VILLAGE MEWS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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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, 2011 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, 2011 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
SYNKOWSKI & NORMANN
Certified Public Accountants

October 26, 2012

VILLAGE MEWS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2011

		OPERATING FUND		DEFERRED MAINTENANCE FUND		CAPITAL REPLACEMENT FUND		TOTAL
ASSETS								
Cash & Interest-Bearing Deposits	$	28,970	$	24,888	$	36,450	$	90,308
Certificates of Deposit				20,000		200,000		220,000
Assessments Receivable		4,575						4,575
Prepaid Insurance		2,587						2,587
Municipal Reimbursement Receivable		7,071						7,071
Other Prepaid Expenses		2,468				382		2,850
Accrued Interest Receivable				23		366		389
Federal Income Tax Receivable		500						500
Interfund Balance		2,359		10,000		(12,359)		-
TOTAL ASSETS	$	48,530	$	54,911	$	224,839	$	328,280
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts Payable	$	8,177	$	-	$	24,838	$	33,015
Assessments Received in Advance		11,434		-		-		11,434
TOTAL LIABILITIES		19,611		-		24,838		44,449
FUND BALANCES		28,919		54,911		200,001		283,831
TOTAL LIABILITIES AND FUND BALANCES	$	48,530	$	54,911	$	224,839	$	328,280

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, 2011

	OPERATING FUND	DEFERRED MAINTENANCE FUND	CAPITAL REPLACEMENT FUND	TOTAL
REVENUES:				
Maintenance Assessments	$ 160,160	$ 30,000	$ 25,840	$ 216,000
Interest Income		62	2,712	2,774
Special Assessment			100,800	100,800
Late Fees	1,462			1,462
Capital Contributions	1,440		480	1,920
Parking Lot Income	5,000			5,000
Miscellaneous Income	1,382			1,382
Municipal Reimbursement	7,071	-	-	7,071
TOTAL REVENUES	176,515	30,062	129,832	336,409
EXPENSES:				
General & Administrative	74,474		75	74,549
Operating	107,887			107,887
Sidewalk & Curbing Improvements		2,375		2,375
Water Infiltration Repairs			35,108	35,108
Street Light Replacement			12,111	12,111
Interest Expense			3,891	3,891
Bridge Replacement			27,600	27,600
Gym Improvements			13,227	13,227
Retaining Wall Improvements	-	-	5,900	5,900
TOTAL EXPENSES	182,361	2,375	97,912	282,648
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(5,846)	27,687	31,920	53,761
FUND BALANCES - JANUARY 1, 2011	34,765	27,224	168,081	230,070
FUND BALANCES - DECEMBER 31, 2011	$ 28,919	$ 54,911	$ 200,001	$ 283,831

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, 2011

GENERAL AND ADMINISTRATIVE EXPENSES:	
Insurance	$ 25,878
Management Fees	27,300
Auditing Fee	2,000
NJ Transit Lease	1,668
Legal Fees	12,923
Engineering Fees	1,266
Bad Debts	19
Storage	1,008
Photocopies	900
Postage	403
Annual Report	25
Bank Charges	41
Miscellaneous Administrative	1,043
TOTAL GENERAL AND ADMINISTRATIVE	$ 74,474
OPERATING EXPENSES:	
Landscaping & Lawn Care	$ 17,178
Sprinkler System	412
Snow Removal	36,696
Electric	14,892
Water & Sewer	1,890
Repairs and Maintenance	12,096
Water Line Replacement	9,049
Trash Removal	14,636
Pest Control	1,038
TOTAL OPERATING	$ 107,887

The accompanying notes are an integral part of these financial statements

VILLAGE MEWS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

	OPERATING FUND	DEFERRED MAINTENANCE FUND	CAPITAL REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess (Deficiency) of Revenues Over Expenses	$ (5,846)	$ 27,687	$ 31,920	$ 53,761
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Interfund Borrowings	24,186	(10,000)	(14,186)	-
(Increase) Decrease in:				
Assessments Receivable	(2,229)			(2,229)
Prepaid Insurance	(23)			(23)
Municipal Reimbursement Receivable	(282)			(282)
Other Prepaid Expenses	217		(382)	(165)
Accrued Interest Receivable		42	79	121
Increase (Decrease) in:				
Accounts Payable	(13,203)		24,838	11,635
Assessments Received in Advance	(3,343)	-	-	(3,343)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(523)	17,729	42,269	59,475
CASH FLOWS FROM FINANCING ACTIVITIES:				
Loan Principal Payments	-	-	(96,360)	(96,360)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Redemption (Investment) in Certificates of Deposit	-	(3,000)	50,000	47,000
NET INCREASE (DECREASE) IN CASH	(523)	14,729	(4,091)	10,115
CASH & INTEREST-BEARING DEPOSITS AT JANUARY 1, 2011	29,493	10,159	40,541	80,193
CASH & INTEREST-BEARING DEPOSITS AT DECEMBER 31, 2011	$ 28,970	$ 24,888	$ 36,450	$ 90,308

VILLAGE MEWS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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.

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 Homeowner 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 Homeowner Association.

For the year ended December 31, 2011, 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 September 2010, 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

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. The loan was paid in full as of December 31, 2011.

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, 2011

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 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:

COMPONENTS	ESTIMATED REMAINING LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COSTS
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
		$ 1,840,935

CAPITAL REPLACEMENT FUND BALANCE AT DECEMBER 31, 2011 IS $200,001.