

K a r e n P. S a c k s t e i n  
C e r t i f i e d P u b l i c A c c o u n t a n t

INDEPENDENT AUDITOR'S REPORT

Board of Directors:  
Hunter's Brook Homeowners Association, Inc.  
c/o Community Management Corporation  
1030 Clifton Avenue, Suite 205  
Clifton, NJ 07013

**Report on the Financial Statements**

We have audited the accompanying balance sheet of Hunter's Brook Homeowners Association, Inc. as of September 30, 2013 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is 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 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 Hunter's Brook Homeowners Association, Inc. as of September 30, 2013, 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 on page 9 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 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.

## Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Budget to Actual supplementary information on page 10, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Karen P. Sackstein, CPA*

Fair Lawn, New Jersey  
August 5, 2014

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
 BALANCE SHEET  
 SEPTEMBER 30, 2013

	Operating Fund	Reserve Fund	Working Capital Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,465	\$ 1,111	\$ 1,378	\$ 3,954
Maintenance fees receivable, net of allowance for doubtful accounts of \$ 1,500	1,539	-	-	1,539
Due to/from other funds	(139)	21	118	-
	<u>\$ 2,865</u>	<u>\$ 1,132</u>	<u>\$ 1,496</u>	<u>\$ 5,493</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable and accrued expenses	\$ 11,716	\$ -	\$ -	\$ 11,716
Prepaid maintenance fees	896	-	-	896
	12,612	-	-	12,612
Fund balances	(9,747)	1,132	1,496	(7,119)
	<u>\$ 2,865</u>	<u>\$ 1,132</u>	<u>\$ 1,496</u>	<u>\$ 5,493</u>

The accompanying notes are an integral part of the financial statements.

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Operating Fund	Reserve Fund	Working Capital Fund	Total
<u>REVENUES</u>				
Maintenance fees	\$ 15,906	\$ 250	\$ -	\$ 16,156
Miscellaneous income	800	-	-	800
Income from closings	-	-	160	160
Interest income	-	1	3	4
	<u>16,706</u>	<u>251</u>	<u>163</u>	<u>17,120</u>
<u>EXPENSES</u>				
Accounting fees	2,500	-	-	2,500
Bad debt expense	1,000	-	-	1,000
Detention basin repairs	200	-	-	200
Engineering fees	2,000	-	-	2,000
Insurance	4,160	-	-	4,160
Landscaping	7,085	-	-	7,085
Legal fees	7,350	-	-	7,350
Management fees	4,200	-	-	4,200
Miscellaneous expense	425	-	-	425
Real estate taxes	131	-	-	131
Water	536	-	-	536
	<u>29,587</u>	<u>-</u>	<u>-</u>	<u>29,587</u>
Excess (Deficiency) of Revenues Over Expenses	(12,881)	251	163	(12,467)
Beginning Fund Balances	134	881	4,333	5,348
Permanent Fund Balance Transfer	3,000	-	(3,000)	-
Ending Fund Balances	<u>\$ (9,747)</u>	<u>\$ 1,132</u>	<u>\$ 1,496</u>	<u>\$ (7,119)</u>

The accompanying notes are an integral part of the financial statements.

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Operating Fund	Reserve Fund	Working Capital Fund	Total
Cash flows from operating activities:	\$ (12,881)	\$ 251	\$ 163	\$ (12,467)
Excess (deficiency) of revenues over expenses				
Adjustments to reconcile excess (deficiency) of revenues over expenses to cash provided by (used for) operating activities:				
Permanent fund balance transfer	3,000	-	(3,000)	-
(Increase) decrease in:				
Maintenance fees receivable	378	-	-	378
Prepaid insurance	757	-	-	757
Due to/from other funds	40	-	(40)	-
Increase (decrease) in:				
Accounts payable and accrued expenses	7,254	-	-	7,254
Prepaid maintenance fees	(315)	-	-	(315)
Net cash provided by (used for) operating activities	(1,767)	251	(2,877)	(4,393)
Net increase (decrease) in cash and cash equivalents	(1,767)	251	(2,877)	(4,393)
Cash and cash equivalents, beginning of year	3,232	860	4,255	8,347
Cash and cash equivalents, end of year	\$ 1,465	\$ 1,111	\$ 1,378	\$ 3,954
Supplemental disclosures:				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	-	-	-	-

The accompanying notes are an integral part of the financial statements.

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 1 - PROPERTY DESCRIPTION

Hunter's Brook Homeowners Association, Inc. is a statutory association incorporated in the State of New Jersey in 2003. The Association is responsible for the operation and maintenance of the common property of the Hunter's Brook Homeowners Association, which consists of common property at the entrance of the Association and a detention basin on the grounds of the Association. The Association consists of one hundred and one residential units in Hackettstown, New Jersey.

