

VILLAGE MEWS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

SYNKOWSKI & NORMANN

Certified Public Accountants

A Limited Liability Partnership

P.O. Box 126

Farmingdale, New Jersey 07727

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS

VILLAGE MEWS ASSOCIATION, INC.

We have audited the accompanying financial statements of Village Mews Association, Inc. which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

The Board and Management's Responsibility for the Financial Statements

The Board and Management are 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 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 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 the board and management, as well as evaluating the overall presentation of the financial statements.

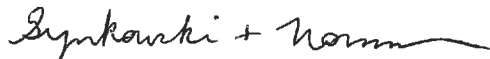
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village Mews Association, Inc. as of December 31, 2018, 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.

Disclaimer of Opinion on Required Supplementary Information

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 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 the board and management about the methods of preparing the information and comparing the information for consistency with the board's and 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

Farmingdale, New Jersey

June 18, 2019

VILLAGE MEWS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2018

| | <u>OPERATING FUND</u> | <u>DEFERRED MAINTENANCE FUND</u> | <u>CAPITAL REPLACEMENT FUND</u> | <u>TOTAL</u> |
|---|---------------------------|--|---|-------------------|
| ASSETS | | | | |
| Cash & Interest-Bearing Deposits | \$ 14,132 | \$ 65,445 | \$ 124,042 | \$ 203,619 |
| Certificates of Deposit | | | 585,000 | 585,000 |
| Assessments Receivable (net of allowance for doubtful accounts of \$5,700) | 503 | | | 503 |
| Accrued Interest Receivable | | | 1,297 | 1,297 |
| Prepaid Insurance | 2,158 | | | 2,158 |
| Municipal Reimbursement Receivable | 4,648 | | | 4,648 |
| Other Prepaid Expenses | 2,750 | | | 2,750 |
| Due from Deferred Maintenance Fund | 16,166 | | | 16,166 |
| Due from Operating Fund | - | - | 80,079 | 80,079 |
| TOTAL ASSETS | <u>\$ 40,357</u> | <u>\$ 65,445</u> | <u>\$ 790,418</u> | <u>\$ 896,220</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | \$ 12,989 | \$ - | \$ - | \$ 12,989 |
| Assessments Received in Advance | 11,824 | | | 11,824 |
| Federal Income Tax Payable | 639 | | | 639 |
| Due to Operating Fund | | 16,166 | | 16,166 |
| Due to Capital Replacement Fund | 80,079 | - | - | 80,079 |
| TOTAL LIABILITIES | 105,531 | 16,166 | - | 121,697 |
| FUND BALANCES | <u>(65,174)</u> | <u>49,279</u> | <u>790,418</u> | <u>774,523</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 40,357</u> | <u>\$ 65,445</u> | <u>\$ 790,418</u> | <u>\$ 896,220</u> |

The accompanying notes are an integral part of these financial statements

VILLAGE MEWS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018

| | <u>OPERATING FUND</u> | <u>DEFERRED MAINTENANCE FUND</u> | <u>CAPITAL REPLACEMENT FUND</u> | <u>TOTAL</u> |
|--|---------------------------|--|---|-------------------|
| REVENUES: | | | | |
| Maintenance Assessments | \$ 199,879 | \$ 30,000 | \$ 104,481 | \$ 334,360 |
| Special Assessment - Construction | | | 121,500 | 121,500 |
| Interest Income | | 198 | 7,097 | 7,295 |
| Late Fees | 1,995 | | | 1,995 |
| Capital Contributions | 8,928 | | 2,976 | 11,904 |
| Parking Lot Income | 5,000 | | | 5,000 |
| Miscellaneous Income | 1,787 | | | 1,787 |
| Municipal Reimbursement | 4,648 | - | - | 4,648 |
| TOTAL REVENUES | <u>222,237</u> | <u>30,198</u> | <u>236,054</u> | <u>488,489</u> |
| EXPENSES: | | | | |
| General & Administrative | 86,500 | 175 | 175 | 86,850 |
| Operating | 137,409 | | | 137,409 |
| Landscaping Improvements | | 7,224 | | 7,224 |
| Sprinkler System Repairs | | 3,769 | | 3,769 |
| Water Line Repairs | | 32,668 | | 32,668 |
| Pillar Repairs | - | - | 72,457 | 72,457 |
| TOTAL EXPENSES | <u>223,909</u> | <u>43,836</u> | <u>72,632</u> | <u>340,377</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES | (1,672) | (13,638) | 163,422 | 148,112 |
| FUND BALANCES - JANUARY 1, 2018 | <u>(63,502)</u> | <u>62,917</u> | <u>626,996</u> | <u>626,411</u> |
| FUND BALANCES - DECEMBER 31, 2018 | <u>\$ (65,174)</u> | <u>\$ 49,279</u> | <u>\$ 790,418</u> | <u>\$ 774,523</u> |

