

**VILLAGE MEWS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

**SYNKOWSKI & NORMANN**

**Certified Public Accountants**

**A Limited Liability Partnership**

**58 West Main Street**

**Freehold, New Jersey 07728**

**Synkowski & Normann**

CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY PARTNERSHIP

58 West Main Street  
Freehold, New Jersey 07728

Phone: (732) 462-2220

Fax: (732) 308-9278

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

**INDEPENDENT AUDITORS' REPORT**

December 17, 2009

TO THE MEMBERS  
VILLAGE MEWS ASSOCIATION, INC.

We have audited the accompanying balance sheet of Village Mews Association, Inc. as of December 31, 2008 and the related statement of revenues and expenses, statement of operating expenses, statement of changes in fund balances and statement of cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Village Mews Association, Inc. as of December 31, 2007 were audited by other auditors whose report dated July 23, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village Mews Association, Inc. as of December 31, 2008 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.

*Synkowski + Normann*

SYNKOWSKI & NORMANN

Certified Public Accountants

**VILLAGE MEWS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2008**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash & Interest-Bearing Deposits	\$ 69,642	\$ 27,815	\$ 486,273	\$ 583,730
Assessments Receivable	2,812			2,812
Prepaid Insurance	2,458			2,458
Other Prepaid Expenses	5,375			5,375
Federal Income Tax Receivable	5,500			5,500
Interfund Balance	<u>53,007</u>	<u>80</u>	<u>(53,087)</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 138,794</u></b>	<b><u>\$ 27,895</u></b>	<b><u>\$ 433,186</u></b>	<b><u>\$ 599,875</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 10,638	\$ -	\$ -	\$ 10,638
Assessments Received in Advance	17,101			17,101
Bank Loan Payable	<u>-</u>	<u>-</u>	<u>269,946</u>	<u>269,946</u>
<b>TOTAL LIABILITIES</b>	<b>27,739</b>	<b>-</b>	<b>269,946</b>	<b>297,685</b>
<b>FUND BALANCES</b>	<u>111,055</u>	<u>27,895</u>	<u>163,240</u>	<u>302,190</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 138,794</u></b>	<b><u>\$ 27,895</u></b>	<b><u>\$ 433,186</u></b>	<b><u>\$ 599,875</u></b>

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, 2008**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>REVENUES:</b>				
Maintenance Assessments	\$ 180,160	\$ 10,000	\$ 25,840	\$ 216,000
Interest Income	29	318	9,607	9,954
Special Assessment			100,800	100,800
Late Fees	1,245			1,245
Capital Contributions	5,040		1,680	6,720
Miscellaneous Income	1,190			1,190
Municipal Reimbursement	11,896	-	-	11,896
<b>TOTAL REVENUES</b>	<u>199,560</u>	<u>10,318</u>	<u>137,927</u>	<u>347,805</u>
<b>EXPENSES:</b>				
General & Administrative	70,838			70,838
Operating	73,293			73,293
Interest Expense			23,589	23,589
Gutters & Leaders			45,965	45,965
Paving & Sidewalk Project	-	-	69,628	69,628
<b>TOTAL EXPENSES</b>	<u>144,131</u>	<u>-</u>	<u>139,182</u>	<u>283,313</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	55,429	10,318	(1,255)	64,492
<b>FUND BALANCES - JANUARY 1, 2008</b>	<u>55,626</u>	<u>17,577</u>	<u>164,495</u>	<u>237,698</u>
<b>FUND BALANCES - DECEMBER 31, 2008</b>	<u>\$ 111,055</u>	<u>\$ 27,895</u>	<u>\$ 163,240</u>	<u>\$ 302,190</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, 2008**

**GENERAL AND ADMINISTRATIVE EXPENSES:**

Insurance	\$ 25,432
Management Fees	26,500
Auditing Fee	2,000
NJ Transit Lease	1,668
Legal Fees	11,439
Storage	84
Office Expense	721
Photocopies	900
Postage	364
Annual Report	25
Bank Charges	60
Miscellaneous Administrative	1,645
<b>TOTAL GENERAL AND ADMINISTRATIVE</b>	<b><u>\$ 70,838</u></b>

**OPERATING:**

Landscaping & Lawn Care	\$ 17,028
Sprinkler System	139
Snow Removal	9,459
Electric	15,579
Water & Sewer	1,679
Repairs and Maintenance	16,235
Trash Removal	11,933
Pest Control	1,241
<b>TOTAL OPERATING</b>	<b><u>\$ 73,293</u></b>

