

**Sun Ridge Owners Association, Inc.**  
**Financial Statements**  
**December 31, 2017**



**Sun Ridge Owners Association, Inc.**  
**Table of Contents**  
**December 31, 2017**

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-10
SUPPLEMENTARY INFORMATION	
Schedule of Information on Future Major Repairs and Replacements	11
Schedule of Total Revenues, Operating Expenses and Allocations to Funds as Compared to Budget	12-13

## **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, 2017 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, 2017, 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

September 5, 2018

**Sun Ridge Owners Association, Inc.**  
**Balance Sheet**  
**December 31, 2017**

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 437,548	\$ 328,901	\$ 67,415	\$ 41,232
Certificates of deposit	637,444	34,000	-	603,444
Cash - security deposits	5,028	5,028	-	-
Assessments receivable, net of allowance for doubtful accounts of \$208,500	46,660	46,660	-	-
Prepaid expenses	10,817	10,817	-	-
Accrued investment income receivable	740	44	-	696
Fixed assets, net	137,501	137,501	-	-
Interfund balances	-	20,349	(5,013)	(15,336)
<b>Total Assets</b>	<b>\$ 1,275,738</b>	<b>\$ 583,300</b>	<b>\$ 62,402</b>	<b>\$ 630,036</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 60,994	\$ 54,994	\$ -	\$ 6,000
Assessments received in advance	35,425	35,425	-	-
Security deposits	5,027	5,027	-	-
<b>Total Liabilities</b>	<b>101,446</b>	<b>95,446</b>	<b>-</b>	<b>6,000</b>
<b>Fund Balances</b>	<b>1,174,292</b>	<b>487,854</b>	<b>62,402</b>	<b>624,036</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,275,738</b>	<b>\$ 583,300</b>	<b>\$ 62,402</b>	<b>\$ 630,036</b>

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

**Sun Ridge Owners Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2017**

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
<b>Revenues</b>				
Maintenance assessments	\$ 1,185,384	\$ 986,179	\$ 12,000	\$ 187,205
Legal fees	72,195	72,195	-	-
Membership fees	30,475	30,475	-	-
Other income	23,910	23,910	-	-
Late charges	15,060	15,060	-	-
Investment income	13,409	387	85	12,937
Rental income	11,553	11,553	-	-
Township reimbursement	1,360	1,360	-	-
Pool fees	80	80	-	-
<b>Total Revenues</b>	<b>1,353,426</b>	<b>1,141,199</b>	<b>12,085</b>	<b>200,142</b>
<b>Expenses</b>				
General and administrative	332,229	332,229	-	-
Building and grounds	651,495	651,495	-	-
Recreation	71,679	71,679	-	-
Rental expenss	15,730	15,730	-	-
Asphalt project	36,623	-	36,623	-
Golf cart	3,046	-	3,046	-
Playground equipment	201,348	-	-	201,348
Sealcoating	149,072	-	-	149,072
Concrete	146,433	-	-	146,433
Storm drainage inlet repairs	73,250	-	-	73,250
Bridge restoration	60,264	-	-	60,264
Fence replacements	19,865	-	-	19,865
Pool area repairs	19,140	-	-	19,140
Pool equipment	8,798	-	-	8,798
Catch basin repairs	2,990	-	-	2,990
Engineering fees	2,933	-	-	2,933
<b>Total Expenses</b>	<b>1,794,895</b>	<b>1,071,133</b>	<b>39,669</b>	<b>684,093</b>
<b>Excess (Deficiency) of Revenues over Expenses</b>	<b>(441,469)</b>	<b>70,066</b>	<b>(27,584)</b>	<b>(483,951)</b>
<b>Fund Balances - Beginning of Year</b>	<b>1,615,761</b>	<b>417,788</b>	<b>89,986</b>	<b>1,107,987</b>
<b>Fund Balances - End of Year</b>	<b>\$ 1,174,292</b>	<b>\$ 487,854</b>	<b>\$ 62,402</b>	<b>\$ 624,036</b>

