

Sun Ridge Owners Association, Inc.
Financial Statements
December 31, 2016



Sun Ridge Owners Association, Inc.
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December 31, 2016

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Independent Auditors' Report

To the Board of Trustees and Unit Owners of

Sun Ridge Owners Association, Inc.

We have audited the accompanying financial statements of Sun Ridge Owners Association, Inc. (the "Association") which comprise the balance sheet as of December 31, 2016 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.

The Board of Trustees' Responsibility for the Financial Statements

The Board of Trustees (the "Board") 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.

Auditors' 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 auditors' 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 auditors consider 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, 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 the Association as of December 31, 2016, and the results of its operations and cash flows for the year then ended in accordance 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 the information on future major repairs and replacements on page 11 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 about the methods of preparing the information and comparing the information for consistency with their 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.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Board, and except for the portion marked "unaudited" was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" 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.



East Brunswick, New Jersey

July 11, 2017

Sun Ridge Owners Association, Inc.
Balance Sheet
December 31, 2016

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Assets				
Cash and cash equivalents	\$ 597,945	\$ 252,625	\$ 90,653	\$ 254,667
Certificates of deposit	900,199	-	-	900,199
Assessments receivable, net of allowance for doubtful accounts of \$248,000	50,854	50,854	-	-
Due from township	6,000	6,000	-	-
Prepaid expenses	7,500	7,500	-	-
Accrued investment income receivable	1,501	-	-	1,501
Fixed assets, net	124,018	124,018	-	-
Interfund balances	-	28,877	(667)	(28,210)
Total Assets	<u>\$ 1,688,017</u>	<u>\$ 469,874</u>	<u>\$ 89,986</u>	<u>\$ 1,128,157</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 53,970	\$ 33,800	\$ -	\$ 20,170
Assessments received in advance	18,286	18,286	-	-
Total Liabilities	72,256	52,086	-	20,170
Fund Balances	<u>1,615,761</u>	<u>417,788</u>	<u>89,986</u>	<u>1,107,987</u>
Total Liabilities and Fund Balances	<u>\$ 1,688,017</u>	<u>\$ 469,874</u>	<u>\$ 89,986</u>	<u>\$ 1,128,157</u>

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

Sun Ridge Owners Association, Inc.
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2016

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Revenues				
Maintenance assessments	\$ 1,185,384	\$ 965,384	\$ -	\$ 220,000
Legal fees	67,983	67,983	-	-
Membership fees	30,475	30,475	-	-
Late charges	14,926	14,926	-	-
Investment income	6,390	74	8	6,308
Township reimbursement	6,000	6,000	-	-
Other income	5,648	5,648	-	-
Insurance claim income	1,395	1,395	-	-
Pool fees	733	733	-	-
Total Revenues	1,318,934	1,092,618	8	226,308
Expenses				
General and administrative	263,654	263,654	-	-
Building and grounds	526,643	526,643	-	-
Recreation	68,492	68,492	-	-
Concrete	222,396	-	-	222,396
Pool maintenance	98,462	-	-	98,462
Roof replacement	9,600	-	-	9,600
Fountain	9,160	-	-	9,160
Basin replacement	5,919	-	-	5,919
Other	2,826	-	-	2,826
Total Expenses	1,207,152	858,789	-	348,363
Excess (Deficiency) of Revenues over Expenses	111,782	233,829	8	(122,055)
Fund Balances - Beginning of Year	1,503,979	183,959	89,978	1,230,042
Fund Balances - End of Year	\$ 1,615,761	\$ 417,788	\$ 89,986	\$ 1,107,987

