Fund Balances	(80,607)	26,215	421,149	366,757	347,765
Total Liabilities and Fund Balances	\$ 56,208	\$ 26,215	\$ 710,020	\$ 792,443	\$ 827,677

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, 2017 and 2016

	Operating Fund	Deferred Maintenance Fund	Replacement Fund	Total 2017	Total 2016
Revenues					
Membership assessments	\$ 193,039	\$ 5,000	\$ 50,000	\$ 248,039	\$ 247,789
Interest income	8	20	2,109	2,137	977
Special assessment	-	-	-	-	235,000
Late fees	490	-	-	490	475
Laundry income	2,732	-	-	2,732	2,847
Recovery of bad debt	-	-	-	-	-
Other income	5,882	-	-	5,882	4,028
Total Revenues	202,151	5,020	52,109	259,280	491,116
Expenses					
Administrative	87,169	-	695	87,864	56,648
Building operations	26,355	-	-	26,355	43,307
Grounds maintenance	11,739	-	-	11,739	19,283
Utilities	41,186	-	-	41,186	40,176
Loan interest	-	-	15,769	15,769	10,334
Wall replacment	-	-	2,375	2,375	-
Stairs replacement	-	-	-	-	15,000
Sidewalk replacement	-	-	-	-	31,888
Deferred maintenance contribution	5,000	-	-	5,000	5,000
Reserve contribution	50,000	-	-	50,000	50,000
Total Expenses	221,449	-	18,839	240,288	271,636
Excess of Revenues Over (Under) Expenses	(19,298)	5,020	33,270	18,992	219,480
Beginning Fund Balances	(61,309)	21,195	387,879	347,765	128,285
Ending Fund Balances	\$ (80,607)	\$ 26,215	\$ 421,149	\$ 366,757	\$ 347,765

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, 2017 and 2016

	Operating Fund	Deferred Maintenance Fund	Replacement Fund	Total 2017	Total 2016
<u>Cash Flows From Operating Activities</u>					
Excess of revenues over (under) expenses	\$ (19,298)	\$ 5,020	\$ 33,270	\$ 18,992	\$ 219,480
Amortization expense	-	-	695	695	430
<u>Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities:</u>					
<u>(Increase) decrease in assets</u>					
Assessments receivable	(543)	-	-	(543)	(1,682)
Special assessment receivable	-	-	39,943	39,943	(166,224)
Loan costs	-	-	-	-	(3,538)
Prepaid insurance	(92)	-	-	(92)	(39)
Prepaid expenses	-	-	-	-	790
<u>Increase (decrease) in liabilities</u>					
Accounts payable and accrued expenses	(2,654)	-	-	(2,654)	17,346
Security deposits	-	-	-	-	1,750
Prepaid assessments	(5,566)	-	-	(5,566)	4,427
Net Cash Provided (Used) By Operating Activities	(28,153)	5,020	73,908	50,775	72,740
<u>Cash Flows from Financing Activities</u>					
New bank loan proceeds	-	-	-	-	235,000
Bank loan principal payments	-	-	(31,340)	(31,340)	(16,121)
Change in interfund loans	334	833	(1,167)	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(27,819)	5,853	41,401	19,435	291,619
Cash and Cash Equivalents- Beginning of Year	76,741	17,001	371,292	465,034	173,415
Cash and Cash Equivalents- End of Year	<u>\$ 48,922</u>	<u>\$ 22,854</u>	<u>\$ 412,693</u>	<u>\$ 484,469</u>	<u>\$ 465,034</u>
<u>Supplemental Cash Flow Information:</u>					
Interest paid	<u>\$ 15,769</u>				
Income taxes paid	<u>\$ -</u>				

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

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2017 and 2016

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

Basis of Accounting

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.

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.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2017 and 2016

Note 3 – Summary of Significant Accounting Policies (continued)

Replacement Fund

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

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, 2017 and 2016 were \$357 or \$357 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. Uncollectable assessments are written off as bad debt expense. For years ended September 30, 2017 and 2016, an allowance for doubtful accounts of \$14,574 and \$14,574, respectively, were deemed necessary, and there were no bad debt expenses.

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.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, 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 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, 2017 and 2016, reserve contributions totaled \$50,000.

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Notes to the Financial Statements
September 30, 2017 and 2016

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 Association passed another special assessment effective July 1, 2016 to pay for breezeway improvements. The total amount of the assessment was \$235,000 and the unit owners will be paying the assessment over ten years. The assessment was recognized as revenue in year ended September 30, 2016.

Special assessment receivable represents the uncollected portion of both special assessments at year end.