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, 2017**

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
<b>Cash Flows from Operating Activities</b>				
Excess (deficiency) of revenues over expenses	\$ (441,469)	\$ 70,066	\$ (27,584)	\$ (483,951)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities				
Depreciation	4,843	4,843	-	-
Bad debt expense	60,220	60,220	-	-
Changes in assets and liabilities				
Cash - Security deposits	(5,028)	(5,028)	-	-
Assessments receivable	(56,026)	(56,026)	-	-
Due from township	6,000	6,000	-	-
Prepaid expenses	(3,317)	(3,317)	-	-
Accrued investment income receivable	762	(44)	-	806
Accounts payable and accrued expenses	7,024	21,194	-	(14,170)
Assessments received in advance	17,139	17,139	-	-
Security deposits	5,027	5,027	-	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>(404,825)</u>	<u>120,074</u>	<u>(27,584)</u>	<u>(497,315)</u>
<b>Cash Flows from Investing Activities</b>				
Purchases of certificates of deposit	(82,000)	(34,000)	-	(48,000)
Maturities of certificates of deposit	344,755	-	-	344,755
Additions to Association-owned unit	(18,326)	(18,326)	-	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>273,619</u>	<u>(8,966)</u>	<u>-</u>	<u>282,585</u>
<b>Cash Flows from Financing Activities</b>				
Change in interfund balances	-	8,528	4,346	(12,874)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(160,396)	76,276	(23,238)	(213,434)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>597,945</u>	<u>252,625</u>	<u>90,653</u>	<u>254,667</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 437,549</u>	<u>\$ 328,901</u>	<u>\$ 67,415</u>	<u>\$ 41,233</u>
<b>Supplemental Disclosures</b>				
Cash Paid During the Year for				
Income taxes	<u>\$ 1,600</u>			

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

**Sun Ridge Owners Association, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**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.



**Sun Ridge Owners Association, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**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 Note 11)

**Sun Ridge Owners Association, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**Note 3 Certificates of Deposit**

The Association holds several certificates of deposit, recorded at cost, which approximates fair value at December 31, 2017, with interest rates ranging from 1.00% to 1.80%. The Association also holds a market linked certificate of deposit whose cost approximates fair market value. The certificates of deposit are scheduled to mature between May 2018 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, 2017:

Insurance	\$ 8,000
Porter services	2,217
Federal income tax	<u>600</u>
Total	<u>\$ 10,817</u>

**Note 5 Fixed Assets**

Fixed assets consists of the following:

Association Unit	\$ 142,344
Furniture and equipment	35,104
Less: accumulated depreciation	<u>(39,947)</u>
Fixed assets, net	<u>\$ 137,501</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, 2017**

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**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, 2017, 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 based on the excess of non-exempt function expenses over 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 fund 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 was updated by DW Smith Engineering in January 2017 to be implemented January 1, 2018. The 2017 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 2017 study.

During the year ended December 31, 2017, 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.

**Sun Ridge Owners Association, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2017**

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**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 Association Unit - Unit 801**

During the year ended December 31, 2016, the Board obtained title to unit 108 through a sheriff's sale, for approximately \$106,000. 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 \$142,344, which includes improvements to the unit, in the operating fund in the accompanying financial statements. During 2017, the Association entered into a one year lease agreement with a third party to rent the unit at \$1,650 per month. Total rental revenue during 2017 was approximately \$11,500.

**Note 10 Rent Receiver - Unit 503**

During the year ended December 31, 2017, the Association was appointed as a rent receiver for an association unit to recover unremitted maintenance assessments. The Association does not hold title to the unit, however as the rent receiver, has been collecting rental income and maintaining the unit. The Association has signed a one year lease effective September 2017 to rent this unit at \$1,700 per month. The Association holds a security deposit of \$2,550 in a segregated cash account. This income will be used to offset bad debt expense incurred by the unit owner's nonpayment of maintenance fees as well as current maintenance assessments related to this unit and costs to maintain the unit. For the year ended December 31, 2017, \$6,800 in rental income has been collected. Amounts due on this unit at December 31, 2017 for maintenance assessments and repairs are approximately \$35,000, for which a full allowance has been established.