The accompanying notes are an integral part of these financial statements

**VILLAGE MEWS ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

GENERAL AND ADMINISTRATIVE EXPENSES:

| | |
|---|-------------------------|
| Insurance | \$ 33,265 |
| Management Fees | 28,688 |
| Auditing Fee | 2,000 |
| Bad Debts | 5,758 |
| Federal Income Tax | 639 |
| NJ Transit Lease | 605 |
| Legal Fees | 12,402 |
| Photocopies | 900 |
| Postage | 611 |
| Annual Report | 26 |
| Miscellaneous Administrative | 1,606 |
| TOTAL GENERAL AND ADMINISTRATIVE | <u>\$ 86,500</u> |

OPERATING EXPENSES:

| | |
|---------------------------------|--------------------------|
| Landscaping & Lawn Care | \$ 25,369 |
| Sprinkler System | 2,125 |
| Snow Removal | 30,833 |
| Electric | 11,638 |
| Water & Sewer | 1,595 |
| General Repairs and Maintenance | 29,446 |
| Porter Services | 11,440 |
| Plumbing Repairs | 10,916 |
| Trash Removal | 10,535 |
| Pest Control | 3,512 |
| TOTAL OPERATING | <u>\$ 137,409</u> |

VILLAGE MEWS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | <u>OPERATING FUND</u> | <u>DEFERRED MAINTENANCE FUND</u> | <u>CAPITAL REPLACEMENT FUND</u> | <u>TOTAL</u> |
|---|---------------------------|--|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Excess (Deficiency) of Revenues Over Expenses | \$ (1,672) | \$ (13,638) | \$ 163,422 | \$ 148,112 |
| Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities: | | | | |
| Interfund Borrowings | (527) | 41,166 | (40,639) | - |
| (Increase) Decrease in: | | | | |
| Assessments Receivable (net) | 5,162 | | | 5,162 |
| Accrued Interest Receivable | | | (1,297) | (1,297) |
| Prepaid Insurance | 5,445 | | | 5,445 |
| Municipal Reimbursement | 6,339 | | | 6,339 |
| Other Prepaid Expenses | (1,875) | | | (1,875) |
| Increase (Decrease) in: | | | | |
| Accounts Payable | (14,678) | | | (14,678) |
| Federal Income Tax Receivable | (3,900) | | | (3,900) |
| Assessments Received in Advance | 639 | - | - | 639 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (5,067) | 27,528 | 121,486 | 143,947 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Investment in Certificates of Deposit | - | - | (585,000) | (585,000) |
| NET INCREASE (DECREASE) IN CASH | (5,067) | 27,528 | (463,514) | (441,053) |
| CASH & CASH EQUIVALENTS AT JANUARY 1, 2018 | | | | |
| | <u>19,199</u> | <u>37,917</u> | <u>587,556</u> | <u>644,672</u> |
| CASH & CASH EQUIVALENTS AT DECEMBER 31, 2018 | | | | |
| | <u>\$ 14,132</u> | <u>\$ 65,445</u> | <u>\$ 124,042</u> | <u>\$ 203,619</u> |

The accompanying notes are integral part of these financial statements

EXHIBIT C

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: ORGANIZATION:

Village Mews Association, Inc. was incorporated in New Jersey on May 30, 1986. The Association consists of 75 residential units and a clubhouse and is located in South Orange, Essex County, New Jersey. The purpose of the Association is to provide for the maintenance, preservation and control of the common areas and to promote the health, safety and welfare of the owners of these units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Village Mews 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 three fund groups:

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

Deferred Maintenance Fund: The purpose of this fund is to accumulate monies so that resources are available to pay for maintenance expenses which occur less frequently than annually

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: Interest income is allocated to each fund in proportion to the interest-bearing deposits of that fund.

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.

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

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. 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 annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Recognition of Assets: Real 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 hold 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 sidewalks, roadways, and open areas and portions of the buildings not comprising the individual units.

