

VILLAGE MEWS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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, 2016, 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, 2016, 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

November 21, 2017

VILLAGE MEWS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS				
Cash & Cash Equivalents	\$ 111,871	\$ 30,649	\$ 406,947	\$ 549,467
Assessments Receivable (net of allowance for doubtful accounts of \$3,649)	2,536			2,536
Prepaid Insurance	7,386			7,386
Municipal Reimbursement Receivable	6,500			6,500
Other Prepaid Expenses	2,750			2,750
Due from Capital Replacement Fund	9,747			9,747
Due from Operating Fund	-	55,000	-	55,000
TOTAL ASSETS	<u>\$ 140,790</u>	<u>\$ 85,649</u>	<u>\$ 406,947</u>	<u>\$ 633,386</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 107,049	\$ -	\$ -	\$ 107,049
Assessments Received in Advance	21,914			21,914
Due to Deferred Maintenance Fund	55,000			55,000
Due to Operating Fund	-	-	9,747	9,747
TOTAL LIABILITIES	183,963	-	9,747	193,710
FUND BALANCES	<u>(43,173)</u>	<u>85,649</u>	<u>397,200</u>	<u>439,676</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 140,790</u>	<u>\$ 85,649</u>	<u>\$ 406,947</u>	<u>\$ 633,386</u>

The accompanying notes are an integral part of these financial statements

EXHIBIT A

VILLAGE MEWS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES:				
Maintenance Assessments	\$ 182,119	\$ 30,000	\$ 104,481	\$ 316,600
Special Assessment - Construction			121,500	121,500
Interest Income		2	42	44
Late Fees	1,805			1,805
Capital Contributions	8,448		2,816	11,264
Parking Lot Income	5,000			5,000
Miscellaneous Income	412			412
Municipal Reimbursement	6,476	-	-	6,476
TOTAL REVENUES	<u>204,260</u>	<u>30,002</u>	<u>228,839</u>	<u>463,101</u>
EXPENSES:				
General & Administrative	93,478	150	150	93,778
Operating	128,374			128,374
Deck Repairs		3,120		3,120
Door Painting Project		5,853		5,853
Retaining Wall Improvements			71,797	71,797
Retaining Wall - Engineering Costs			20,428	20,428
Garbage Shed Doors			7,758	7,758
Parking Lot Gates			10,657	10,657
Gym Equipment	-	-	5,885	5,885
TOTAL EXPENSES	<u>221,852</u>	<u>9,123</u>	<u>116,675</u>	<u>347,650</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(17,592)	20,879	112,164	115,451
FUND BALANCES - JANUARY 1, 2016	<u>(25,581)</u>	<u>64,770</u>	<u>285,036</u>	<u>324,225</u>
FUND BALANCES - DECEMBER 31, 2016	<u>\$ (43,173)</u>	<u>\$ 85,649</u>	<u>\$ 397,200</u>	<u>\$ 439,676</u>

The accompanying notes are an integral part of these financial statements

EXHIBIT B

**VILLAGE MEWS ASSOCIATION, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL AND ADMINISTRATIVE EXPENSES:

Insurance	\$ 34,675
Management Fees	28,126
Auditing Fee	2,000
Bad Debts	3,649
NJ Transit Lease	2,418
Legal Fees	13,655
Engineering Fees	4,021
Photocopies	900
Postage	973
Annual Report	25
Holiday Activities	528
Miscellaneous Administrative	2,508
TOTAL GENERAL AND ADMINISTRATIVE	<u>\$ 93,478</u>

OPERATING EXPENSES:

Landscaping & Lawn Care	\$ 21,632
Sprinkler System	1,396
Snow Removal	33,256
Electric	10,978
Water & Sewer	2,310
General Repairs and Maintenance	10,382
Construction Repairs	12,524
Plumbing Repairs	16,893
Trash Removal	10,550
Pest Control	8,453
TOTAL OPERATING	<u>\$ 128,374</u>

VILLAGE MEWS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<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	\$ (17,592)	\$ 20,879	\$ 112,164	\$ 115,451
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Interfund Borrowings	8,661	(2,500)	(6,161)	-
(Increase) Decrease in:				
Assessments Receivable (net)	44			44
Prepaid Insurance	(726)			(726)
Other Prepaid Expenses	(331)			(331)
Increase (Decrease) in:				
Accounts Payable	59,919			59,919
Assessments Received in Advance	9,146	-	-	9,146
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>59,121</u>	<u>18,379</u>	<u>106,003</u>	<u>183,503</u>
CASH & CASH EQUIVALENTS AT JANUARY 1, 2016	<u>52,750</u>	<u>12,270</u>	<u>300,944</u>	<u>365,964</u>
CASH & CASH EQUIVALENTS AT DECEMBER 31, 2016	<u>\$ 111,871</u>	<u>\$ 30,649</u>	<u>\$ 406,947</u>	<u>\$ 549,467</u>

The accompanying notes are integral part of these financial statements

EXHIBIT C

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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.

Cash and Cash Equivalents:

For financial statement purposes, the Association considers demand deposits and money market mutual funds to be cash and cash equivalents.

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 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, 2016

NOTE 3: TAXATION: (continued)

For the year ended December 31, 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 expenses to offset non-membership type income. 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 2016. 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, 2016

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: NEW JERSEY TRANSIT LEASE:

Village Mews Association, Inc. entered into a lease agreement with New Jersey Transit Corporation on January 1, 2002 and lasting until December 31, 2016. The Association leases a 4,800 square foot parcel of vacant land containing 550 linear feet of fence line in the Township of South Orange Village, County of Essex. This property adjoins the Association's common area. The payments under this lease obligation are as follows:

January 1, 2002 to December 31, 2006	\$1,043 per year
January 1, 2007 to December 31, 2011	\$1,668 per year
January 1, 2012 to December 31, 2016	\$2,418 per year

NOTE 7: OTHER MATTERS:

The Association had levied a special assessment in the amount of \$121,500. 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 8: CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Association to significant concentrations of credit risk consist principally of cash. The Association's cash deposits are insured up to \$250,000 per institution by Federal Depository Insurance Coverage (FDIC). At December 31, 2016 the Association maintained a balance of \$280,649 at one financial institution, leaving an uninsured balance of \$30,649. The Association is also potentially subject to concentrations of credit risk in its member's assessments 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.

VILLAGE MEWS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)

DECEMBER 31, 2016

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, 2016 IS \$397,200.