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

Sun Ridge Owners Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Operating Activities				
Excess (deficiency) of revenues over expenses	\$ 111,782	\$ 233,829	\$ 8	\$ (122,055)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities				
Bad debt expense	8,420	8,420	-	-
Changes in assets and liabilities				
Assessments receivable	(40,424)	(40,424)	-	-
Due from township	(6,000)	(6,000)	-	-
Prepaid expenses	11,717	11,717	-	-
Accrued investment income receivable	(1,301)	(525)	-	(776)
Accounts payable and accrued expenses	27,411	7,241	-	20,170
Assessments received in advance	(6,391)	(6,391)	-	-
Net Cash Provided by (Used in) Operating Activities	<u>105,214</u>	<u>207,867</u>	<u>8</u>	<u>(102,661)</u>
Cash Flows from Investing Activities				
Purchases of certificates of deposit	(900,200)	-	-	(900,200)
Maturities of certificates of deposit	175,000	-	-	175,000
Purchase of unit	(124,018)	(124,018)	-	-
Net Cash Provided by (Used in) Investing Activities	<u>(828,198)</u>	<u>(123,168)</u>	<u>-</u>	<u>(705,030)</u>
Cash Flows from Financing Activities				
Change in interfund balances	-	(28,393)	667	27,726
Net Increase (Decrease) in Cash and Cash Equivalents	(744,004)	55,456	675	(800,135)
Cash and Cash Equivalents - Beginning of Year	<u>1,341,949</u>	<u>197,169</u>	<u>89,978</u>	<u>1,054,802</u>
Cash and Cash Equivalents - End of Year	<u>\$ 597,945</u>	<u>\$ 252,625</u>	<u>\$ 90,653</u>	<u>\$ 254,667</u>

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

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2016

Note 1 Nature of Organization

Sun Ridge Owners Association, Inc. (the "Association"), located in Flemington, New Jersey, is an incorporated Association pursuant to the Corporations and Associations Not for Profit Act of the State of New Jersey under Title 15A. The purposes of the Association are to provide for the preservation of the values and amenities in the community and for the maintenance of the common facilities. The Association consists of 744 residential units, which include single family homes, townhomes and condominium units, in an area of approximately 220 acres. Recreational facilities include a pool house, swimming pool, and tennis and basketball courts.

Note 2 Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board of Trustees (the "Board") 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's legal documents (i.e., Declaration of Covenants and Restrictions and By-laws) 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 fund groups:

Operating Fund

This fund represents the portion of expendable funds that is available for the general operations of the Association.

Deferred Maintenance Fund

The purpose of this fund is to accumulate sufficient amounts which will allow the Association to have the necessary resources to perform maintenance services which occur less frequently than annually.

Replacement Fund

The purpose of the replacement fund is to accumulate funds for future major repairs and replacements of the Association's common property as determined by the Board.

Note 2 Summary of Significant Accounting Policies (Continued)

Fixed Assets

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated life of the assets, 7 years for furniture and equipment and 27.50 years for Association unit. Tangible personal property not an integral part of existing facilities is capitalized; all other costs of repair and replacement are expensed as incurred or charged to the replacement fund if provided for therein.

Recognition of Assets

The Association's property and other common elements, other than that described above, are owned by the Association to the extent that they are not part of the fee simple ownership of the individual units. The Association's common elements consist of sidewalks, roadways, recreational facilities and open areas. The Association received the common elements referred to above in a non-monetary transaction with the Sponsor. The use and disposition of these properties are restricted, or governed, by the Association's legal documents. Accordingly, no amounts have been reflected on the accompanying balance sheet for the common elements owned by the Association.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank deposits and money market funds. Cash and cash equivalents may, at times, exceed the federally insured limits.

Maintenance Assessments and Assessments Receivable

The Association's members are subject to monthly assessments based upon the annual budget and as determined by the Board. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods or as otherwise specified by the Association's governing documents. A portion of the monthly assessments to owners are allocated to the replacement fund and deferred maintenance fund.

On a periodic basis, the Board evaluates the assessments receivable and estimate an allowance for doubtful accounts, based on history of past write-offs, collections and the current legal status of past due accounts.

Investment Income Earned

The Board's policy is to retain investment income earned on all replacement fund and deferred maintenance fund interest bearing cash and money market mutual funds in the respective fund balances.