**VILLAGE MEWS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Excess (Deficiency) of Revenues Over Expenses	\$ 55,429	\$ 10,318	\$ (1,255)	\$ 64,492
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Interfund Borrowings	(100,036)	753	99,283	-
(Increase) Decrease in:				
Assessments Receivable	(2,587)			(2,587)
Prepaid Insurance	(337)			(337)
Federal Income Tax Receivable	(5,500)			(5,500)
Other Prepaid Expenses	950			950
Increase (Decrease) in:				
Accounts Payable	3,565			3,565
Federal Income Tax Payable	(6,659)			(6,659)
Assessments Received in Advance	(672)	-	-	(672)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(55,847)</b>	<b>11,071</b>	<b>98,028</b>	<b>53,252</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Loan Principal Payments	-	-	(77,464)	(77,464)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(55,847)</b>	<b>11,071</b>	<b>20,564</b>	<b>(24,212)</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT JANUARY 1, 2008</b>	<b>125,489</b>	<b>16,744</b>	<b>465,709</b>	<b>607,942</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT DECEMBER 31, 2008</b>	<b>\$ 69,642</b>	<b>\$ 27,815</b>	<b>\$ 486,273</b>	<b>\$ 583,730</b>

The accompanying notes are integral part of these financial statements

**EXHIBIT C**

**VILLAGE MEWS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**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, 2008**

**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.

**NOTE 3: TAXATION:**

Under the Internal Revenue Code, Associations may be taxed as a Condominium Management Association at their election, or as a regular corporation. The Association may elect either method in any year and will generally select the method that results in the lowest tax due. A method selected in one year affects only that year and the Association is free to select either method in future years.

For the year ended December 31, 2008, 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 was incorporated under Title 15A of the New Jersey Statutes; therefore, it is not liable for New Jersey corporation income taxes.



**VILLAGE MEWS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**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 Gartenberg Associates, LLC in April 2008 to estimate the useful lives and replacement costs of the components of common property. The estimates were based on the estimated current replacement costs at the date of the study. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. The annual reserve requirement per the study is \$64,553, however, the Association only contributed a budgeted amount of \$25,840 plus interest earned in the amount of \$9,607 as well as capital contributions of \$1,680.

Actual expenditures may vary from estimated amounts and the variation may be material. Therefore, amounts accumulated may not be adequate to meet all future needs. 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. The effect on future assessments can not be determined at the present 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

**VILLAGE MEWS SSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 7: BANK LOAN PAYABLE:**

On October 3, 2006, the Board authorized with member approval a loan from Somerset Hills Bank in the amount of \$420,000. The proceeds of the loan were used for major roadway, sidewalk, and drainage improvement projects located in the Association common areas. The loan carries an interest rate of 7.25%. Monthly payments of principal and interest in the amount of \$8,386.09 are to be made by the first of each month commencing February 1, 2007 and ending January 1, 2012.

Principal maturities of the note are as follows:

For Year Ending:	December 31, 2009	\$76,100
	December 31, 2010	89,359
	December 31, 2011	96,153
	December 31, 2012	8,334

The Association has levied a special assessment in the amount of \$100,800 per year, starting with the year ended December 31, 2007, through December 31, 2011 in order to repay the bank loan.

**NOTE 8: CONCENTRATION OF CREDIT RISK:**

The Association maintains money market accounts at AXA Advisors, LLC. Accounts at this institution are not insured or secured. The uninsured interest bearing investment balance at December 31, 2008 totaled \$487,557.

**NOTE 9: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the period for federal income taxes was \$12,159.

**Synkowski & Normann**

CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY PARTNERSHIP

58 West Main Street  
Freehold, New Jersey 07728

Phone: (732) 462-2220

Fax: (732) 308-9278

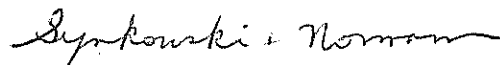
MEMBER AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY  
INFORMATION**

December 17, 2009

TO THE MEMBERS  
VILLAGE MEWS ASSOCIATION, INC.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements of Village Mews Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



SYNKOWSKI & NORMANN  
Certified Public Accountants

**VILLAGE MEWS ASSOCIATION, INC.**

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

**DECEMBER 31, 2008**

Gartenberg Associates, LLC, conducted a study in April 2008 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>
PAVEMENT - MEWS LANE	19	\$ 70,000
PAVEMENT - AUX. LOT	2	59,800
SEAL COAT - ROADS & PARKING	7	9,410
CURB REPLACEMENT (5%)	19	9,000
CONCRETE DRIVEWAYS	29	78,000
CONCRETE PAVER SIDEWALKS	29	97,300
RR TIE RETAINING WALLS	10	23,800
STREET LIGHTS	5	70,000
WOOD FENCE	10	24,000
ROOFING	17 to 19	204,400
GUTTERS & LEADERS	25	38,330
T1-11 SIDING	5	13,500
VINYL SIDING	24	8,500
DOOR RAILINGS	10	7,000
BALCONIES	10	186,000
PATIOS	5	70,560
CONCRETE STOOPS	10	56,350
BRICK RE-POINTING	7	25,000
CLOCK TOWER	5	15,000
GREAT ROOM/KITCHENETTE	10	12,000
HEALTH EQUIPMENT	8	12,000
REST ROOMS	10	20,000
		<u>\$ 1,109,950</u>

***CAPITAL REPLACEMENT FUND BALANCE AT DECEMBER 31, 2008 IS \$163,240.***

See Independent Auditor's Report on Supplementary Information