**Note 11 Subsequent Events**

Subsequent to the year ended December 31, 2017, the Association entered into the following large contracts:

- Playground equipment for approximately \$37,000
- Playground equipment installation for approximately \$30,900

The cost of the projects will be recorded in the period incurred.

## SUPPLEMENTARY INFORMATION

**Sun Ridge Owners Association, Inc.**  
**Schedule of Information on Future Major Repairs and Replacements**  
**December 31, 2017**

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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 was updated in January 2017, to be implemented on January 1, 2018. The 2017 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 2017 Study (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Sitework	1-15	3,028,338
Interior Finishes	3-29	86,295
Special Construction	1-27	728,846
Total		<u>\$ 3,843,479</u>
Replacement fund balance as of December 31, 2017		<u>\$ 624,036</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, 2017**

	Actual	(Unaudited) Budget
<b>Revenues</b>		
Maintenance assessments	\$ 1,185,384	\$ 1,185,384
Legal fees	72,195	35,000
Membership fees	30,475	15,000
Other income	23,910	150
Late charges	15,060	5,000
Investment income	13,409	1,600
Rental income	11,553	-
Township reimbursement	1,360	1,500
Pool fees	80	300
<b>Total Revenues</b>	<b>1,353,426</b>	<b>1,243,934</b>
<b>Operating Expenses</b>		
<b>General and Administrative</b>		
Management fees	98,846	98,846
Legal and professional fees	94,460	49,500
Bad debt expense	60,220	40,000
Insurance	28,877	39,600
Postage and photocopying	15,956	14,000
Office	10,662	3,300
Miscellaneous	6,426	7,800
Audit	5,700	4,400
Depreciation	4,843	-
Meetings	2,119	500
Contingency	2,070	18,000
Telephone	1,910	4,500
Bank fees	140	-
Federal income taxes	-	100
<b>Total General and Administrative</b>	<b>332,229</b>	<b>280,546</b>
<b>Building and Grounds</b>		
Landscaping	253,187	253,186
Snow clearing	157,209	183,953
Waste removal	90,774	89,832
Landscaping improvements	72,317	83,339
Repairs and maintenance	39,673	29,854
Water and sewer expenses	13,096	10,500
Pond maintenance/geese control	10,980	14,999
Electric	10,685	12,000
Engineering	2,341	5,000
Gas	1,233	2,000
Cleaning/janitorial	-	1,000
<b>Total Building and Grounds</b>	<b>651,495</b>	<b>685,663</b>

**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, 2017**

	Actual	(Unaudited) Budget
<b>Operating Expenses (Continued)</b>		
<b>Recreation</b>		
Pool management and supplies	56,570	59,920
Pool repairs and maintenance	15,109	17,000
<b>Total Recreation</b>	<b>71,679</b>	<b>76,920</b>
<b>Rental Expenses</b>		
General maintenance and utilities	6,968	-
Real estate taxes	5,669	-
Maintenance fees	1,918	-
Management fees	1,155	-
Bank fees	20	-
<b>Total Rental Expenses</b>	<b>15,730</b>	<b>-</b>
<b>Deferred Maintenance Fund</b>		
Maintenance assessments allocated to deferred maintenance fund	12,000	12,000
Investment income allocated to deferred maintenance fund	85	-
<b>Total Allocations to the Deferred Maintenance Fund</b>	<b>12,085</b>	<b>12,000</b>
<b>Replacement Fund</b>		
Maintenance assessments allocated to replacement fund	187,205	187,205
Investment income allocated to replacement fund	12,937	1,600
<b>Total Allocations to the Replacement Fund</b>	<b>200,142</b>	<b>188,805</b>
<b>Total Operating Expenses and Allocations to Funds</b>	<b>1,283,360</b>	<b>1,243,934</b>
<b>Excess of Revenues over Operating Expenses and Allocations to the Funds Before Budgeted Deficit Reduction</b>	<b>\$ 70,066</b>	<b>\$ -</b>