Subsequent Events

The Board has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued. (See Notes 10 and 11)

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2016

Note 3 Certificates of Deposit

The Association holds several certificates of deposit, recorded at cost, which approximates fair value at December 31, 2016, with interest rates ranging from 0.70% to 1.82%. The certificates of deposit are scheduled to mature between May 2017 and May 2022. The Association also owns a market linked certificate of deposit that is scheduled to mature in November 2022.

Fair value is measured on a recurring basis based on quoted prices in an active market (all Level 1 measurements).

Note 4 Prepaid Expenses

Prepaid expenses consisted of the following at December 31, 2016:

Prepaid insurance	\$ 7,300
Federal income tax	<u>200</u>
Total	<u>\$ 7,500</u>

Note 5 Fixed Assets

Fixed assets consists of the following:

Association Unit	\$ 124,018
Furniture and equipment	35,104
Less: accumulated depreciation	<u>(35,104)</u>
Fixed assets, net	<u>\$ 124,018</u>

The Association uses estimates in determining the depreciable lives of furniture and equipment and the Association owned unit.

Note 6 Membership Fees

Upon the acquisition of title to a unit, each member of the Association must contribute a one-time, non-refundable membership fee of \$575. This contribution has been recorded as income in the operating fund.

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2016

Note 7 Income Taxes

Under the Internal Revenue Code, associations may be taxed as a regular corporation or as a homeowners association, which is based on an annual election and meeting certain criteria. If the criteria are met, the Association may select either method in any year. 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, 2016, the Association expects to be taxed as a homeowners association and will, therefore, not be taxed as a regular corporation. No income taxes have been provided since there are sufficient non-exempt function expenses to offset non-exempt function 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 is incorporated pursuant to Title 15A of the New Jersey Statutes and, therefore, is not liable for New Jersey corporation business income tax.

Note 8 Replacement Fund

The Association's governing documents provide 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 Falcon Group, professional engineering consultants, conducted a study in January 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The study includes those components with an estimated remaining useful life within the Board-determined useful life guidelines for inclusion in the replacement schedule for purposes of determining annual funding. The estimates were based on the then current estimated replacement costs. 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 2014 study.

During the year ended December 31, 2016, the Board funded for major repairs and replacements based on the 2014 study's estimates of the then current replacement costs, considering amounts previously accumulated in the replacement fund. The Board is utilizing the full funding method with a 30 year average annual contribution. The funding amount recommended by the 2014 study is \$187,205. The Board actually provided for \$220,000 in the 2016 budget.

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2016

Note 8 Replacement Fund (Continued)

Funds are being accumulated in the replacement fund based upon estimated costs for repairs and replacements of common property components using the above methodology. Actual expenditures may vary from the estimated amounts, and the variations may be material. Additionally, replacement fund cash and investment balances may, at times, be less than or more than the fund balance, 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 funds 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.

Note 9 Other Matters

The Association is managed by Premier Management Associates, Inc. whose owners also have an ownership interest in the maintenance company, Premier Construction Associates, Inc., which provided services to the Association. Total fees incurred and paid for roof replacement work during 2016 were \$9,800.

Note 10 Association Unit - Unit 108

During the year ended December 31, 2016, the Board obtained title to unit 108 through a sheriff's sale, for approximately \$106,000. The delinquent balance on this unit approximated \$18,000. It is the Board's intention to rent this unit to a third party.

The unit has been recorded at the lower of cost or fair market value. Fair market value has been estimated to be \$180,000 which has been based on recent sale prices of comparable units. This unit has been recorded at \$124,018 in the operating fund in the accompanying financial statements. Subsequent to year end, the Association entered into a one year lease agreement with a third party to rent the unit at approximately \$1,650 per month.

