

SEP 21 2012

**VILLAGE MEWS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**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 AUDITOR'S REPORT

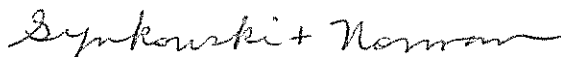
TO THE MEMBERS  
VILLAGE MEWS ASSOCIATION, INC.

We have audited the accompanying balance sheet of Village Mews Association, Inc. as of December 31, 2010 and the related statements of revenues, expenses and changes in fund balances and 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.

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, 2010 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.

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 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 inquires 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.



SYNKOWSKI & NORMANN  
Certified Public Accountants

November 8, 2011

**VILLAGE MEWS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2010**

	<u>OPERATING FUND</u>	<u>DEFERRED MAINTENANCE FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash & Interest-Bearing Deposits	\$ 29,493	\$ 10,159	\$ 40,541	\$ 80,193
Certificates of Deposit		17,000	250,000	267,000
Assessments Receivable	2,346			2,346
Prepaid Insurance	2,564			2,564
Municipal Reimbursement Receivable	6,789			6,789
Other Prepaid Expenses	2,685			2,685
Accrued Interest Receivable		65	445	510
Federal Income Tax Receivable	500			500
Interfund Balance	<u>26,545</u>	<u>-</u>	<u>(26,545)</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 70,922</u></b>	<b><u>\$ 27,224</u></b>	<b><u>\$ 264,441</u></b>	<b><u>\$ 362,587</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 21,380	\$ -	\$ -	\$ 21,380
Assessments Received in Advance	14,777			14,777
Bank Loan Payable	<u>-</u>	<u>-</u>	<u>96,360</u>	<u>96,360</u>
<b>TOTAL LIABILITIES</b>	36,157	-	96,360	132,517
<b>FUND BALANCES</b>	<u>34,765</u>	<u>27,224</u>	<u>168,081</u>	<u>230,070</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 70,922</u></b>	<b><u>\$ 27,224</u></b>	<b><u>\$ 264,441</u></b>	<b><u>\$ 362,587</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, 2010**

	<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		83	1,938	2,021
Special Assessment			100,800	100,800
Late Fees	805			805
Capital Contributions	2,880		960	3,840
Parking Lot Income	5,000			5,000
Miscellaneous Income	420			420
Insurance Claim Income	27,857			27,857
Municipal Reimbursement	6,789	-	-	6,789
<b>TOTAL REVENUES</b>	<u>223,911</u>	<u>10,083</u>	<u>129,538</u>	<u>363,532</u>
<b>EXPENSES:</b>				
General & Administrative	107,415	325	325	108,065
Operating	156,207			156,207
Insurance Claim Expenses	23,681			23,681
Water Infiltration Repairs			64,680	64,680
Interest Expense			10,643	10,643
Bridge Replacement			24,400	24,400
Asphalt Improvements	-	-	98,493	98,493
<b>TOTAL EXPENSES</b>	<u>287,303</u>	<u>325</u>	<u>198,541</u>	<u>486,169</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(63,392)	9,758	(69,003)	(122,637)
<b>FUND BALANCES - JANUARY 1, 2010</b>	152,754	16,201	183,752	352,707
<b>INTERFUND TRANSFERS</b>	<u>(54,597)</u>	<u>1,265</u>	<u>53,332</u>	<u>-</u>
<b>FUND BALANCES - DECEMBER 31, 2010</b>	<u>\$ 34,765</u>	<u>\$ 27,224</u>	<u>\$ 168,081</u>	<u>\$ 230,070</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, 2010**

**GENERAL AND ADMINISTRATIVE EXPENSES:**

Insurance	\$ 25,649
Management Fees	27,300
Auditing Fee	2,000
NJ Transit Lease	1,668
Legal Fees	11,369
Engineering Fees	34,141
Permits	1,600
Bad Debts	140
Storage	1,008
Photocopies	900
Postage	737
Annual Report	50
Holiday Activities	30
Miscellaneous Administrative	823
<b>TOTAL GENERAL AND ADMINISTRATIVE</b>	<b><u>\$ 107,415</u></b>

**OPERATING EXPENSES:**

Landscaping & Lawn Care	\$ 19,942
Sprinkler System	219
Snow Removal	34,561
Electric	14,998
Water & Sewer	2,479
Repairs and Maintenance	70,333
Trash Removal	12,616
Pest Control	1,059
<b>TOTAL OPERATING</b>	<b><u>\$ 156,207</u></b>

**VILLAGE MEWS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ (63,392)	\$ 9,758	\$ (69,003)	\$ (122,637)
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Interfund Borrowings	26,787	-	(26,787)	-
Interfund Transfers	(54,597)	1,265	53,332	-
(Increase) Decrease in:				
Assessments Receivable	1,496			1,496
Prepaid Insurance	(63)			(63)
Municipal Reimbursement Receivable	547			547
Other Prepaid Expenses	2,916			2,916
Accrued Interest Receivable		(65)	(445)	(510)
Federal Income Tax Receivable	5,000			5,000
Increase (Decrease) in:				
Accounts Payable	6,730			6,730
Deferred Insurance Claim Payable	(15,627)			(15,627)
Assessments Received in Advance	(3,726)	-	-	(3,726)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(93,929)</b>	<b>10,958</b>	<b>(42,903)</b>	<b>(125,874)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Loan Principal Payments	-	-	(89,990)	(89,990)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment in Certificates of Deposit	-	(17,000)	(250,000)	(267,000)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(93,929)</b>	<b>(6,042)</b>	<b>(382,893)</b>	<b>(482,864)</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT JANUARY 1, 2010</b>	<b>123,422</b>	<b>16,201</b>	<b>423,434</b>	<b>563,057</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT DECEMBER 31, 2010</b>	<b>\$ 29,493</b>	<b>\$ 10,159</b>	<b>\$ 40,541</b>	<b>\$ 80,193</b>

The accompanying notes are integral part of these financial statements

**EXHIBIT C**

**VILLAGE MEWS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**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, 2010**

**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.

**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 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, 2010, 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, 2010**

**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 September 2011, effective January 1, 2010, 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 Association is funding based on the 5% threshold funding method.

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 ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**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, 2011	\$96,360
------------------	-------------------	----------

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.

VILLAGE MEWS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
(UNAUDITED)

DECEMBER 31, 2010

The Falcon Group, conducted a study in September 2010 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>
BRIDGE	0	\$ 65,000
CLUBHOUSE/CLOCK TOWER	2 to 16	121,875
SUPER'S UNIT	6 to 15	17,000
BALCONIES	6	267,480
FAÇADE	0 to 17	350,400
PATIOS	11	42,840
ROOFS	11 to 23	237,325
WALKWAYS	9 to 16	95,550
DRIVEWAYS	27	78,000
ELECTRICAL	6	112,000
FENCING	8 to 17	73,804
RETAINING WALL	9	51,000
ROADWAYS/PARKING	2 to 15	238,311
CONCRETE PAVER WALKWAYS	27	90,350
		<u>\$ 1,840,935</u>

*CAPITAL REPLACEMENT FUND BALANCE AT DECEMBER 31, 2010 IS \$168,081.*