Note 10 – Bank Loan Payable

The Association has a loan from Banco Popular outstanding at year ended September 30, 2017. The interest rate is 6.05% with payments which commenced on January 1, 2013 and a maturity date of December 1, 2022. The amount outstanding from this loan at September 30, 2017 and 2016 was \$77,563 and \$89,817, respectively.

The Association has another loan from Banco Popular outstanding at year ended September 30, 2017. The interest rate is 4.625% with payments which commenced on July 1, 2016 and a maturity date of June 1, 2026. The amount outstanding from this loan at September 30, 2017 and 2016 was \$211,307 and \$230,394, respectively.

The total interest expense during years ended September 30, 2017 and 2016 was \$15,769 and \$10,334, respectively. The total amount outstanding from the loans at year ended September 30, 2017 and 2016 was \$288,870 and \$320,211 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.

SUPPLEMENTARY INFORMATION

CALANTONE & ASSOCIATES 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 years ended September 30, 2017 and 2016, 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.

Calantone Associates, LLC

Kinnelon, New Jersey
September 19, 2018

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, 2017 and 2016

	2017 Actual	(Unaudited) Budget	2016 Actual
<u>Revenues</u>			
Membership assessments	\$ 193,039	\$ 193,040	\$ 192,789
Late fees	490	650	475
Other income	5,882	2,350	4,028
Interest income	8	200	8
Laundry income	2,732	3,000	2,847
Recovery of bad debt	-	-	-
Total Revenues	202,151	199,240	200,147
<u>Expenses</u>			
<u>Administrative</u>			
Management services	20,318	20,318	20,318
Insurance	26,440	22,000	24,303
Legal fees	15,402	1,950	5,684
Audit fees	2,400	2,200	2,300
Engineering	9,892	-	700
Photocopies	1,100	1,200	1,200
Postage	461	450	482
Filing fees	26	50	25
Insurance claim deductible	6,126	2,000	-
Contingency	1,314	-	-
Bad debt expense	-	1,900	-
Miscellaneous administrative expense	3,690	350	1,206
Total Administrative Expenses	87,169	52,418	56,218

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, 2017 and 2016

	2017 Actual	(Unaudited) Budget	2016 Actual
<u>Building Maintenance</u>			
General repairs and maintenance	\$ 19,310	\$ 25,000	33,459
Maintenance supplies	211	1,300	1,361
Trash removal	-	-	2,471
Janitorial	3,376	4,000	2,908
Exterminator	3,458	900	3,108
Total Building Maintenance Expenses	26,355	31,200	43,307
<u>Grounds Maintenance</u>			
Snow clearing	3,722	10,500	4,355
Lawn maintenance	8,017	12,000	14,928
Total Grounds Maintenance Expenses	11,739	22,500	19,283
<u>Utilities</u>			
Utilities: electric/gas	31,529	29,122	29,468
Utilities: water/sewer	9,657	9,000	10,708
Total Utilities Expenses	41,186	38,122	40,176
<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	221,449	199,240	213,984
Excess of Revenues (Under) Expenses	\$ (19,298)	\$ -	\$ (13,837)

ARBOR TERRACE CONDOMINIUM ASSOCIATION, INC.
Supplementary Information on Future
Major Repairs and Replacements - Unaudited
September 30, 2017

An independent engineer, The Falcon Group, conducted a study in June 2014 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 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	32	\$ -
Balcony-concrete, remaining	0	73,080
Garage doors	7	4,800
Door replacment, new	22	1,200
Door replacment, old	7	3,600
Building mounted lights	2	6,000
Brick pointing/repair	6	149,340
Wood siding	0	76,050
Heating boiler	25	120,000
Hot water heater	15	13,000
Sump pumps	1	1,000
Underground heating piping	2	50,000
Concrete patio	2	33,432
Aluminum gutters	17	5,910
Aluminum leaders	17	2,520
Roof shingles	17	67,340
Roof shingles	13	43,660
Common entry stair assesmbly	0	110,000
Common entry stair tile	17	-
Railing-balcony/patio/stairs	17	84,045
Site Work		
Post lights	19	23,100
Entry signage	7	7,125
Wood fencing	0	43,996
Concrete planter box	17	3,285
Concrete wood tie planters	4	3,848
Concrete curb	7	44,979
Road/parking reconstruction	7	98,084
Road/parking seal coat	2	5,221
Dumpster enclosure	27	4,050
Dumpster enclosure-concrete	3	2,160
Concrete sidewalk	7	36,070
Concrete sidewalk	0	1,500
Totals		\$ 1,118,395
Replacement Fund Balance at year ended September 30, 2017		\$ 421,149