Note 11 Subsequent Events

Subsequent to the year ended December 31, 2016, the Association entered into the following large contracts:

- Playground equipment installation for approximately \$133,000
- Concrete removal and replacement for approximately \$123,000
- Masonry and paving repairs for approximately \$89,000
- Playground equipment installation for approximately \$61,000

SUPPLEMENTARY INFORMATION

Sun Ridge Owners Association, Inc.
Schedule of Information on Future Major Repairs and Replacements
December 31, 2016

The Falcon Group, professional engineering consultants, conducted a study in 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The study includes those components with an estimated remaining useful life within the Board- determined useful life guidelines for inclusion in the replacement schedule for purposes of determining annual funding. The estimates were based on the then current estimated replacement costs.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	As of 2014 Study (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Ancillary		
Athletic	0-20	\$ 465,700
Clubhouse	0-25	49,150
Playground	9	80,000
Swimming Pool	3-6	113,488
Site Work		
Asphalt	0-12	1,658,516
Barrier	0-37	130,602
Bridge	8-20	75,300
Concrete	2	421,902
Electrical	23	218,400
Furniture	0	1,900
Pond	6-10	206,500
Total		<u>\$ 3,421,458</u>
Replacement fund balance as of December 31, 2016		<u>\$ 1,107,987</u>

Sun Ridge Owners Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to Funds
as Compared to Budget
For the Year Ended December 31, 2016

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 1,185,384	\$ 1,185,384
Legal fees	67,983	35,000
Membership fees	30,475	15,000
Late charges	14,926	5,000
Investment income	6,390	1,600
Township reimbursement	6,000	1,500
Other income	5,648	225
Insurance claim income	1,395	-
Pool fees	733	300
Total Revenues	1,318,934	1,244,009
Operating Expenses		
General and Administrative		
Management fees	95,967	95,968
Legal and professional fees	94,893	49,500
Insurance	32,280	43,369
Postage and photocopying	14,702	14,000
Bad debt expense	8,420	40,000
Office	5,476	7,000
Audit	4,400	4,400
Telephone	4,219	3,500
Miscellaneous	1,692	6,750
Insurance claim expense	1,395	-
Bank fees	110	100
Meetings	100	500
Contingency	-	25,903
Federal income taxes	-	100
Total General and Administrative	263,654	291,090
Building and Grounds		
Landscaping	259,561	329,025
Snow clearing	124,548	150,000
Waste removal	89,112	84,000
Repairs and maintenance	17,972	26,000
Electric	12,507	12,000
Water and sewer expenses	8,355	10,500
Pond maintenance/geese control	7,841	14,999
Landscaping improvements	5,690	9,999
Gas	848	2,000
Cleaning/janitorial	209	2,600
Engineering	-	2,500
Total Building and Grounds	526,643	643,623

Sun Ridge Owners Association, Inc.
Schedule of Total Revenues, Operating Expenses and Allocations to Funds
as Compared to Budget
For the Year Ended December 31, 2016

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Recreation		
Pool management and supplies	58,592	58,700
Pool repairs and maintenance	9,900	19,000
Total Recreation	<u>68,492</u>	<u>77,700</u>
Deferred Maintenance Fund		
Investment income allocated to deferred maintenance fund	8	-
Total Allocations to the Deferred Maintenance Fund	<u>8</u>	<u>-</u>
Replacement Fund		
Maintenance assessments allocated to replacement fund	220,000	220,000
Investment income allocated to replacement fund	6,308	1,600
Total Allocations to the Replacement Fund	<u>226,308</u>	<u>221,600</u>
Total Operating Expenses and Allocations to Funds	<u>1,085,105</u>	<u>1,234,013</u>
Excess of Revenues over Operating Expenses and Allocations to the Funds Before Budgeted Deficit Reduction	<u>\$ 233,829</u>	9,996
Budgeted Deficit Reduction		<u>(9,996)</u>
Excess of Revenues over Operating Expenses and Allocations to the Replacement Fund after Budgeted Deficit Reduction		<u>\$ -</u>