Certificates of Deposit: The Association has purchased certificates of deposit. As the Association generally holds certificates of deposit until maturity, the certificates are stated on the financial statements at face value which approximates fair value at December 31, 2018.

Fair value is measured on a recurring basis based on quoted prices in an active market (all Level 1 measurements).

Date of Management's Review: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 18, 2019, the date that 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 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. By filing as a regular corporation, the Association is generally taxed at a lower rate than by filing as a condominium management association.

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3: TAXATION: (continued)

For the year ended December 31, 2018 the Association has not elected to be taxed as a condominium management association, and therefore, will be subject to federal tax on net income derived from non-members pursuant to Section 277 of the Internal Revenue Code. The Association evaluates its tax provisions and accruals and believes that they are appropriate based on current facts and circumstances. The prior three years federal tax returns as filed remain open for examination by the Internal Revenue Service.

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

NOTE 4: WORKING CAPITAL CONTRIBUTIONS:

Upon the sale or resale of a unit, the buyer is required to pay to the Association a non-refundable and non-transferable contribution of four month's maintenance fee. Three month's are recorded as working capital in the operating fund and one month is recorded as a contribution to the capital replacement fund.

NOTE 5: RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are 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 June 2015, effective January 1, 2016, to estimate the useful lives and replacement costs of the components of common property. The estimates were based on estimated current replacement costs at the date of the study. The type of study performed was an update with site visit. 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, utilizing the threshold funding methodology. Threshold funding, based on a 30 year cash flow analysis, sets a replacement funding goal of keeping the replacement fund balance above a specified dollar amount at its lowest accumulated amount, as specified by the board, but below the full funding determined level. The funding requirement per the 2015 reserve study utilizing a 10% threshold is \$89,950. The Association contributed \$104,481 for 2018. In addition, investment income earned on replacement fund investments was also contributed to the replacement fund.

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5: RESERVES: (continued)

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 the estimated amounts, and the variations may be material. Additionally, replacement fund cash and investments balances may, at times, be less than or more than the fund balances, resulting in an interfund balance. Therefore, amounts accumulated in the replacement 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, pass special assessments, or delay major repairs and replacements until funds are available, if possible. The effect on future assessments is unknown at this time.

NOTE 6: OTHER MATTERS:

The Association had levied a special assessment for three years in the amount of \$121,500 per year. The assessment is \$135 per unit per month starting in January 2016 and ending in December 2018 in order to repay the Capital Replacement Fund for moisture intrusion construction work. This special assessment is being recorded as an additional contribution to the Capital Replacement Fund.

NOTE 7: CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Association to significant concentrations of credit risk consist principally of cash and certificates of deposit. The Association's cash deposits and certificate of deposits are insured up to \$250,000 per institution by Federal Depository Insurance Coverage (FDIC). At times during the year, cash balances may exceed insured limits. The Association is also potentially subject to concentrations of credit risk in its accounts receivable. Concentrations of credit risk with respect to the member's assessments receivable are limited to each residential unit separately and are subject to the association's collection procedures. As of December 31, 2018 the Association had no significant concentrations of credit risk.

VILLAGE MEWS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)

DECEMBER 31, 2018

The Falcon Group, conducted a study in June 2015 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 that date and do not take into account the effects of inflation between the date of the study and the date that the 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 LIFE (YEARS)</u> | <u>ESTIMATED CURRENT REPLACEMENT COSTS</u> |
|-------------------------|---|--|
| CLUBHOUSE/CLOCK TOWER | 2 to 15 | \$ 126,315 |
| SUPER'S UNIT | 5 to 10 | 12,000 |
| BALCONIES | 2 | 316,284 |
| GARAGE & STORAGE DOORS | 6 | 1,900 |
| FAÇADE | 6 to 11 | 114,800 |
| PATIOS | 8 | 75,600 |
| ROOFS | 5 to 17 | 265,561 |
| WALKWAYS | 10 to 20 | 105,400 |
| DRIVEWAYS | 21 | 78,000 |
| ELECTRICAL | 5 to 10 | 115,600 |
| FENCING | 2 to 20 | 83,564 |
| RETAINING WALL | 10 | 51,000 |
| ROADWAYS/PARKING | 0 to 10 | 408,174 |
| CONCRETE PAVER WALKWAYS | 21 | 90,350 |
| | | <u>\$ 1,844,548</u> |

CAPITAL REPLACEMENT FUND BALANCE AT DECEMBER 31, 2018 IS \$790,418.