NOTE 2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 5, 2014, the date that the financial statements were available to be issued.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

FUND ACCOUNTING

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund and working capital fund are generally at the discretion of the board of directors. Disbursements from the reserve fund generally may be made only for designated purposes.

INTEREST EARNED

It is the Association's policy that interest earned on all accounts is allocated to the proper restricted or unrestricted funds.

PROPERTY AND EQUIPMENT

Real property and common areas acquired from the Developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, and money market accounts.

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 4 - MAINTENANCE FEES

Monthly maintenance fees billed to owners were \$ 13.33 for the year ended September 30, 2013. Of these amounts, \$ 250 was budgeted to the reserve fund for the year.

All unit owners are subject to a one time non-refundable contribution equal to three months' maintenance fees collected at closing. This amount is contributed to the working capital fund.

The annual budget and assessments of owners are approved 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.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The Developer presented a schedule of the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the schedule.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on this schedule. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve and deferred maintenance funds may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements and deferred maintenance projects until funds are available.

The Association's calculated reserve fund balance exceeded the available reserve cash and cash equivalents by \$ 21 as of September 30, 2013. The Association intends to repay this amount and has, therefore, recorded it as an interfund receivable and payable on the balance sheet.

NOTE 6 - FEDERAL INCOME TAXES

The Association has the option of being taxed as a regular corporation on the amount by which total non-membership revenues exceed total non-membership expenses pursuant to Internal Revenue Code Section 277, or it can elect to file as a homeowners association under Section 528 of the Internal Revenue Code, which provides that the Association is exempt from taxation on amounts received as exempt function income, which generally consists of uniform assessments to members.

For the year ended September 30, 2013, the Association has elected to be taxed as a homeowners association under Internal Revenue Code Section 528. Federal income tax expense for the year ended September 30, 2013 was \$ 0.

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 6 - FEDERAL INCOME TAXES (CONTINUED)

Since the Association was incorporated pursuant to Title 15 of the New Jersey Statutes, it is not liable for New Jersey Corporation Business Tax.

Under federal income tax laws, an entity's income tax returns are subject to examination by the Internal Revenue Service. The time period during which a return may be selected for examination generally ends at the later of three years after initial due date of the return or three years after the return is filed. At September 30, 2013, the Association's tax years that remained subject to examination were the years ended September 30, 2013, 2012, 2011, and 2010.

NOTE 7 - MAINTENANCE FEES RECEIVABLE

It is the Association's policy to retain legal counsel and commence collection proceedings on the properties of members whose assessments are delinquent as determined by the board of directors. At September 30, 2013 it was estimated that \$ 1,500 may not be collected, and therefore, an allowance for that amount has been established. If and when a portion of the allowance is collected, it will be recognized as income in the year it is received.

NOTE 8 - PERMANENT FUND BALANCE TRANSFER

During the year ended September 30, 2013, the Association recorded a permanent fund balance transfer of \$ 3,000 from the working capital fund to the operating fund. This amount was used to pay operating expenses in excess of budgeted amounts.

NOTE 9 - TRANSITION

The Association has assumed control of the Association from the Developer in accordance with the terms set forth in its governing documents. However, the financial outcome of the transition process is uncertain, therefore, the financial statements do not reflect any estimates for a transition settlement with the Developer or for any potential remediation expenses which may be incurred in the future.



HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION (UNAUDITED)  
FUTURE MAJOR REPAIRS AND REPLACEMENTS  
SEPTEMBER 30, 2013

The Developer presented a schedule estimating the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair and/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 and replacement.

Component	Estimated Useful Life (Years)	Estimated Replacement Cost	Calculated Annual Contribution
Basin outlet structure	20	\$ 5,000	\$ 250

HUNTER'S BROOK HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION (UNAUDITED)  
 COMPARISON OF BUDGET TO ACTUAL  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>			
Maintenance fees	\$ 16,160	\$ 16,156	\$ (4)
Transfer to reserve fund	(250)	(250)	-
Miscellaneous income	-	800	800
	<u>15,910</u>	<u>16,706</u>	<u>796</u>
<u>EXPENSES</u>			
Accounting fees	1,500	2,500	(1,000)
Bad debt expense	-	1,000	(1,000)
Detention basin repairs	1,000	200	800
Engineering fees	-	2,000	(2,000)
Insurance	4,750	4,160	590
Landscaping	4,000	7,085	(3,085)
Legal fees	-	7,350	(7,350)
Management fees	4,200	4,200	-
Miscellaneous expense	460	425	35
Real estate taxes	-	131	(131)
Water	-	536	(536)
	<u>15,910</u>	<u>29,587</u>	<u>(13,677)</u>
Deficiency of Revenues Over Expenses	<u>\$ -</u>	<u>\$ (12,881)</u>	<u>\$ (12,881)</u>